JOINT STOCK COMPANY HALYK BANK GEORGIA

Financial Statements and Management Report
For the Year Ended December 31, 2019

JOINT STOCK COMPANY HALYK BANK GEORGIA

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JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2019

Management is responsible for the preparation of the financial statements that present fairly the financial position of Joint Stock Company Halyk Bank Georgia (the "Bank") as at December 31, 2019, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRSs"). Management is also responsible for the preparation of management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

In preparing the financial statements and the management report, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern.
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing;
- Preparation of the management report in consistent with the financial statements.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRSs;
- Maintaining statutory accounting records in compliance with legislation of Georgia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements and management report for the year ended December 31, 2019 were authorised for issue on March 2, 2020 by the Management Board of the Bank.

On behalf of the Management Board:

Tamar Goderdzishvili
Acting General Director

March 2, 2020
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2020
Tbilisi, Georgia

Overview

Joint Stock Company Halyk Bank Georgia (the "Bank") is a wholly owned subsidiary of JSC Halyk Bank Kazakhstan, which has been operating on the Georgian market since 2008.

The main activities of the Bank in 2009 were creation of all necessary conditions for the sale of banking products, in particular, building of banking infrastructure, attraction of qualified personnel and formalization of the operating activities.

Since 2010, the Bank has been implementing active operations, concluding transactions for the purchase of government securities and carrying out the interbank transactions in the money market. From the first quarter of 2010, the Bank began an active lending process, which successfully pursues to the present day.

The Bank has its own eight well-developed representative offices (branches) as well as ATM's and POS's. Two of out of eight branches are located in the regions of the country (Batumi and Kutaisi), remaining six branches are represented in the capital city of Georgia.

The Bank focused on the continuation of successful activities in all market segments - retail business, small and medium business, as well as corporate business. To this end, the Bank offers its customers a wide range of services - a large variety of credit products, payroll projects, various options for current accounts and time deposits, card products, remote banking services and documentary operations. The Bank has made significant investments in the development of information technology and payment systems and continues to excel at innovative banking products of the market. The Bank has developed international correspondent relations that allow payment transactions worldwide. The Bank participates in the SWIFT system and the Real Time Gross Settlement (the RTGS) system operated by the National Bank of Georgia (the "NBG").

In the near future, the Bank plans to improve the quality of financial services and offer new, innovative products for customers. In particular, Bank will focus on developing new and improving existing retail products and their distribution channels. In addition, one of the components of quality improvement, along with the development of banking products, will be an increase in the availability of products - development of the Bank's branches and the development of remote service channels.

The success of the Bank's implementation of strategy requires the alignment of strategy with the Bank's internal governance framework. The Bank has strong systems of risk management and internal controls which allows the Bank to pursue its strategy in a way that risk appetite can be set and risks robustly identified, assessed, managed and reported effectively.

Information on acquisition of shares

On June 10, 2019, the Bank raised ordinary share capital in amount of 14,000 ordinary shares with a nominal amount of GEL 1,000 each, thus share capital reaching 76,000 ordinary shares. There were no shares held in treasury. The Bank has in issue one class of ordinary shares, all of which are fully paid up, and it does not have preference shares in issue. The rights and obligations attaching to the Bank's ordinary shares are set out in the Charter of the Bank. There are no voting restrictions on the issued ordinary shares and each ordinary share carries one vote. Details of the movements in share capital during the year are provided in Note 17 to the financial statements.

Financial performance review

The Bank has a well-deserved position in the corporate segment due to its focuse on long-term partnership, top-quality financial products and services. As at 31 December 2019 according to the consolidated report of commercial banks of Georgia issued by the NBG, the Bank ranked at 10th place by total assets and its share in the banking sector reached 1.1%.

In 2019, international rating agency "Fitch Rating", (the "Fitch") revised Bank's Long-Term Issuer Default Rating (the "IDR") credit rating to "BB" from "BB-".The outlook is positive to reflect accelerating growth and improved resilience of the Bank. The Fitch has also assigned the bank a Viability Rating (VR) of 'b+' since in its view the Bank has considerable independence from the Parent bank in terms of loan origination and approval.

As at December 31, 2019, one of the key performance indicator of the Bank - ROE (return on equity) decreased compared to the previous year. From 14.22% ROE climbed down to 10.15% as was expected, which is mainly due to the decrease in interest margin and capital injection made in 2019.

Other key performance indicators, such as the Loan Loss Rate (LLR) (1.81% %), cost to income (51.3%) and brain drain (loss of personnel) (9.6%), changed slightly from the previous year (2018 1.79%, 48%, 9.6%, respectively).

It worth to be noted that the LLR ratio of the Bank is comparable to Georgian banking sector. (NPL90 +) deteriorated and reached to 6% compared to 2.7% as at end of year 2018.

Among other indicators, negligible changes are taking place, depositors of the bank (2019: 13,746; 2018: 14,099), and number of employees (2019: 235; 2018: 225).

The Bank fully complied with the requirements of the National Bank of Georgia. In particular, as of December 31, 2019:

- Tier I capital –amounted to GEL 102,860 thousand versus the required GEL 50,558 thousand.
- Total Tier I capital amounted to GEL 102,860 thousand versus the required GEL 63,034 thousand.
- Total regulatory capital to GEL 120,353 thousand versus the required GEL 95,869 thousand.

Other key figures are detailed in the notes to the financial statements.

Risk management

The Bank conducts its risk management activities within the framework of its unified risk management system. The involvement of all governance levels in risk management, clear segregation of authorities and effective communications between different entities facilitate clarity regarding the Bank's strategic and risk objectives, adherence to the established risk appetite and sound risk management.

The Bank's governance structure ensures adequate oversight and accountability, as well as clear segregation of duties. The Supervisory Board has overall responsibility to set the tone at the top of the Board of Directors (the "Board") and monitor compliance with the established objectives, while the Board governs and directs the Bank's daily activities.

The principal risk management bodies of the Bank are: Supervisory Board, the Board of Directors, Audit Committee, Financial Risk and Portfolio Analysis department, Asset and Liability Management Committee (the "ALCO"), Internal Audit Department, Treasury Department and Credit Committees:

- The Board of Directors has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. The Board of Directors establishes the Bank's core values, sets and oversees the execution of the Bank's strategy within a framework of strong and effective risk management and internal controls. In order to effectively implement the risk management system, the Board of Directors delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

- The Board of Directors is composed of five Directors, all of them are Executive Directors. The members of Board of Directors are selected based on decision of Supervisory Board. Each of the member has clearly defined roles within the board structure.

- The Audit Committee oversees and challenges in relation to its internal control and risk management systems in relation to the financial reporting process. It is responsible for implementing key accounting policies and facilitating internal and external auditor activities.
- The Assets and Liabilities Committee (the "ALCO") provides important management information systems and oversight financial risk management process in the Bank. One of the ALCO's goals is to ensure adequate liquidity while managing the Bank's spread between the interest income and interest expense. Investments and operational risk are also major considerations. The Meeting of ALCO is held at least once a month in order to review monthly reports prepared by Financial Risks and Portfolio Analysis Department. In accordance with the established methodology, the ALCO occasionally reviews the policies and limits of financial risk management limits.
-

- The Financial Risk and Portfolio Analysis department guides the risk management activities and monitor major risk trends to ensure that the risk profile complies with the established risk appetite. The Management Board's Operational Risk Committee makes decisions related to operational risk governance.

- The Internal Audit Department is responsible for the regular audit of the Bank's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Bank's internal control systems and detecting infringements or errors on the part of the Bank's departments and divisions. It examines both the adequacy of and the Bank's compliance with those procedures. The Bank's Internal Audit Department discusses the results of all assessments with management and reports its findings and recommendations to the Bank's Audit Committee. The Bank's Internal Audit Department is independent of the Bank's management board. The Head of the Bank's Internal Audit Department is appointed by the Bank's Supervisory Board and reports directly to the Bank's Audit Committee.

- Treasury department is responsible for managing the Bank's assets and liabilities and its overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.

- The Bank has three credit committees (together, the "Credit Committees"), each one supervising and managing the Bank's credit risks in respect of loans for retail, Small/Medium enterprise (the "SME") and corporate loans. These three committees are: Large Credit Committee, Small/Medium Credit Committee and Retail Credit Committee. Each committee consists of at least one director and head of credit risks department or a director – supervisor of risks. Above permitted statements are approved by the Board of Directors, the Supervisory Board and / or the relevant Committee of the Parent bank.

Formal policies and procedures have been developed at the Bank level, with the help of senior management, which explain the way in which risks need to be systematically identified, assessed, quantified, managed and monitored.

The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency risk and interest rate risk) and operational risk. The following is a description of the Bank's risk management policies and procedures in respect to those risks.

Credit risk

For effective credit risk management, the Bank carried out a number of measures, both in the organisational structure and in the management of business processes, which, itself, defined in the risk management policy and in the guidelines of activities of various departments'. All credit products in the Bank is fully compliant with aforementioned requirements.

The Bank has a Credit Risk Department, which takes responsibility to identify and manage risks in timely manner. The functions of Department also includes determination of the risk policy at the Bank and ensuring its full compliance, permanent monitoring the quality of the loan portfolio and monitoring the bank's prudential ratios.

According to Bank's policy, the following procedures are applied systematically:

Distinguishing portfolio into segments, determine the probability of the borrower's average default for each segment and using the probable loss distribution function for these segments based on Vasicek model of portfolio distribution with consideration of one systematic factor, where considered the borrower's default probability, correlation of borrower's defaults within segments in order to determine possible losses at a 99% confidence level for each segment. The principle of dividing a portfolio into segments is the maximum homogeneity of the borrower's default in the segment.

The bank-lending direction divided into corporate, SME and retail business departments. The criterion for separation is volume of the credit limits, the volume of customer and source of income. The process

of customer segmentation performed by the specialized employees in order to keep maximum level of suitability between segment requirements and customer profile. In corporate banking, responsibilities of sales and analysis separated from each other.

Credit limits for potential customers are approved only based their insolvency.

To ensure maximum protection of credit risk, all loan applications are reviewed by the Credit Risk Division, which, itself, develops recommendations for the Credit Committee.

The bank-lending direction divided into corporate, SME and RB departments. The criterion for separation is volume of the credit limits, the volume of customer and source of income. The process of customer segmentation performed by the specialized employees in order to keep maximum level of suitability between segment requirements and customer profile. In corporate banking, responsibilities of sales and analysis separated from each other.

Financial risks

Financial risk management policy reflects the risk profile, scale of operations and development plans of the Bank. Financial Risk and Portfolio Analysis department is responsible to manage financial risks using this financial (currency, interest rate, liquidity, etc.) risk management policies. The main objectives of this policy are to minimize the losses that may arise in various market conditions, also to ensure sufficient funds to keep liquidity level at the safe layer. One of the main risk management tools is the limits set by the financial counterparty. Institutions, countries, currency position and value at risk (the "VaR"), currency revaluation, liquidity and the Interest rate gaps, which determines the size of risk acceptable to the Bank. Reports regarding limit usage submitted to the Assets and Liabilities Committee on a monthly basis. In case of their violation, risk reduction activities are taking place.

Market risk management regulated by the relevant policies of the Bank where special focus on currency and interest rate risks. Market risk management policies are coherent with the policy and requirements of Parent Bank and the regulatory body.

Currency risk

The Treasury is the key department for managing early signs of currency risks, and the Financial Risk and Portfolio Analysis Department performing permanent monitoring of risks and controls limits. The report of the Asset and Liability Management Committee submitted on monthly basis using currency positions and limits. In case of their violation, the Committee reviews and takes into account various risk reduction approaches.

In order to manage currency risk following limits are defined: in foreign currencies (USD, EURO) open currency position should not exceed USD 3,000 thousand and EUR 450 thousand; the maximum currency loss limit per month (stop-loss), and limits of value at risk (VaR).

Interest rate risk

Financial Risk and Portfolio Analysis Department uses gap analysis to assess the interest risk. In addition, the gap analysis sets a limit in relation to the planned net interest income. This information is submitted to the ALCO on a monthly basis. The ALCO set limits at least once a year.

Operational risk

Operational risk management (ORM) is an integral part of the day-to-day operations of the Bank. Financial Risk and Portfolio Analysis Department regularly monitors operational risks, in order to avoid them, or perform activities to hedge or reduce risk level in accordance with their recommendations. Following to the mentioned steps regular assessment and analysis of risks performed for products and policies by which is driven possible updates and adjustments within existing recommendations or even establishing new recommendations and policies.

To manage operational risks annual limits acceptable for the Bank are set once a year in accordance with the structural units for net losses. In addition, each year the operational risk matrix is prepared per departments and the software rights matrix is assessed and approved by the Information Security Committee. Besides, the following tools are used to determine the effectiveness of risk control and potential problems: operating loss databases, risk assessment of new products / processes (ORAP), Risk Control Self-Assessment (RCSA), Business Continuity Plan Testing, etc.

Principal risks and uncertainties

Risk management is a critical pillar of the Bank's strategy. To perform it effectively, it is essential to identify emerging risks and uncertainties. The principal risks that could adversely impact on the Bank's performance, financial condition and prospects are presented below.

1. *The Bank is exposed to regulatory risk*

The financial institutes are highly regulated and face regulatory risk. The regulations and various terms of its funding and other arrangements require compliance with certain capital adequacy and other ratios. The local regulator, the NBG, has introduced a capital adequacy framework which divides the current capital requirement across Pillar 1 and Pillar 2 buffers that are introduced gradually over a four-year period. Additionally the NBG can increase the prudential requirements across the whole sector as well as for specific institutions within it. Therefore, the Bank's profitability and performance may be compromised by an increased regulatory burden, including higher capital requirements.

Risk mitigation

The Bank has a Financial Risks and Portfolio Analysis Department for management of the various financial risks. This dedicated department reports directly to the Board and bears the primary responsibility for regulatory compliance. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the Bank's report prepared in accordance with the NBG accounting rules.

The Bank's capitalisation as of December 31, 2019 stood at 19.33% and 19.33% against the regulatory minimum requirement of 9.50% and 11.84% for Tier 1 and Total Tier 1 capital, respectively. The ratios are well above the respective regulatory minimums.

Additionally, the Bank regularly publishes the information provided within Pillar 3 disclosure report, prepared in accordance with requirements of decree N92/04 of the governance of the NBG on "Disclosure requirements for commercial banks within Pillar 3".

The compliance with capital adequacy ratios set by the NBG is monitored monthly with the Bank's standalone reports prepared in accordance with the NBG accounting rules.

2. *The Bank is exposed to concentration risk and credit risk*

The Bank has large individual exposures to single-name borrowers whose potential default would entail increased credit losses and high impairment charges. The exposure to the ten largest borrowers stands at 20.98%. It is also subject to cyclicality of certain economic sectors. This exposes the Bank to increased cost of credit risk and impairment charges, if a single large borrower defaults or a material concentration of smaller borrowers default. The exposure to the 20 largest borrowers stands at 32.51% of the total loan portfolio.

Risk mitigation

The Credit Committees continuously perform credit quality reviews in order to provide early identification of possible changes in the creditworthiness of the Bank's customers, potential losses and corrective actions needed to reduce the credit risk.

The Bank also manages credit risks by setting industry-specific limits, determining the risk position of a borrower / group of borrowers, permanent monitoring of delinquent loans and formation of coherent reserves to strengthen bank to face potential losses. The Bank also has a credit rating system for business loans, which guarantees the level of counterparty default.

3. Liquidity risk is inherent in the Bank's operations

The liquidity risk is inherent in banking operations and can be heightened by numerous factors. These include an overreliance on, or an inability to access a particular source of funding.

Risk mitigation

To assess liquidity risk, the Financial Risk and Portfolio Analysis Department measures and analyzes the level of use of limits set by the internal policy for short-term, medium-term and long-term gaps, in case of their violation, informs the ALCO, which, makes a decision to ensure sufficient liquidity. Limits are determined in accordance with the periods in relation to the cumulative gap of liquidity to total assets. A strategic plan has been developed to manage the liquidity crisis, which provides an action plan for various crises.

Throughout 2019, the Bank was in compliance with the risk appetite limits, as well as the minimum liquidity requirements set by the NBG. As of December 31, 2019 the liquidity coverage ratio stood at 121.68%.

Human resource management

The management of the Bank promotes high ethical standards, values and respects human rights, and encourages its employees to act with integrity and responsibility towards each other and customers, partners and community. The Bank has implemented a set of internal policies and procedures and closely monitor their execution.

Code of Ethics and Code of Conduct - regulate employee rights and responsibilities, and set appropriate relationship norms and principles. The Bank's employees are expected to act honestly and fairly at all times and to comply with both the spirit and intent of all laws. All employees are responsible for ensuring that the working environment is free of any form of harassment, discrimination (including gender, age, physical disability or religious affiliations) or inappropriate behaviour.

Compliance with the Bank's Code of Ethics and Code of Conduct is monitored by the Human Resource Department. Periodic audits are also conducted by the Internal Audit Department in order to identify any breach or misconduct in relation to compliance with these policies.

The labor organisation system of the personnel is based on the labor legislation of Georgia, the Law on Commercial Banks Activities and other regulatory acts of the National Bank of Georgia.
The main areas of Personnel Policy are as follows:

- improvement of the organisational structure, human resource planning;
- selection and placement of employees;
- staff training and development;
- management of the competence and motivation of workers, job compensation;
- formation of corporate culture and social support of employees.

The new transparent and flexible incentive system operates in the form of quarterly incentive bonuses in order to increase the efficiency of the staff in achieving common goals at the Bank. This bonus depends on the fulfillment of plans in terms of net profit. In 2019, bonuses were awarded for all quarters, which was in accordance with bank's financial results.

In accordance with the Bank's Internal Policy, employees will be provided with financial assistance during pregnancy, childbirth and childcare.

In 2019, with involvement of various structural divisions of the bank, employees of the Bank's retail network operators and operational cash services actively participated in improving the quality of service and developing sales skills.

The Bank employees participated in various individual educational events, forums and conferences organised by various companies, including the NBG and the Parent.

Corporate responsibility

During the year 2019, the Bank participated in the following promotions:

- Association "Catharsis" - a non-governmental organisation supporting socially vulnerable citizens - financing a free lunch for several days in April and September (Tbilisi and Zestafoni);

On behalf of the Management:

Tamar Goderdzishvili
Acting General Director

March 2, 2020
Tbilisi, Georgia

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory Board of Joint Stock Company Halyk Bank Georgia:

Opinion

We have audited the financial statements of Joint Stock Company Halyk Bank Georgia (the "Bank"), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the management report prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

Our opinion on the financial statements does not cover the management report.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

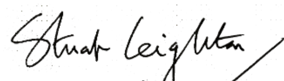
Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement, whether due to fraud or error.

We performed procedures with respect to whether the management report is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing and includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

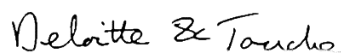
We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended December 31, 2019 is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended December 31, 2019 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the management report for the year ended December 31, 2019 is consistent, in all material respects, with the financial statements for the year ended December 31, 2019.



Stuart Leighton
on behalf of Deloitte and Touche LLC



Tbilisi, Georgia
March 2, 2020

JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Georgian Lari)

	Notes	December 31, 2019	December 31, 2018
ASSETS:			
Cash and cash equivalents	6	35,251	24,876
Mandatory cash balance with the NBG	7	33,686	26,436
Due from financial institutions		1,897	1,732
Loans to customers	8	420,972	401,091
Investments in equity instruments		54	54
Investments in debt instruments	9	14,170	16,857
Property and equipment*	10	15,630	13,247
Intangible assets		3,571	3,751
Current income tax asset		-	624
Other assets	11	4,792	1,797
TOTAL ASSETS		**530,023**	**490,465**
LIABILITIES:			
Due to financial institutions	12	260,574	274,260
Deposits by customers	13	110,379	86,477
Lease liability**	14	2,049	-
Provisions		211	273
Deferred income tax liabilities	23	3,054	2,529
Subordinated debt	15	28,777	26,860
Other liabilities	16	1,763	2,122
TOTAL LIABILITIES		**406,807**	**392,521**
EQUITY:			
Share capital	17	76,000	62,000
Revaluation reserve		1,596	1,614
Retained earnings		45,620	34,330
TOTAL EQUITY		**123,216**	**97,944**
TOTAL LIABILITIES AND EQUITY		**530,023**	**490,465**

* Rights-of-use assets included in property and equipment as disclosed in Note 10.
** Comparative information has not been restated as discussed in Note 3.

On behalf of the Management Board:

Tamar Goderdzishvili
Acting General Director

March 2, 2020
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2020
Tbilisi, Georgia

The notes on pages 16-80 form an integral part of these financial statements.

JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousands of Georgian Lari)

	Notes	2019	2018
Interest income calculated using the effective interest rate method	18	37,818	34,569
Other interest income	18	2,512	1,680
Interest expense	18	(15,811)	(12,077)
Net interest income before (impairment losses)/recovery of impairment losses	18	**24,519**	**24,172**
(Impairment losses)/recovery of impairment losses on interest bearing assets	19	(270)	857
Net interest income		**24,249**	**25,029**
Fee and commission income	20	2,088	1,618
Fee and commission expense	20	(1,125)	(861)
Net gain on financial assets at fair value through profit or loss		319	-
Net gain on foreign exchange operations	21	1,044	1,103
(Impairment losses)/recovery of impairment losses on non-interest bearing assets	19	(461)	75
Recovery of provisions/(provisions)	19	62	(42)
Other income		106	196
Net non-interest income		**2,033**	**2,089**
Operating income		**26,282**	**27,118**
Operating expenses	22	(13,385)	(12,703)
Profit before income tax		**12,897**	**14,415**
Income tax expense	23	(1,625)	(1,859)
Profit for the year		**11,272**	**12,556**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property	10	-	1,438
Income tax related to revaluation of property		-	(216)
Other comprehensive income, net of income tax		**-**	**1,222**
Total comprehensive income		**11,272**	**13,778**

On behalf of the Management Board:

Tamar Goderdzishvili
Acting General Director

March 2, 2020
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2020
Tbilisi, Georgia

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JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Georgian Lari)

	Note	Share capital	Property revaluation reserve	Retained earnings	Total equity
December 31, 2017		**48,000**	**406**	**22,864**	**71,270**
Adjustment on initial application of IFRS 9, net of tax		-	-	(1,104)	(1,104)
January 1, 2018 (restated)		**48,000**	**406**	**21,760**	**70,166**
Increase of share capital	17	14,000	-	-	14,000
Profit for the period		-	-	12,556	12,556
Release of revaluation reserve due to depreciation of previously revalued assets		-	(14)	14	-
Other comprehensive income, net of income tax		-	1,222	-	1,222
December 31, 2018		**62,000**	**1,614**	**34,330**	**97,944**
Increase of share capital	17	14,000	-	-	14,000
Profit for the period		-	-	11,272	11,272
Release of revaluation reserve due to depreciation of previously revalued assets		-	(18)	18	-
December 31, 2019		**76,000**	**1,596**	**45,620**	**123,216**

On behalf of the Management Board:

Tamar Goderdzishvili
Acting General Director

March 2, 2020
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2020
Tbilisi, Georgia

The notes on pages 16-80 form an integral part of these financial statements.

JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Georgian Lari)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES*			
Interest Income		40,222	35,638
Interest expense		(21,209)	(6,607)
Foreign exchange gain	21	1,417	626
Fee and commission income		2,088	1,618
Fee and commission expense		(1,125)	(861)
Other income		105	196
Operating expenses		(11,694)	(11,491)
Cash flows from operating activities before changes in operating assets and liabilities		**9,804**	**19,119**
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Mandatory cash balance with the NBG		(4,787)	18,183
Due from financial institutions		(48)	(108)
Loans to customers		289	(76,943)
Other assets		(2,017)	(1,531)
(Decrease)/increase in operating liabilities:			
Due to financial institutions		6,505	14,369
Deposits by customers		20,559	25,357
Other liabilities		(1,659)	(475)
Cash received/(used) from operations		**28,646**	**(2,029)**
Income taxes paid		(476)	(1,725)
Net cash received/(used) from operating activities		**28,170**	**(3,754)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	10	(1,312)	(467)
Proceeds from disposal of property and equipment		26	10
Purchase of intangible assets		(184)	(350)
Proceeds from investments in debt securities		2,644	12
Net cash used in investing activities		**1,174**	**(795)**
CASH FLOWS FROM FINANSING ACTIVITIES*			
Issue of ordinary shares	17	14,000	14,000
Proceed from loans from the parent**		215,938	159,258
Repayment of loans from the parent**		(294,800)	(8,030)
Proceed from the deposits from parent**		184,912	135,514
Repayment of deposits from parent**		(139,591)	(291,427)
Repayment of lease liabilities		(582)	-
Net cash inflow from financing activities		**(20,123)**	**9,315**
Effect of exchange rate changes on cash and cash equivalents		1,154	(225)
Net increase/(decrease) in cash and cash equivalents		**10,375**	**4,541**
Cash and cash equivalents, beginning of the year	6	**24,876**	**20,335**
Cash and cash equivalents, end of the year	6	**35,251**	**24,876**

*The Bank decided to change the presentation of cash flow statement. Respectively, comparative figures are restated in this regard.
**Included in due to financial institutions, presented in the statement of the financial position.

On behalf of the Management Board:

Tamar Goderdzishvili
Acting General Director

March 2, 2020
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2020
Tbilisi, Georgia

The notes on pages 16-80 form an integral part of these financial statements.

1. Organisation

Halyk Bank Georgia (the "Bank") is a joint stock company, which was incorporated in Georgia on January 29, 2008. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 0110246. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies, originating loans and guarantees and deposit taking.

The registered office of the Bank is located on 74 Kostava Street, Tbilisi, Georgia.

As at December 31, 2019 and 2018 the Bank had eight branches, operating in Georgia.

As at December 31, 2019 and 2018 the following shareholder owned the issued shares of the Bank.

	December 31, 2019	December 31, 2018
First level shareholder:		
JSC Halyk Bank Kazakhstan	100%	100%
Total	**100%**	**100%**

Main shareholders of JSC Halyk Bank Kazakhstan are JSC Holding ALMEX and JSC Unified Accumulated Pension Fund. JSC Halyk Bank Kazakhstan is ultimately controlled by Timur Kulibayev and Dinara Kulibayeva.

These financial statements were authorised for issue on March 2, 2020 by the Management Board.

2. Basis of preparation

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

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements have been prepared on the historical cost basis except for certain properties that are measured at revalued amounts at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank is registered in Georgia and maintains its accounting records in accordance with Georgian laws and regulations.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 27.

Functional currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The functional currency of the Bank is the Georgian Lari ("GEL"). The presentation currency of the financial statements of the Bank is the GEL. All values are rounded to the nearest thousand Lari, except when otherwise indicated.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies adopted are set out in Note 4.

3. Application of new and revised international financial reporting standards (IFRSs)

The Bank did not early adopt any other standards, amendments or interpretations that have been issued and are not yet effective. The application of other new and revised IFRSs effective for periods beginning on or January 1, 2019 are set out below.

IFRS 16 Leases

In 2019, the Bank has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after January 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Bank's financial statements is described below.

The date of initial application of IFRS 16 for the Bank is January 1, 2019.

Impact of the new definition of a lease

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after January 1, 2019. In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

Impact on lessee accounting

Former operating leases

IFRS 16 changed how the Bank accounted for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank:

a) Recognises right-of-use assets and lease liabilities in the statement of financial position within “Property and equipment” and on separate financial statement line, respectively. The lease liabilities are initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The right-of-use assets are initially recognised at the value of the corresponding lease liability. The Bank used the modified retrospective approach for the first-time adoption of IFRS 16, respectively, has not restated the comparative figures.
b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Bank recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. Application of standard resulted in increase of cash used in financing activities by GEL 582 and decrease of cash outflows from operating activities by GEL 582.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

This change did not have any effect on the Bank’s financial statements.

Financial impact of the initial application of IFRS 16

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liability of GEL 2,425 as at January 1, 2019. As at December 31, 2019 recognised right-of-use asset and lease liability equaled to GEL 1,905 and GEL 2,049 thousand, respectively. It also resulted in a decrease in other expenses of GEL 450 and an increase in depreciation of GEL 520 and interest expense of GEL 105 thousand for the year ended December 31, 2019. The adoption of IFRS 16 did not have an impact on net cash flows.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Bank has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the ‘solely payments of principal and interest’ (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. The adoption did not result in material impact on the Bank’s financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The Bank has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Bank applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Bank does not take account of any adjustments to the carrying amount of longterm interests required by IAS 28. The adoption did not result in material impact on the Bank's financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The Bank has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Bank to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: If yes, the Bank should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the Bank should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The adoption did not result in material impact on the Bank's financial statements.

Amendments to IAS 19 Employee Benefits

The Bank has adopted the amendments of IAS 19 prospectively for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of
the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under
IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The adoption did not result in material impact on the Bank's financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

The Bank has adopted the amendments included in the Annual improvements to IFRS standards 2015-2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes
The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations
The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements
The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

The amendments did not result in material impact on the financial statements.

New and revised Standards in issue but not yet effective

At the date of authorization of these financial statements, the Bank has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

- IFRS 17 – Insruance Contracts
- IFRS 10 and IAS 28 (amendments) – Sale of Contribution of Assets between on investor and its Associate or Joint Venture
- Amendments to IFRS 3 – Definition of business
- Amendments to IAS 1 and IAS 8 – Definition of material
- Conceptual Framework – Amendments to References to the Conceptual Framework in IFRS Standards

IFRS 17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees. The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and IT.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The management of the Bank does not anticipate that the application of the Standard in the future will have an impact on the Bank's financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that

gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The management of the Bank does not anticipate that the application of the Standard in the future will have an impact on the Bank's financial statements.

Amendments to IFRS 3 *Definition of a business*

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The management of the Bank does not anticipate that the application of the Standard in the future will have an impact on the Bank's financial statements.

Amendments to IAS 1 and IAS 8 *Definition of material*

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The management of the Bank does not anticipate that the application of the Standard in the future will have an impact on the Bank's financial statements.

Amendments to References to the* Conceptual Framework in *IFRS Standards

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the* Conceptual Framework in *IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

The management of the Bank does not anticipate that the application of the Standard in the future will have an impact on the Bank's financial statements.

4. Significant accounting policies

The principal accounting policies are set out below:

Recognition of interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method by applying the effective interest rate.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- Purchased or originated credit-impaired financial assets. For those financial assets, the Bank applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Bank applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Bank estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Recognition of fee and commission income

Financial instrument origination fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the financial instrument.

Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry. Loan servicing fees are recognised as revenue as the services are provided.

All other fee and commissions are recognised when services are provided.

Financial instruments

Initial recognition of financial instruments

Financial assets and financial liabilities are recognised in the Bank's financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank accounts for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss).
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Financial assets

Classification and subsequent measurement

On initial recognition, a financial asset is classified into one of the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. The Bank elected to present subsequent changes of fair value in its investment in "United Billing Center" in OCI.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank's financial assets classified into the measurement categories are as following:

Financial assets	Business model	SPPI	Measurement category
Cash and cash equivalents	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Mandatory cash balance with the NBG	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Due from financial institutions	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Investments in debt instruments	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Investments in equity instruments	Other business model	Cash flows are not solely payments of principal and interest	FVOCI
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Other receivables	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost

Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with National Bank of Georgia and highly liquid financial assets with original maturities of three months or less from the date of initial recognition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Mandatory cash balance with the NBG

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

Due from financial institutions

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with original maturity of more than three months. Amounts due from financial institutions are carried at amortised cost.

Loans to customers

Loans to customers are initially measured at fair value plus incremental transaction costs and subsequently at their amortised cost using the effective interest method.

Investments in debt instruments

Investments in debt instruments include investments in certificate of deposits issued by National Bank of Georgia. These are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Investments in equity instruments

The Bank elected to present in OCI changes in the fair value of investment in equity instrument that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss.

Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Derivative financial instruments

Derivative financial instruments included in financial assets at fair value through profit or loss or loss in the financial statements comprise foreign currency forward contracts.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment

The Bank recognises loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

With the exception of purchased or originated credit-impaired ("POCI") financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

More information on measurement of ECLs is provided in Note 27 including details on how instruments are grouped when they are assessed on a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting

the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Bank monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

As a back-stop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Bank monitors all financial assets that are subject to impairment for significant increase in credit risk.

See Note 27 for more details about significant increase in credit risk.
Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value.
- for loan commitments and financial guarantee contracts: as a provision; and

- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan terms is modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank’s policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset’s credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Bank’s restructuring policy, where modification did not result in derecognition, the estimate of PD reflects the Bank’s ability to collect the modified cash flows taking into account the Bank’s previous experience of similar restructuring action, as well as various behavioural indicators, including the borrower’s payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower’s improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset.

Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments: the Bank recognises a loss allowance in accordance with IFRS 9.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial

liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

The Bank derecognises a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability. If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Due to financial institutions, deposits by customers and subordinated debt

Financial liabilities include due to financial institutions, deposits by customers and subordinated debt that are the Bank's sources of debt funding. Financial liabilities are initially measured at fair value, net of incremental direct transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Leases – applicable after January 1, 2019

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in Property and Equipment line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has used this practical expedient.

The Bank is not represented as Lessor during the years ended December 31, 2019 and 2018.

Leases – applicable before January 1, 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment

Buildings held for use in supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such premises is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the

revaluation of such premises is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve for premises relating to a previous revaluation of that asset.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of premises and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued premises is recognised in profit or loss. On the subsequent sale or retirement of revalued premises, the attributable revaluation surplus remaining in the revaluation reserve for premises is transferred directly to retained earnings.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and other real estate	1%-2.17%
Furniture and fixtures	10%-15%
Computer and communication equipment	10%-33.33%
Vehicles	10%-33.33%
Leasehold improvement	20%-50%
Other	15%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recognised on a straight-line basis over their estimated useful lives from 2 to 15 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to

individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax laws and rates that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2019 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

The law has entered into force in 2016 and is effective for tax periods starting after January 1, 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organisations, pawnshops), for which the law initially was effective for financial institutions from January 1, 2019. On December 27, 2018, the parliament of Georgia extended effective date of application of the law to January 1, 2023.

Operating taxes

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

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

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

Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	December 31, 2019	**December 31, 2018**
GEL/1 US Dollar	2.8677	2.6766
GEL/1 Euro	3.2095	3.0701

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserve recorded in equity (other comprehensive income) on the Bank's statement of financial position includes property revaluation reserve which comprises revaluation reserve of land and building.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based gon historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the management has made in the process of applying the Banks's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Details of the financial assets classification are set out in Note 4.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Loss allowances for expected credit losses

The following are key estimations that the management have used in the process of applying the Bank's accounting policies and that have the most significant effect on the loss allowances for expected credit losses:

- **Establishing forward-looking scenarios:** When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

See Note 27 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **Significant increase in credit risk:** As explained in note 4, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

See Note 27 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **Probability of default:** PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

See Note 27 for more details, including analysis of the sensitivity of the reported ECL to changes in PD.

- **Loss Given Default:** LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

See Note 27 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD.

Property and equipment carried at revalued amounts

Certain properties are measured at revalued amounts. The latest appraisal was in May 2018. Details of the valuation techniques used are set out in Note 10.

Useful lives of property and equipment, and intangible assets

As described above, the Bank's management reviews the estimated useful lives of property, plant and equipment, and intangible assets at the end of each annual reporting period. The estimation of the useful life of an item of property, plant and equipment and intangible assets is a matter of management judgment based upon experience with similar assets. In determining useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustment to future depreciation and amortization rates.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

The information on related party balances is disclosed in Note 28.

6. Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	7,003	5,402
Balances with the NBG	5,085	3,611

Correspondent accounts and time deposits with original maturities up to 90 days	23,196	15,870
Less: allowance for expected credit losses	(33)	(7)
Total cash and cash equivalents	**35,251**	**24,876**

Cash and cash equivalents are non-past due financial assets as at December 31, 2019 and 2018. The allowance for expected credit losses as at December 31, 2019 and 2018 was estimated based on counterparty ratings determined by the international rating agencies.

7. Mandatory cash balance with the National Bank of Georgia

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

	December 31, 2019	December 31, 2018
Mandatory balances with the NBG	33,689	26,438
Less: allowance for expected credit losses/impairment losses	(3)	(2)
Total mandatory Balances with the NBG	**33,686**	**26,436**

Mandatory balances with the NBG are non-past due financial assets as at December 31, 2019 and 2018. The allowance for expected credit losses as at December 31, 2019 and 2018 was estimated based on counterparty ratings determined by the international rating agencies. Country rating for Georgia stands at BB with stable outlook.

8. Loans to customers

Loans to customers comprise:

	December 31, 2019	December 31, 2018
Loans to customers	428,714	408,414
Less: allowance for expected credit losses	(7,742)	(7,323)
Total loans to customers	**420,972**	**401,091**

All loans to customers are measured at amortised cost. The loans to customers are classified by types based on a combination of factors (mainly the income source of the borrowers and the purpose of the loan). Loans taken by individual business owners for consumer purposes are presented in relevant categories according to the business activity types of the borrowers.
As at December 31, 2019 and 2018 loans to customers included accrued interest in the amount of GEL 3,766 thousand and GEL 3,539 thousand, respectively.

The table below summarizes carrying value of loans to customers analysed by sector:

	December 31, 2019	December 31, 2018
Loans to legal entities		
Trade and service	211,019	205,412
Construction	37,776	34,957
Leasing	19,544	16,743
Agriculture	13,628	16,481
Mining and production	6,310	2,158
Energy	4,816	4,545
Other sector	8,084	12,300
Total loans to legal entities	**301,177**	**292,596**
Loans to individuals		
Consumer loans	80,017	65,200
Mortgage loans	47,520	50,618
Total loans to individuals	**127,537**	**115,818**
Gross loans to customers	**428,714**	**408,414**
Less: allowance for expected credit losses	(7,742)	(7,323)
Total loans to customers	**420,972**	**401,091**

As at December 31, 2019 and 2018 the Bank granted loans to 12 and 22 customers totaling GEL 125,294 thousand and GEL 167,084 thousand, respectively, which individually exceeded 5% of the Bank's equity.

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Bank:

	December 31, 2019	December 31, 2018
Loans collateralized by combined collateral*	274,233	264,553
Loans collateralized by pledge of real estate	119,164	108,702
Loans collateralized by guarantees	20,921	20,595
Loans collateralized by cash	2,252	3,878
Unsecured loans	12,144	10,686
Gross loans to customers	**428,714**	**408,414**
Less: allowance for expected credit losses	(7,742)	(7,323)
Total loans to customers	**420,972**	**401,091**

*These loans are collateralized by combination of different kinds of collateral: real estate, vehicles, inventories, equipment, finished products and guarantees.

As at December 31, 2019 and 2018 significant amount of customers (99% of total loans to customers) is granted to companies operating in Georgia.

Analysis by credit quality of individually significant and non-significant loans to customers outstanding as at 31 December 2019 and 2018 was as follows:

As at December 31, 2019	Gross loans	Allowance for ECL	Net loans	ECL to gross loans
Individually non-significant				
Not past due	367,184	(3,832)	363,352	1.04%
Overdue:				
up to 30 days	12,432	(512)	11,920	4.12%
31 to 60 days	1,626	(203)	1,423	12.48%
61 to 90 days	1,402	(201)	1,201	14.34%
91 to 180 days	327	(88)	239	26.91%
over 180 days	8,091	(1,244)	6,847	15.39%
Total collectively assessed loans	**391,062**	**(6,080)**	**384,982**	**1.55%**
Individually significant				
Not past due	17,801	(22)	17,779	0.12%
Overdue:				
up to 30 days	2,504	-	2,504	0.00%
31 to 60 days	-	-	-	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	-	-	-	0.00%
over 180 days	17,347	(1,640)	15,708	9.45%
Total individually assessed loans	**37,652**	**(1,662)**	**35,990**	**4.41%**
Total loans to customers	**428,714**	**(7,742)**	**420,972**	**1.81%**

As at December 31, 2018	Gross loans	Allowance for ECL	Net loans	ECL to gross loans
Individually non-significant				
Not past due	361,069	(3,476)	357,593	0.96%
Overdue:				
up to 30 days	4,627	(167)	4,460	3.61%
31 to 60 days	3,257	(291)	2,966	8.93%
61 to 90 days	1,455	(163)	1,292	11.20%
91 to 180 days	1,326	(178)	1,148	13.42%
over 180 days	4,053	(571)	3,482	14.09%
Total collectively assessed loans	**375,787**	**(4,846)**	**370,941**	**1.29%**
Individually significant				
Not past due	4,839	(559)	4,280	11.55%
Overdue:				
up to 30 days	434	(165)	269	38.02%
31 to 60 days	12,858	(244)	12,614	1.90%
61 to 90 days	8,854	(194)	8,660	2.19%
91 to 180 days	-	-	-	0.00%
over 180 days	5,642	(1,315)	4,327	23.31%
Total individually assessed loans	**32,627**	**(2,477)**	**30,150**	**7.59%**
Total loans to customers	**408,414**	**(7,323)**	**401,091**	**1.79%**

During 2019 and 2018 the Bank received non-financial asset by taking possession of collateral it held as security for loans. As at December 31, 2019 and 2018 the carrying value of the asset included in other assets as repossessed assets was GEL 862 thousand and GEL 750 thousand, respectively.

Allocation of loans to customers to expected credit loss by stages as at December 31, 2019 and December 31, 2018 are as following:

	December 31, 2019			December 31, 2018		
	Gross loans	**Allowance for ECL**	**Net loans**	**Gross loans**	**Allowance for ECL**	**Net loans**
Stage 1- 12 month ECL	**370,392**	**(3,261)**	**367,131**	**362,630**	**(3,077)**	**359,553**
Stage 2 - Lifetime ECL – not credit- impaired:						
Individually assessed	12,784	(22)	12,762	11,410	(226)	11,184
Collectively assessed	1,832	(242)	1,590	3,149	(285)	2,864
	14,616	**(264)**	**14,352**	**14,559**	**(511)**	**14,048**
Stage 3 - Lifetime ECL – credit-impaired:						
Individually assessed	24,868	(1,640)	23,228	18,716	(2,196)	16,520
Collectively assessed	18,838	(2,577)	16,261	12,509	(1,539)	10,970
	43,706	**(4,217)**	**39,489**	**31,225**	**(3,735)**	**27,490**
Total loans to customers	**428,714**	**(7,742)**	**420,972**	**408,414**	**(7,323)**	**401,091**

9. Investments in debt instruments

Investments in debt instruments comprise:

	December 31, 2019		December 31, 2018	
	Nominal annual interest rate	**Amount**	**Nominal annual interest rate**	**Amount**
T-notes	9.05%-11.6%	14,188	9.05%-11.6%	16,874
Less: allowance for expected credit losses		(18)		(17)
Total investments in debt instruments		**14,170**		**16,857**

As at December 31, 2019 and 2018 interest accrued on investments in debt instruments represents GEL 555 thousand and GEL 657 thousand, respectively.

Investments in debt instruments are non-past due financial assets as at December 31, 2019 and 2018. The allowance for expected credit losses as at December 31, 2019 and 2018 was estimated based on counterparty ratings determined by the international rating agencies.

10. Property and equipment

Property and equipment comprise:

	Buildings and other real estate	Computers and communi-cation equipment	Vehicles	Furniture and fixture	Other	Construc-tion in progress	Leasehold improve-ments	Right of use assets	Total
At cost / revalued amount January 1, 2018	**9,316**	**2,349**	**557**	**908**	**938**	**178**	**377**	**-**	**14,623**
Additions	-	76	61	64	110	7	219	-	537
Disposals	-	-	(32)	-	-	-	(31)	-	(63)
Transfers	18	97	-	-	-	(115)	-		-
Revaluation	1,243	-	-	-	-	-	-	-	1,243
December 31, 2018	**10,577**	**2,522**	**586**	**972**	**1,048**	**70**	**565**	**-**	**16,340**
Additions	-	1,220	45	47	-	-	-	-	1,312

	Buildings and other real estate	Computers and communi-cation equipment	Vehicles	Furniture and fixture	Other	Construc-tion in progress	Leasehold improve-ments	Right of use assets	Total
Recognised due to application of IFRS 16	-	-	-	-	-	-	-	2,425	2,425
Disposals	-	(52)	-	(10)	-	-	(58)	-	(120)
Transfers	-	37	-	33	-	(70)	-	-	-
December 31, 2019	**10,577**	**3,727**	**631**	**1,042**	**1,048**	-	**507**	**2,425**	**19,957**
Accumulated depreciation									
January 1, 2018	**153**	**1,147**	**220**	**546**	**398**	**-**	**118**	**-**	**2,582**
Charge for the year	138	285	45	91	123	-	87	-	769
Eliminated on disposals	-	-	(32)	-	-	-	(31)	-	(63)
Eliminated on revaluation	(195)	-	-	-	-	-	-	-	(195)
December 31, 2018	**96**	**1,432**	**233**	**637**	**521**	**-**	**174**	**-**	**3,093**
Charge for the year	144	294	51	85	133	-	101	520	1,328
Eliminated on disposals	-	(31)	-	(5)	-	-	(58)	-	(94)
December 31, 2019	**240**	**1,695**	**284**	**717**	**654**	**-**	**217**	**520**	**4,327**
Net book value:									
As at December 31, 2018	**10,481**	**1,090**	**353**	**335**	**527**	**70**	**391**	**-**	**13,247**
As at December 31, 2019	**10,337**	**2,032**	**347**	**325**	**394**	**-**	**290**	**1,905**	**15,630**

Rights-of-use assets include leases for building areas.

As at December 31, 2019 and 2018 the Bank did not have any pledged property and equipment.

As at December 31, 2019 and 2018 included in property and equipment were fully depreciated assets totaling GEL 1,449 thousand and GEL 1,193 thousand, respectively.
The Bank's buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The buildings were revalued to market value in May, 2018. Since last revaluation there was no significant changes in market value of buildings.

The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation.

Details of the Bank's buildings and information about the fair value hierarchy as at December 31, 2019 were as follows:

	Valuation technique	Unobservable inputs	Fair value hierarchy	Fair value as at December 31, 2019
Buildings in following region:	Sales comparison approach	Price per square meter	Level 3	
- Tbilisi - Shartava street				6,930
- Tbilisi - Kostava street				2,700
- Batumi - Gorgasali street				930
Total				**10,560**

Had the Bank's buildings been measured on a historical cost basis, their carrying amount would have been GEL 8,495 thousand and GEL 8,593 thousand as at December 31, 2019 and December 31, 2018, respectively.

11. Other assets

Other assets comprise:

	December 31, 2019	December 31, 2018
Other financial assets		
Accounts receivable	2,844	644
Less: allowance for expected credit losses	(88)	(42)
Accounts receivable, net	**2,756**	**602**
Financial assets at fair value through profit and loss	514	-
Total financial assets	**3,270**	**602**
Other non-financial assets		
Repossessed assets	862	750
Prepaid expenses	182	143
Prepayments for property and equipment	112	3
Tax settlements, other than income tax	57	33
Other	309	266
	1,522	**1,195**
Total other assets	**4,792**	**1,797**

Accounts receivable includes the receviables for the sale of credit obligations in amount of GEL 2,407 thousand;

Financial assets at fair value represents foreign currency forward contracts. Forwards are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts.

In a foreign currency forwards, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency forwards are gross-settled.

The table below summarizes the undiscounted contractual amounts outstanding at December 31, 2019 and 2018 with remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount	
	December 31, 2019	December 31, 2018
Sell USD buy GEL		
Less than 3 months	13,383	-
Between 3 and 6 months	2,677	-
	16,060	**-**

12. Due to financial institutions

Due to financial institutions comprise:

	Currency	Maturity Year	Nominal /Weighted average effective rate	December 31, 2019	December 31, 2018
Loans from the Parent	USD	2022-2023	3.79%	167,647	235,899
Deposits by Parent	EUR/USD	2020	1.47%	82,858	35,704
Loro accounts by resident commercial banks	EUR/USD	2020	1.99%	10,069	2,657
Total due to financial institutions				**260,574**	**274,260**

As at December 31, 2019 and 2018 due to financial institutions included accrued interest in the amount of GEL 2,974 thousand and GEL 8,624 thousand, respectively.

As at December 31, 2019 and 2018 due to financial institutions totaling GEL 250,505 thousand and GEL 271,603 thousand (96% and 99%), respectively, were due to 1 Bank (parent bank), which represents a significant concentration.

Reconcilation of changes arising from Loans and deposits from parent during 2019 are presented below:

	January 1, 2019	Receipt of principal	Repayment of principal	Interest accrual during the year	Interest paid during the year	Foreign exchange gain during the year	December 31, 2019
Loans from the Parent	235,899	215,938	(294,800)	8,769	(16,506)	18,347	167,647
Deposits by Parent	35,704	184,912	(139,591)	549	(619)	1,903	82,858

	January 1, 2018	Receipt of principal	Repayment of principal	Interest accrual during the year	Interest paid during the year	Foreign exchange gain during the year	December 31, 2018
Loans from the Parent	76,600	159,258	(8,030)	5,568	(1,767)	4,270	235,899
Deposits by Parent	186,434	135,514	(291,427)	2,344	(3,648)	6,487	35,704

13. Deposits by customers

Deposits by customers comprise:

	December 31, 2019	December 31, 2018
Repayable on demand	72,332	50,498
Term deposits	38,047	35,979
Total deposits by customers	**110,379**	**86,477**

As at December 31, 2019 and 2018 deposits by customers included accrued interest in the amount of GEL 1,035 thousand and GEL 891 thousand, respectively.

As at December 31, 2019 and 2018 deposits by customers totaling GEL 54,305 thousand and GEL 33,034 thousand (49% and 38% of total deposits by customers), respectively were due to 10 customers, which represents a significant concentration.

As at December 31, 2019 and 2018 deposits by customers totaling GEL 1,261 thousand and GEL 1,071 thousand, respectively were held as security against guarantees issued by the Bank.

As at December 31, 2019 and 2018 deposits by customers totaling GEL 3,509 thousand and GEL 3,658 thousand, respectively, were pledged as security for loans to customers.

	December 31, 2019	December 31, 2018
Analysis by industries:		
Trade and service	48,351	35,046
Individuals	35,100	30,024
State and public organisations	12,940	4,108
Transportation and communication	6,069	5,815
Construction	2,420	8,665
Energy	90	96
Other	5,409	2,723
Total deposits by customers	**110,379**	**86,477**

14. Lease Liability

The Bank leases several building areas for its operating branches. The average lease term is 5 years.

Reconcilation of changes arising from lease operations are presented below:

Lease Liabilties	January 1, 2019 Recognition of lease liability	Interest accrual during the year	Repayments of Lease during the year	Foreign exchange gain during the year	December 31, 2019
2019	2,425	105	(582)	101	2,049

Amounts related to the lease operations recognised in profit and loss are the following:

	December 31, 2019
Amounts recognised in profit and loss	
Depreciation expense on right-of-use assets	520
Interest expense on lease liabilities	105
Expense related to short-term and low-value assets	199

Maturity analysis of lease liabilities are presented in note 27.

15. Subordinated debt

Subordinated debt comprises:

	Currency	Maturity date year	Nominal/Weighted average effective rate	December 31, 2019	December 31, 2018
JSC Halyk Bank Kazakhstan	USD	2022	6%	28,777	26,860
Total subordinated debt				**28,777**	**26,860**

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank's liabilities to all other creditors.

As at December 31, 2019 and 2018 subordinated debt included accrued interest in the amount of GEL 100 and GEL 91 thousand, respectively.

Movement of subordinated debt for the year ended 31 December 2019 and 31 December 2018 was as follows:

	January 1	Interest accrual during the year	Interest paid during the year	Foreign exchange gain during the year	December 31
2019	26,860	1,741	(1,734)	1,910	28,777
2018	26,013	1,561	(1,558)	844	26,860

16. Other liabilities

Other liabilities comprise:

	December 31, 2019	December 31, 2018
Other financial liabilities:		
Accounts payable	543	799
Other non-financial liabilities:		
Provision for employee benefits	1,209	1,314
Taxes payable, other than income tax	11	9
Total other liabilities	**1,763**	**2,122**

17. Share capital

On June 10, 2019 the Bank issued 14,000 ordinary shares at par value GEL of 1,000 each. The shares were fully purchased by the Parent.

As at December 31, 2019 and 2018 the Bank's authorized and issued share capital consisted of 76,000 and 62,000 ordinary shares with par value of GEL 1,000 each. As at December 31, 2019 and 2018, the Bank's issued share capital was fully paid.

18. Net interest income before impairment losses

Net interest income and expense before impairment losses comprise:

	2019	2018
Interest revenue calculated using the effective interest rate method:		
Loans to customers	34,089	31,703
Cash and cash equivalents	1,978	994
Investments in debt instruments	1,602	1,785
Mandatory cash balance with the NBG	149	87
	37,818	**34,569**
Other interest income:		
Penalty income	2,230	1,331
Other	282	349
	2,512	**1,680**
Total interest income	**40,330**	**36,249**
Interest expense calculated using the effective interest rate method:		
Due to financial institutions	(9,366)	(7,914)
Deposits by customers	(4,625)	(2,621)
Subordinated debt	(1,715)	(1,542)
Lease liability	(105)	-
Total interest expense	**(15,811)**	**(12,077)**
Net interest income	**24,519**	**24,172**

19. Impairment losses on interest bearing and non-interest bearing assets / Provision for other operations

The movements in allowance for expected credit losses on interest bearing assets for the year ended December 31, 2019 and 2018 were as follows:

	Cash and cash equivalents	Mandatory cash balances with the NBG	Due from financial institutions	Loans to Customers	Investments in debt instruments	Total
December 31, 2017	**-**	**-**	**-**	**6,746**	**-**	**6,746**
Adjustment on initial application of IFRS 9	3	2	1	1,115	9	1,130
January 1, 2018	**3**	**2**	**1**	**7,861**	**9**	**7,876**
Impairment losses/(recovery of impairment losses)	4	-	-	(869)	8	(857)
Interest income correction	-	-	-	419	-	419
Write offs	-	-	-	(88)	-	(88)
December 31, 2018	**7**	**2**	**1**	**7,323**	**17**	**7,350**

Impairment losses/(recovery of impairment losses)	26	1	-	242	1	270
Interest income correction	-	-	-	177	-	177
December 31, 2019	**33**	**3**	**1**	**7,742**	**18**	**7,797**

The movements in allowance for expected credit losses on non-interest bearing assets for the year ended December 31, 2019 and 2018 were as follows:

	Other financial assets
January 1, 2018	**-**
Impairment losses	42
December 31, 2018	**42**
Impairment losses	461
Write offs	(415)
December 31, 2019	**88**

Provision for other operations represents the provision against loan commitments and guarantees issued. The movements in the provisions were as follows:

	Guarantees and loan committments
January 1, 2018	**348**
Provisions	(75)
December 31, 2018	**273**
Recovery of provisions	(62)
December 31, 2019	**211**

20. Fee and commission income and expense

Fee and commission income and expense comprise:

	2019	**2018**
Fee and commission income:		
Plastic card operations	1,171	910
Settlements	341	288
Cash operations	211	265
Other	365	155
Total fee and commission income	**2,088**	**1,618**
Fee and commission expense:		
Plastic card operations	(897)	(660)
Settlements	(175)	(145)
Cash operations	(53)	(56)

Total fee and commission expense	**(1,125)**	**(861)**

For the year ended December 31, 2019 and 2018 fee and commission income and expense included service fees for Plastic Cards operations. The Bank acts as an intermediary between the number of resident companies and the provider of the plastic card services – VISA and MasterCard, for which the Bank receives and pays commission charges.

21. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprise:

	2019	**2018**
Dealing, net	1,417	626
Translation differences, net	(373)	477
Total net gain on foreign exchange operations through profit or loss	**1,044**	**1,103**

22. Operating expenses

Operating expenses comprise:

	2019	**2018**
Staff costs	7,933	7,907
Depreciation and amortization	1,692	1,113
Card operations and settlement expenses	789	678
IT services	549	405
Professional services	324	222
Advertising costs	238	232
Expenses related to short-term and low-value assets	199	649
Utilities	173	142
Taxes, other than income tax	148	136
Communications	137	121
Office supplies	84	78
Business trip expenses	59	44
Security expenses	49	47
Insurance expense	49	42
Representative expenses	43	23
Property and equipment maintenance	30	30
Other expenses	889	834
Total operating expenses	**13,385**	**12,703**

23. Income taxes

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of Georgia, which differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2019 and 2018 relate mostly to different methods/timing of

income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits as defined under tax law of Georgia.

Deferred tax liabilities as at December 31, 2019 and 2018 comprise:

	December 31, 2019	December 31, 2018
Other assets	40	53
Provisions for other operations	181	198
Lease liabilities	307	-
Other liabilities	82	21
Property and equipment and intangible assets	(1,144)	(808)
Loans to customers	(2,520)	(1,993)
Net deferred tax liability	**(3,054)**	**(2,529)**

The effective tax rate reconciliation is as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Profit before income tax	**12,897**	**14,415**
Tax at the statutory tax rate (15%)	1,935	2,162
Tax effect of permanent differences	(310)	(303)
Income tax expense	**1,625**	**1,859**
Current year tax expense	1,100	1,100
Deferred tax expense recognised in the current year	525	759
Income tax expense	**1,625**	**1,859**

Deferred income tax liabilities	2019	2018
Opening balance	**(2,529)**	**(1,750)**
Adjustment on initial application of IFRS 9	-	196
As at 1 January	**(2,529)**	**(1,554)**
Deferred income tax expense recongised in profit or loss	(525)	(759)
Deferred income tax expense recongised in other comprehensive income	-	(216)
Closing balance	**(3,054)**	**(2,529)**

24. Commitments and contingencies

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations. Provision for losses on contingent liabilities totaled GEL 211 thousand and 273 as at December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018 contingent liabilities comprise:

	December 31, 2019	December 31, 2018
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	7,146	8,920
Unused credit lines	32,418	25,318
Total contingent liabilities and credit commitments	**39,564**	**34,238**

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on the borrowers' financial performance, debt service and other conditions.

Capital commitments

No material capital commitments were outstanding as at December 31, 2019 and 2018.

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation

Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Georgian transfer pricing legislation was amended starting from January 1, 2014 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Bank's transfer pricing positions by the tax authorities cannot be reliably estimated.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

Operating environment

Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and

monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2019 and 2018 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

25. Fair value of financial instruments

IFRS defines fair value as 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.

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. Investments in equity instruments are measured at fair value and categorized into Level 3.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

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

Cash and cash equivalents, mandatory reserves with the NBG, due from financial institutions, due to financial institutions and deposits by customers

For cash and cash equivalents, mandatory reserves with the NBG, due from financial institutions, due to financial institutions and deposits by customers fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.

Loans to customers - Loans to individual customers are made both at variable and at fixed rates. As there is no active secondary market in Georgia for such loans and advances, there is no reliable market value available for this portfolio. Fixed rate – Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the balance sheet date for similar loans of maturity equal to the remaining fixed period.

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

Subordinated debt - The fair values of subordinated debt is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions for similar instruments.

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

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Bank is presented below:

		December 31, 2019		December 31, 2018	
	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Level 2	35,251	35,251	24,876	24,876
Mandatory cash balance with the NBG	Level 2	33,686	33,686	26,436	26,436
Due from financial institutions	Level 2	1,897	1,897	1,732	1,732
Loans to customers	Level 3	420,972	419,943	401,091	399,326
Investments is equity instruments	Level 3	54	54	54	54
Investments in debt securities	Level 2	14,170	14,950	16,857	18,861
Other financial assets (excluded financial assets at FVTPL)	Level 3	2,756	2,756	602	602
Due to financial institutions	Level 2	260,574	259,703	274,260	270,470
Deposits by customers	Level 3	110,379	110,735	86,477	86,409
Lease liability	Level 3	2,049	2,049	-	-
Subordinated debt	Level 3	28,777	28,724	26,860	26,860
Other financial liabilities	Level 3	543	543	799	730

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at					
	December 31, 2019	December 31, 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss	514	-	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A

The Bank uses widely recognised valuation models for determining the fair value of derivative financial instruments, like foreign exchange forward contracts and currency swaps that use only observable market data and require less management judgment and estimation.

26. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The management and shareholder have the intention to further develop the Bank and the Bank's management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy and based on historical experience that short-term obligations will be refinanced in the normal course of business.

The adequacy of the Bank's capital is monitored using the ratios established by the NBG in supervising the Bank. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the Bank's standalone reports prepared in accordance with the NBG accounting rules.

According to the NBG regulations commercial banks have to:

a) Hold the minimum level of Regulatory Capital according to the following schedule:

- 30,000 thousand GEL as at December 31, 2017
- 40,000 thousand GEL as at June 30, 2018
- 50,000 thousand GEL as at December 31, 2018
- 50,000 thousand GEL as at December 31, 2019

b) Maintain ratios of Common Equity Tier 1 Capital, Tier 1 Capital and Regulatory Capital to the risk-weighted assets at or above the prescribed minimum of levels throughout the reporting period.

As at January 1, 2019 and throughout the period from until December 31, 2019, the Bank had to maintain minimum Tier 1 Capital, Total Tier 1 Capital and Regulatory Capital adequacy ratios of 9.50%, 11.84%, and 18.01%, respectively in accordance with the "Regulation on capital Adequacy Requirements for Commercial Banks".

As at December 31, 2019, the details of the all Pillar 1 and Pillar 2 buffers introduced by the NBG are as follows:

1. Pillar 1 buffers include:

- The Capital Conservation ("CC") buffer that is effective as at December 31, 2018;
- The Systemic Risk ("SR") buffer applied to systematically important banks from 2018 and gradually increasing year over year, which will reach its max level by 2021.
- The Countercyclical Capital ("CCC") buffer is set at 0%.

Adjustments to the Pillar 1 buffers are at NBG's discretion.

2. Pillar 2 buffers include:

- The Currency Induced Credit Risk ("CICR") buffer that is effective as at December 31, 2017 for un-hedged FX loans denominated in foreign currencies;
- The Concentration Risk ("CR") buffer that will be introduced for sectoral and single borrower exposure;
- The Net Stress ("NS") buffer that will be introduced based on stress testing results provided by the Bank;
- Net General Risk-assessment Program ("GRAPE") buffer defined by the NBG and applied based on the bank's specific risks.

The summary of the Capital Adequacy ratio requirements set under the Capital Adequacy Framework effective as at December 31, 2019 and 2018 are as follows:

Capital to the Risk-Weighted Assets	**Pillar 1**				**Pillar 2**				**December 31, 2019**
	Require-ments	**Pillar 1 buffers**			**Pillar 2 buffers**				**Total minimum requirements**
		CC	**SR**	**CCC**	**CICR**	**CR**	**NS**	**GRAPE**	
Common Equity Tier 1 Capital ratio	4.50%	2.50%	0%	0%	1.87%	0.20%	0.00%	0.42%	9.50%
Tier 1 Capital ratio	6.00%	2.50%	n/a	n/a	2.51%	0.27%	0.00%	0.56%	11.84%
Total Regulatory Capital ratio	8.00%	2.50%	n/a	n/a	3.35%	1.37%	0.00%	2.80%	18.01%

Capital to the Risk-Weighted Assets	**Pillar 1**				**Pillar 2**				**December 31, 2018**
	Require-ments	**Pillar 1 buffers**			**Pillar 2 buffers**				**Total minimum requirements**

		CC	SR	CCC	CICR	CR	NS	GRAPE	
Common Equity Tier 1 Capital ratio	4.50%	2.50%	0%	0%	1.97%	0.21%	0.00%	0.42%	9.60%
Tier 1 Capital ratio	6.00%	2.50%	n/a	n/a	2.64%	0.28%	0.00%	0.56%	11.98%
Total Regulatory Capital ratio	8.00%	2.50%	n/a	n/a	3.51%	1.42%	0.00%	2.80%	18.24%

As at December 31, 2019 and 2018 Capital Adequacy Ratios based on the Bank's reports prepared in accordance with the NBG accounting rules and Capital Adequacy Framework effective as at December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Share capital	76,000	62,000
Revaluation reserve	1,596	1,614
Retained earnings	30,431	22,765
Deductions from Common Equity Tier 1 Capital	(5,167)	(5,365)
Common Equity Tier 1 Capital	**102,860**	**81,014**
Tier 1 Capital	**102,860**	**81,014**
Convertible subordinated debts	11,471	16,060
General loan loss provisions (up to 1.25 % of risk–weighted assets)	6,022	5,751
Total regulatory capital	**120,353**	**102,825**
Risk weighted assets	**532,259**	**510,466**
Common Equity Tier 1 Capital Adequacy Ratio	22.61%	20.14%
Tier 1 Capital Adequacy Ratio	19.33%	15.87%
Total regulatory capital adequacy Ratio	22.61%	20.14%

As at December 31, 2019 and 2018, the Bank included in the computation of total regulatory capital for capital adequacy purposes the subordinated deposit received, limited to 100% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank's liabilities to all other creditors.

As at December 31, 2019 and 2018, the Bank included in the computation of total regulatory capital for capital adequacy purposes the general provisions, limited to 1.25% of risk weighted assets. General provisions for capital adequacy purposes are calculated based on NBG requirements.

As at December 31, 2019 and 2018, the Bank had complied in full with all its externally imposed capital requirements.

27. Risk management policies

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Bank recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework with the main purpose

to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Bank's Management Board. The Risk Management division plays an important role in managing and controlling the credit risk. This division is responsible for the credit risks identification and evaluation, implementation of the control and monitoring measures. The Risk Management division directly participates in the credit decision-making processes and consideration of internal rules, regulations and loan programs. Along with that, the division provides independent recommendations concerning credit exposure minimization measures, controls and monitors credit risks, provides relevant reporting to the management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or a group of borrowers, and to industry segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programs (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of guarantees issued, the Bank obtains collateral and corporate and personal guarantee.

Commitments to extend credit represent guarantees or letter of credit. The credit risk on off-balance sheet financial instruments is defined as the probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to the credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The Bank uses automated tool Risk Analyst for the corporate borrowers that includes two possible approaches to internal rating models: Fundamental Analysis and Scorecard. Both approaches support sophisticated analysis of ratios and financial metrics.

The primary difference between these two approaches is the way the system calculates and scores the inputs of the model. While the methodologies of these approaches differ, they are both based on the same technology platform. Additionally, each internal rating model, no matter the approach used, produces a borrower rating and PD. The Internal Rating Model Author supports the creation and customization of internal rating models using both approaches.

Additionally, the Bank uses another internal scorecard system for the assessment of SME borrowers. The scorecard is based on statistical information of borrowers' financial data as well as qualitative characteristics. As a result internal scorecard system provides the borrowers' internal rating.

Upon disbursement of a loan, an exposure score is assigned based on the predetermined criteria, which is later reflected in grades.

Ratings upon disbursement of a loan is summarized in the below table:

Ratings	**Description**
1	
2+	
2	
3+	High quality loan, low risk. The loan meets the highest requirements. Client's capacity for payment is very strong. The activity is practically not subjected to external negative influencing factors. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.
3	
3+	
3	
3-	
4+	Satisfactory loan quality, low risk. The loan meets most of the requirements. Capacity for payment is strong. Weak dependence on external economic factors. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.
4	
4-	
5+	
5	Relatively small vulnerability in the short term, however, higher sensitivity to the effects of adverse changes in business, financial and economic spheres. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.
5-	
6+	
6	High vulnerability in adverse business, financial and economic conditions, although at present there is the possibility of meeting financial obligations. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.
6-	
7+	
7	High risk of default (high, at the moment, exposure to credit risks); financial obligations can be met in the presence of favorable business, financial and economic conditions. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.
7-	
8	
9	Very high risk of default. Customer solvency is low. Деательность клинта полностью зависит от внешных факторов. Customer activity is completely dependent on external factors. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.
10	

*no rating loans: amount below USD 100,000, cash cover loans, retail loans.

Rating changes

Changes in grades depend on a number of quantitative and qualitative indicators such as: financial covenants, quality of financial information, competitive position in the market, influence of suppliers / buyers, influence of the owner, quality of management, risk of adverse events, etc.

Credit risk measurement methodology

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

In accordance with the IFRS 9 the Bank uses a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from financial institutions;
- Loans and advances to customers;
- Investment in debt securities;
- Other receivables;
- Loan commitments issued; and
- Financial guarantee contracts issued.
- Interbank deposits and corresponding accounts.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.
For undrawn loan commitments and financial guarantee contracts, ECL is measured based on Credit Conversion Factor of 36% for undrawn loan commitments and 100% for financial guarantees.

Due from financial instititutions, interbank deposits and corresponding accounts, investment in debt securities are subject to impairment based on 12-months ECL. The estimates of probability default and loss given default for clients are derived from credit rating information supplied by international rating agencies.

Allowance for expected credit losses on other receivables is estimated individually based on impairment model.

Loans to customers

To assess credit risk of exposures to the borrowers the Bank has developed methodology in accordance with IFRS 9.

Bank measures expected credit losses on an individual basis, or on a collective basis for portfolios of loans, that share similar credit risk characteristics.

Individually significant exposures are considered borrowers/group of related borrowers which exposure exceeds 1% of regulatory capital. Besides, they should have the signs of significant increase in credit risk.

To determine whether exposure has indicators of significant increase in credit risk or impairment loss event has been incurred, information about the borrowers' liquidity, solvency and business and financial risk exposures, overdue, restructuring, credit ratings and the fair value of collaterals are analysed.

ECLs on individually significant exposures with the signs of significant increase in credit risk are measured on an individual basis. ECLs on individually significant exposures without signs of significant increase in credit risk are measured on a collective basis.

Measurement of ECL on an individual basis

For individually assessed loans, ECLs are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the bank expects to receive arising from the weighting of multiple future economic scenarios, discounted using effective interest rate. Besides, the repayments and realization of any assets held as collateral against the loan are taking into account.

The Bank generally assesses liquidation value of the collaterals considering 2 years as a time to collect period and application of valuation haircut of 10%. The general approach is overrided individually if other circumstances demonstrate that generic time to collect period and valuation haricut is not reasonable.

Measurement of ECL on a collective basis

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Collective assessment is performed on a borrower level rather than contract level.

Segmentation

Collectively assessed loans are grouped together according to their credit risk characteristics. Such characteristics are:

- Segment
- Days past due
- Restructuring
- Collateralization

Portfolio subject to collective assessment of ECL is divided into by sectors: Trade, construction and real estate management, other business sectors, Collateralized Retail and Non-collateralised Retail and by currency too (GEL and Foreign currency, except Non-collateralised Retail, that was not segmented by currencies). In total 9 segments.

Each segment was further pooled into 5 groups sharing similar credit risk features, such as overdue days and restructuring.

Due to the above segmentation rules, collectively assessed portfolio is grouped into 45 similar credit risk charachteristics pools.

Definition of default

Critical to the determination is the definition of default. The definition of default is incorporated in measuring the amount of ECL. The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank for collective assessed loans
- The borrower's any material credit obligation was restructured while assets category is "Watch loan", "substandard Loan", "Doubtful loans", "Loss Loans" according to Asset classification Regulation of National Bank of Georgia
- The borrower is unlikely to pay its credit obligations to the Bank in full, its debts was written-off or sold with significant discount, and borrower is under litigation process to be recognised as bankrupt.
- Active credit rating 8,9,10 or significant deterioration of credit rating of borrower

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. The information assessed depends on the materiality of exposure too. Qualitative indicators, such as lowest grades of internal credit ratings, external information about possible deterioration of financial situation of borrower are significant inputs in the analysis and are used for identification of loans for individual assessment of ECL if the borrower's exposure is above materially significant threshold. For collective assessment of ECL significant deterioration of credit rating of borrower or active credit rating 8,9,10 are also considered as Default.

Significant increase in credit risk

The Bank monitors financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, Bank considers both quantitative and qualitative information that is reasonable and supportable. Significant deterioration of credit rating of borrower leading to increase the PD by more than 10% with active internal rating 6- or worse, material decrease the price of collateral could be considered as the qualitative signs of significant increase in credit risks and are used for identification of loans for individual assessment of ECL if the borrowers exposure is above materially significant threshold.

When an asset becomes more than 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

PD model

To determine the PD rates for each group, the Bank utilizes migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date. Observation period for homogenous group was taken as one year from November 2018 to November 2019. During the observation period, the one month migration matrices were generated. To exclude portfolio growth effect, the loans disbursed from July 2018 were excluded from the statistical analysis.

Migrations matrices are used to calculate 12-months probability of default (PD) for each group of collective assessment. Based on that, is calculated marginal PDs for next years until the maturity of portfolio is expired. For calculations of PDs, default was determined as 90 days overdue.

To estimate Point in Time PDs the Bank incorporates of forward looking information under different macro scenarios.

As at December 31, 2019, 10% increase/ (decrease) in average PD per each pool results in ECL increase/(decrease) by 4,9% that represents GEL 378/(378) thousand.

LGD model

Another component of impairment model is LGD (loss given default), that’s is an estimate of the loss arising on default. To measure it, defaulted exposures by segments is reduced by deposits pledged and the discounted liquidation value of properties pledged using 2 years of time to collect period and 10% valuation haircut. LGD models for unsecured assets considers recovery rates of defaulted assets. LGDs are measured on segment rather than on group level.

As at December 31, 2019, 10% increase/ (decrease) in valuation haircut results in ECL increase/(decrease) by 3.1% that represents GEL 250,3/237,9 thousand.

As at December 31, 2019, 10% increase/ (decrease) in time to collect period results in ECL increase/(decrease) by 4.5% that represents GEL 364,9/347,5 thousand.

EAD model

EAD represents the expected exposure in the event of default. The Bank derives the EAD from the current exposure to the counterparty, potential changes to the current amount allowed under the contract including amortisation and coefficient of EAD adjustement for Stage 1 loans by 1.013 and for stage 2 loans by 1.01.

Incorporation of forward-looking information

The Bank uses forward-looking information in its measurement of ECL. The information used includes economic data and economic indicators prognoses published by monetary authorities. Three economic scenarios (baseline, pessimistic, optimistic) form the basis of determining the probability of default. They will lead to a different probability of default. Weighting of these different scenarios forms the basis of a weighted average probability of default that is used in calculations of ECL. 12-month ECL (stage 1 loans) is measured only with twelve month PDs. Lifetime ECL (stages 2 and 3 loans) are measured with all annual marginal PDs until the maturity of loan expires.

Macroeconomic indicators prognoses with different scenarios and their weights are published by National Bank of Georgia for IFRS 9 purposes. The base case scenario is the single most-likely outcome

and its weighting in calculations is 50%. The weighting of pessimistic and optimistic scenarios are 25% for each.

Using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and probability of default. Three macroeconomic indicators (GDP growth, GEL/USD exchange rates, and real estate prices) are included in future economic scenarios for individual assessed loans. For collectively assessed portfolio Bank is able to estimate the impact on ECL of GDP growth rate, annual inflation, GEL/USD exchange rate.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at 31 December 2019 for the years 2020 to 2022, for Georgia and therefore have a significant impact on ECLs.

	2020	**2021**	**2022**
GDP growth rate			
Base scenario	4.50%	5.00%	5.00%
Upside scenario	5.50%	5.50%	5.00%
Downside scenario	2.50%	4.00%	4.50%
GEL/USD foreign exchange rate change (YoY)			
Base scenario	3.00%	3,00%	3,00%
Upside scenario	5.00%	3,00%	0,00%
Downside scenario	-10.00%	5,00%	5,00%
Real Estate Price change (YoY)			
Base scenario	4.00%	2.50%	3.00%
Upside scenario	3.50%	3.00%	3.00%
Downside scenario	-3.00%	3.00%	3.00%
Annual inflation			
Base scenario	4,00%	2.50%	3.00%
Upside scenario	3.50%	3.00%	3.00%
Downside scenario	5.00%	4.00%	3.00%

Predicted relationship between the economic indicators and default and loss rates on loan portfolios have been developed based on analyzing historical data over the past 4 years.

The Bank has performed sensitivity analysis on how ECL on the loan portfolios will change if the key assumptions used to calculate ECL change. The table below outlines the total ECL, if each of the key assumptions used change by plus or minus 10%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses.

	Change	**Average PD**	**Average LGD**	**Impact on ECL**
GDP growth rate scenario changes	10%	11.1%	12.7%	-(397)
	-10%	12.5%	12.7%	379
	10%	11.9%	12.7%	36
GEL/USD exchange rate scenario change	-10%	11.7%	12.7%	(76)
	10%	11.9%	12.7%	23
Inflation growth rate scenario change	-10%	11.7%	12.7%	(63
Real Estate Prices	10%	11.8%	9.1%	(2,640)
	-10%	11.8%	17.9%	2,603

Calculation of ECL

When the marginal PDs and LGD are determined for each group/segment, final calculations of loan loss allowance is made. It depends on risk characteristics of groups: 12 months ECL is calculated for Stage 1 groups (overdue less than 31 days) and lifetime ECLs for stage 2 or 3 groups (overdue more than 30 days or restructured loans). The results of LLP calculation on loan portfolio allows to derive the average impairment rates for each of 45 group of collective assessment. These rates are used for formation of loan loss allowance until next recalculation of whole model. Recalculation of impairment model was done in December 2019 based on last available information.

Credit quality of loans to customers

The following tables provide information on the credit quality of loans to customers as at December 31, 2019 according to the internal credit risk grades:

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Corporate loans							
5	990	(3)	-	-	(3)	987	0.30%
5-	5,244	(14)	-	-	(14)	5,230	0.27%
6+	42,413	(280)	-	-	(280)	42,133	0.66%
6	97,646	(950)	-	-	(950)	96,696	0.97%
6-	51,700	(445)	(22)	-	(467)	51,233	0.90%
7+	7,798	(12)	-	(1,024)	(1,036)	6,762	13.29%
7	188	-	-	(23)	(23)	165	12.23%
10	11,925	-	-	(594)	(594)	11,331	4.98%
Not rated	732	(9)	-	-	(9)	723	1.23%
Total corporate loans	**218,636**	**(1,713)**	**(22)**	**(1,641)**	**(3,376)**	**215,260**	**1.54%**
SME loans							
5	-	-	-	-	-	-	0.00%
5-	6,537	(83)	-	-	(83)	6,454	1.27%
6+	12,337	(106)	-	(19)	(125)	12,212	1.01%
6	41,583	(433)	(42)	(231)	(706)	40,877	1.70%
6-	42,649	(443)	(4)	(220)	(667)	41,982	1.56%
7+	4,554	(26)	(47)	(198)	(271)	4,283	5.95%
7	1,027	(1)	-	(84)	(85)	942	8.28%
7-	781	-	-	(116)	(116)	665	14.85%
9	752	-	-	(76)	(76)	676	10.11%
Not rated	13,695	(105)	(21)	(171)	(297)	13,398	2.17%
Total SME loans	**123,915**	**(1,197)**	**(114)**	**(1,115)**	**(2,426)**	**121,489**	**1.96%**
Retail loans							
Not rated	86,163	(351)	(128)	(1,461)	(1,940)	84,223	2.25%
Total retail loans	**86,163**	**(351)**	**(128)**	**(1,461)**	**(1,940)**	**84,223**	**2.25%**
Total loans to customers	**428,714**	**(3,261)**	**(264)**	**(4,217)**	**(7,742)**	**420,972**	**1.81%**

The following tables provide information on the credit quality of loans to customers as at December 31, 2018 according to the internal credit risk grades:

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Corporate loans							
5	1,040	(8)	-	-	(8)	1,032	0.77%
5-	18,986	(143)	-	-	(143)	18,843	0.75%
6+	22,480	(169)	-	-	(169)	22,311	0.75%
6	121,315	(799)	(218)	(604)	(1,621)	119,694	1.34%
6-	52,482	(315)	-	(1,272)	(1,587)	50,895	3.02%
7+	1,182	(9)	-	-	(9)	1,173	0.76%
7-	678	(5)	-	-	(5)	673	0.74%
9	4,545	(34)	-	-	(34)	4,511	0.75%
Not rated	538	(4)	-	-	(4)	534	0.74%
Total corporate loans	**223,246**	**(1,486)**	**(218)**	**(1,876)**	**(3,580)**	**219,666**	**1.60%**

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
SME loans							
5	44,369	(17)	-	-	(17)	1,768	1.0%
5-	23,829	(19)	-	(28)	(47)	2,132	2.1%
6+	156	(106)	-	(376)	(482)	12,059	3.8%
6	314	(410)	(58)	(246)	(714)	43,655	1.6%
6-	12,541	(238)	(33)	(111)	(382)	23,447	1.6%
7+	15,771	(4)	-	(23)	(27)	1,188	2.2%
7-	1,215	-	-	(17)	(17)	139	11.0%
9	2,179	(3)	-	-	(3)	311	1.0%
Not rated	1,785	(135)	(72)	(162)	(369)	15,402	2.3%
Total SME loans	**102,159**	**(932)**	**(163)**	**(963)**	**(2,058)**	**100,101**	**2.01%**
Retail loans							
Not rated	83,009	(659)	(130)	(896)	(1,685)	81,324	2.03%
Total retail loans	**83,009**	**(659)**	**(130)**	**(896)**	**(1,685)**	**81,324**	**2.03%**
Total loans to customers	**408,414**	**(3,077)**	**(511)**	**(3,735)**	**(7,323)**	**401,091**	**1.79%**

According to the rating methodology of the Bank, corporate and SME loans above include loans to individual entrepreneurs as well as legal entities. The Bank does not apply internal credit risks to retail loans that includes loans to individuals. Some of the loans to SMEs are the loans to the individual enterpreneurs.

Renegotiated loans to customers

Loans to customers are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The table below shows the carrying amount of renegotiated financial assets, by class:

Financial asset class	**December 31, 2019**	**December 31, 2018**
Loans to customers	20,539	13,942
Less: allowance for expected credit losses	(2,688)	(2,186)

There were no movements from Stage 3 to Stage 2 and 1 during the years 2019 and 2018.

Stage movements in loans to customers

Movements in the gross carrying value of the loans to customers for the year ended December 31, 2019 was as following:

	2019			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Gross carrying amount as at January 1, 2019	**362,630**	**14,559**	**31,225**	**408,414**
Changes in the gross carrying amount:				
New loans originated	215,871	-	-	215,871
–Transfer from stage 2 to stage 1	140	(140)	-	-
–Transfer from stage 1 to stage 2	(28,248)	28,248	-	-
–Transfer from stage 2 to stage 3	-	(26,364)	26,364	-
Loans repaid	(188,776)	(2,275)	(15,856)	(206,907)
Foreign exchange differences	8,775	588	1,973	11,336
Gross carrying amount as at December 31, 2019	**370,392**	**14,616**	**43,706**	**428,714**

Movements in the allowance for expected credit losses for the year ended December 31, 2019 was as following:

	2019			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Loss allowance as at 1 January 2019	**3,077**	**511**	**3,735**	**7,323**
Changes in the loss allowance				
New loans originated	2,643	-	-	2,643
–Transfer from stage 2 to stage 1	8	(8)	-	-
–Transfer from stage 1 to stage 2	(838)	838	-	-
–Transfer from stage 2 to stage 3	-	(1,056)	1,056	-
Loans repaid	(1,184)	(178)	(845)	(2,207)
Changes in risk paramaters	(502)	141	(208)	(569)
Interest income correction	-	-	177	177
Foreign exchange differences	57	16	302	375
Loss allowance as at December 31, 2019	**3,261**	**264**	**4,217**	**7,742**

Movements in the gross carrying value of the loans to customers for the year ended December 31, 2018 was as following:

	2018			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Gross carrying amount as at 31 December 2017	311,085	1,560	20,515	333,160
Adjustment on initial application of IFRS 9	-	-	-	-
Gross carrying amount as at January 1, 2018	**311,085**	**1,560**	**20,515**	**333,160**
Changes in the gross carrying amount:				
New loans originated	219,029	-	-	219,029
–Transfer from stage 2 to stage 1	734	(734)	-	-
–Transfer from stage 1 to stage 2	(33,129)	33,129	-	-
–Transfer from stage 2 to stage 3	-	(18,883)	18,883	-
Changes in accrued interest	311	2	639	952
Loans repaid	(139,423)	(872)	(9,404)	(149,699)
Write-offs	-	-	(88)	(88)
Foreign exchange differences	4,023	357	680	5,060
Gross carrying amount as at December 31, 2018	**362,630**	**14,559**	**31,225**	**408,414**

Movements in the allowance for expected credit losses for the year ended December 31, 2018 was as following:

	2018			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Loss allowance as at 31 December 2017	2,749	72	3,925	6,746
Adjustment on initial application of IFRS 9	665	95	355	1,115
Loss allowance as at 1 January 2018	**3,414**	**167**	**4,280**	**7,861**
Changes in the loss allowance				
New loans originated	2,527	-	-	2,527
–Transfer from stage 2 to stage 1	92	(92)	-	-
–Transfer from stage 1 to stage 2	(1,096)	1,096	-	-
–Transfer from stage 2 to stage 3	-	(859)	859	-
Changes in interest accrual	80	-	67	147
Loans repaid	(1,892)	(41)	(1,775)	(3,708)
Changes in risk paramaters	(80)	237	(91)	66
Write-offs	-	-	(88)	(88)
Interest income correction	-	-	419	419
Foreign exchange differences	32	3	64	99
Loss allowance as at December 31, 2018	**3,077**	**511**	**3,735**	**7,323**

The following table provides the analysis of the loan portfolio by collateral types:

Type of collateral	December 31, 2019 Gross carrying amount	December 31, 2019 Allowance for ECL	December 31, 2019 Carrying amount
Combined collaterals*	274,233	(5,611)	268,622
Real estate	119,164	(1,631)	117,533
Cash	2,252	(10)	2,242
Guarantees	20,921	(107)	20,814
Unsecured	12,144	(383)	11,761
Total	**428,714**	**(7,742)**	**420,972**

Type of collateral	December 31, 2018 Gross Carrying Amount	December 31, 2018 Allowance for Impairment	December 31, 2018 Carrying Amount
Combined collaterals*	264,553	(4,743)	259,810
Real estate	108,702	(1,780)	106,922
Cash	3,878	(28)	3,850
Guarantees	20,595	(281)	20,314
Non-collateralized	10,686	(491)	10,195
Total	**408,414**	**(7,323)**	**401,091**

*These loans are collateralized by combination of different kinds of collateral: real estate, vehicles, inventories, equipment, finished products and guarantees.

Maximum exposure of credit risk

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments. Net exposure is total exposure to credit risk net of expected credit loss.

December 31, 2019	Maximum Exposure	Net exposure
Cash and cash equivalents excluding cash on hand	28,281	35,251
Mandatory cash balance with the NBG	33,689	33,686
Due from financial institutions	1,898	1,897
Loans to customers	428,714	420,972
Investments in equity instruments	54	54
Investments in debt instruments	14,188	14,170
Other financial assets	3,358	3,270
Guarantees and letter of credits	7,357	7,146

December 31, 2018	Maximum Exposure	Net exposure
Cash and cash equivalents excluding cash on hand	19,481	19,474
Mandatory cash balance with the NBG	26,438	26,436
Due from financial institutions	1,733	1,732
Loans to customers	408,414	401,091
Investments in equity instruments	54	54
Investments in debt instruments	16,874	16,857
Other financial assets	644	602
Guarantees and letter of credits	9,193	8,920

Off-balance sheet risk

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. The Bank's financial assets and financial liabilities as at December 31, 2019 and 2018 were concentrated in Georgia.

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

	Georgia	Other non-OECD countries	OECD countries	December 31, 2019 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	33,449	1,625	177	35,251
Mandatory cash balance with the NBG	33,686	-	-	33,686
Due from financial institutions	-	1,897		1,897
Loans to customers	418,984	1,598	390	420,972
Investments in equity instruments	54	-	-	54
Investments in debt instruments	14,170	-	-	14,170
Other financial assets	3,270	-	-	3,270
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**503,613**	**5,120**	**567**	**509,300**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to financial institutions	10,069	250,505	-	260,574
Deposits by customers	99,348	10,004	1,027	110,379
Lease Liability	2,049	-	-	2,049
Other financial liabilities	543	-	-	543
Subordinated debt	-	28,777	-	28,777
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**112,009**	**289,286**	**1,027**	**402,322**
NET POSITION ON FINANCIAL INSTRUMENTS	**391,604**	**(284,166)**	**(460)**	**106,978**

	Georgia	Other non-OECD countries	OECD countries	December 31, 2018 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	23,200	1,676	-	24,876
Mandatory cash balance with the NBG	26,436	-	-	26,436
Due from financial institutions	-	1,732	-	1,732
Loans to customers	399,320	1,376	395	401,091
Investments in equity instruments	54	-	-	54
Investments in debt instruments	16,857	-	-	16,857
Other financial assets	602	-	-	602
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**466,469**	**4,784**	**395**	**471,648**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to financial institutions	2,657	271,603	-	274,260
Deposits by customers	72,788	9,145	4,544	86,477
Other financial liabilities	799	-	-	799
Subordinated debt	-	26,860	-	26,860
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**76,244**	**307,608**	**4,544**	**388,396**
NET POSITION ON FINANCIAL INSTRUMENTS	**390,225**	**(302,824)**	**(4,149)**	**83,252**

Credit quality by class of financial assets

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Bank as at December 31, 2019 and 2018:

December 31, 2019	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**Total**
Cash and cash equivalents	-	-	-	177	35,040	34	**35,251**
Mandatory cash balance with the NBG	-	-	-	-	33,686	-	**33,686**
Due from financial institutions	-	1,897	-	-	-	-	**1,897**
Loans to customers	-	-	-	-	3,330	417,642	**420,972**
Investments in equity instruments	-	-	-	-	-	54	**54**
Investments in debt instruments	-	-	-	-	14,170	-	**14,170**
Other financial assets	-	-	-	-	-	3,270	**3,270**
December 31, 2018							
Cash and cash equivalents	-	-	-	-	24,816	60	**24,876**
Mandatory cash balance with the NBG	-	-	-	-	26,436	-	**26,436**
Due from financial institutions	-	-	1,732	-	-	-	**1,732**
Loans to customers	-	-	-	-	7,659	393,432	**401,091**
Investments in equity instruments	-	-	-	-	-	54	**54**
Investments in debt instruments	-	-	-	-	16,857	-	**16,857**
Other financial assets	-	-	-	-	-	602	**602**

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's.

The banking industry is generally exposed to credit risk through its loans to customers and inter-bank deposits. With regard to the loans to customers this risk exposure is concentrated within Georgia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

The credit rating of Georgia according to the international rating agencies corresponded to BB.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank has developed internal models, which allow it to determine the rating of counterparties. A methodology to determine credit ratings of borrowers has been developed in the Bank to assess borrowers based on transparency of financial information, availability of audited financial statements, quality of management, competitive ability, share on market, related parties etc.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.
The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank sets limits for the ratio of cumulative GAP (difference between assets and liability) to total assets in order to control liquidity risk. In case of violation of the limits ALMC makes decision on corrective measures.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability, and
(b) estimated term till maturity of financial assets, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the contractual maturities of financial assets and liabilities.

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**December 31, 2019 Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	18,450	6,000	-	-	-	-	**24,450**
Mandatory cash balance with the NBG	33,686	-	-	-	-	-	**33,686**
Loans to customers	17,328	14,476	91,303	176,504	121,361	-	**420,972**
Investments in debt instruments	785	483	2,027	5,032	5,843	-	**14,170**
Total interest bearing financial assets	**70,249**	**20,959**	**93,330**	**181,536**	**127,204**	-	**493,278**
Cash and cash equivalents	10,801	-	-	-	-	-	**10,801**
Due from financial institutions	-	-	-	-	1,897	-	**1,897**
Investments in equity instruments	-	-	-	-	-	54	**54**
Other financial assets	2,756	440	74	-	-	-	**3,270**
Total non-interest bearing financial assets	**13,557**	**440**	**74**	**-**	**1,897**	**54**	**16,022**
TOTAL FINANCIAL ASSETS	**83,806**	**21,399**	**93,404**	**181,536**	**129,101**	**54**	**509,300**
FINANCIAL LIABILITIES							
Due to financial institutions	10,068	1,618	81,241	167,647	-	-	**260,574**
Deposits by customers	58,303	4,821	17,192	5,998	-	-	**86,314**
Lease liability	49	100	458	1,442			**2,049**
Subordinated debt	100	-	-	28,677	-	-	**28,777**
Total interest bearing financial liabilities	**68,520**	**6,539**	**98,891**	**203,764**	**-**	**-**	**377,714**
Deposits by customers	22,224	-	321	1,520	-	-	**24,065**
Other financial liabilities	543	-	-	-	-	-	**543**
Total non-interest bearing financial liabilities	**22,767**	**-**	**321**	**1,520**	**-**	**-**	**24,608**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2019 Total
TOTAL FINANCIAL LIABILITIES	**91,287**	**6,539**	**99,212**	**205,284**	**-**	-	**402,322**
Interest sensitivity gap	1,729	14,420	(5,561)	(22,228)	127,204	-	
Cumulative interest sensitivity gap	**1,729**	**16,149**	**10,588**	**(11,640)**	**115,564**	**115,564**	
Liquidity gap	(7,481)	14,860	(5,808)	(23,748)	129,101	54	
Cumulative liquidity	**(7,481)**	**7,379**	**1,571**	**(22,177)**	**106,924**	**106, 978**	

Demand deposits from customers are included up to 1 month maturity gap in the table above. Based on the Bank's historical performance the customers on average are maintaining half of tham in the Bank throughout the year.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2018 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	12,623	-	-	-	-	-	**12,623**
Mandatory cash balance with the NBG	26,436	-	-	-	-	-	**26,436**
Loans to customers	6,545	5,380	53,125	80,079	255,962	-	**401,091**
Investments in debt instruments	902	754	1,075	2,777	11,349	-	**16,857**
Total interest bearing financial assets	**46,506**	**6,134**	**54,200**	**82,856**	**267,311**	**-**	**457,007**
Cash and cash equivalents	12,253	-	-	-	-	-	**12,253**
Due from financial institutions	-	-	-	-	1,732	-	**1,732**
Investments in equity instruments	-	-	-	-	-	54	**54**
Other financial assets	602	-	-	-	-	-	**602**
Total non-interest bearing financial assets	**12,855**	**-**	**-**	**-**	**1,732**	**54**	**14,641**
TOTAL FINANCIAL ASSETS	**59,361**	**6,134**	**54,200**	**82,856**	**269,043**	**54**	**471,648**
FINANCIAL LIABILITIES							
Due to financial institutions	7,266	18,143	21,509	227,342	-	-	**274,260**
Deposits by customers	24,454	5,636	16,207	7,920	-	-	**54,217**
Subordinated debt	-	-	-	26,860	-	-	**26,860**
Total interest bearing financial liabilities	**31,720**	**23,779**	**37,716**	**262,122**	**-**	**-**	**355,337**
Deposits by customers	32,260	-	-	-	-	-	**32,260**
Other financial liabilities	799	-	-	-	-	-	**799**
Total non-interest bearing financial liabilities	**33,059**	-	-	-	-	-	**33,059**
TOTAL FINANCIAL LIABILITIES	**64,779**	**23,779**	**37,716**	**262,122**	**-**	**-**	**388,396**
Interest sensitivity gap	14,786	(17,645)	16,484	(179,266)	267,311	-	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2018 Total
Cumulative interest	**14,786**	**(2,859)**	**13,625**	**(165,641)**	**101,670**	**101,670**	
Liquidity gap	(5,418)	(17,645)	16,484	(179,266)	269,043	54	
Cumulative liquidity gap	**(5,418)**	**(23,063)**	**(6,579)**	**(185,845)**	**83,198**	**83,252**	

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

Demand deposits by customers are included in the up to 1 month liquidity category, as contractually any amount at reporting date can be withdrawn upon the customer's demand. The main deposit holders of the Bank are borrowers which under the loan agreements are required to have an operational accounts and maintain certain turnover ratios through the Bank.

	Weighted average EIR	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2019 Total
Fixed interest rate instruments							
Due to financial institutions	3.02%	10,071	1,621	82,174	185,685	-	**279,551**
Deposits by customers	4.58%	58,335	4,929	17,769	6,356	-	**87,389**
Lease liability	5.58%	58	117	527	1,548		**2,250**
Subordinated debt	6.00%	143	287	1,314	31,450	-	**33,194**
Total fixed interest bearing financial liabilities		**68,607**	**6,954**	**101,784**	**225,039**	-	**402,384**
Non-interest bearing instruments							
Deposits by customers		22,224	-	321	1,520	-	**24,065**
Other financial liabilities		543	-	-	-	-	**543**
Total non-interest bearing financial liabilities		**22,767**	**-**	**321**	**1,520**	-	**24,608**
Total financial liabilities		**91,374**	**6,954**	**102,105**	**226,559**	-	**426,992**

	Weighted average EIR	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2018 Total
Fixed interest rate instruments							
Due to financial institutions	2.46%	7,266	18,212	21,682	246,993	-	**294,153**
Deposits by customers	4.25%	25,244	6,020	15,626	8,534	-	**55,424**
Subordinated debt	6.00%	44	260	1,210	30,981	-	**32,495**
Total fixed interest bearing financial liabilities		**32,554**	**24,492**	**38,518**	**286,508**	**-**	**382,072**
Non-interest bearing instruments							
Deposits by customers		32,260	-	-	-	-	**32,260**
Other financial liabilities		799	-	-	-	-	**799**
Total non-interest bearing financial liabilities		**33,059**	**-**	**-**	**-**	**-**	**33,059**
Total financial liabilities		**62,959**	**24,492**	**38,518**	**286,508**	**-**	**412,477**

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Market risk

Market risk is that the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, etc. There have been no changes as to the way the Bank measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest rate margin. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.
Main tool for management on interest rate risk in the bank is establishment and monitoring of limits on interest rate GAP. According to market risk management policy of the Bank limit on interest rate GAP is established taking into consideration that loss caused by changes on interest rates by 2%, should not exceed 10% of net interest income stated in the budget of the year.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at December 31, 2019 and 2018:

	As at December 31, 2019		**As at December 31, 2018**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
Non-derivative financial assets:				
Cash and cash equivalents	489	(489)	252	(252)
Mandatory cash balance with the NBG	674	(674)	529	(529)
Loans to customers	8,419	(8,419)	8,022	(8,022)
Investments in debt securities	283	(283)	337	(337)
Non-derivative financial liabilities:				
Due to financial institutions	(5,211)	5,211	(5,485)	5,485
Deposits by customers	(1,726)	1,726	(1,083)	1,083
Lease liability	(41)	41	-	-
Subordinated debt	(576)	576	(537)	537
Net impact on profit before tax	**2,311**	**(2,311)**	**2,035**	**(2,035)**

Impact on shareholders' equity:

	As at December 31, 2019		**As at December 31, 2018**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
Non-derivative financial assets:				
Cash and cash equivalents	416	(416)	215	(215)
Mandatory cash balance with the NBG	573	(573)	449	(449)
Loans to customers	7,156	(7,156)	6,819	(6,819)
Investments in debt securities	241	(241)	287	(287)
Non-derivative financial liabilities:				
Due to financial institutions	(4,429)	4,429	(4,662)	4,662
Deposits by customers	(1,467)	1,467	(920)	920
Lease liability	(35)	35	-	-
Subordinated debt	(490)	490	(457)	457
Net impact on equity	**1,965**	**(1,965)**	**1,731**	**(1,731)**

Currency risk

	GEL	USD USD 1 = GEL 2.8677	EUR EUR 1 = GEL 3.2095	Other currency	December 31, 2019 Total
FINANCIAL ASSETS					
Cash and cash equivalents	25,277	7,566	2,316	92	**35,251**
Mandatory cash balance with the NBG	-	18,937	14,749	-	**33,686**
Due from financial institutions	-	1,897	-	-	**1,897**
Loans to customers	97,474	273,889	49,609	-	**420,972**
Investments in equity instruments	54	-	-	-	**54**
Investments debt instruments	14,170	-	-	-	**14,170**
Other financial assets	2,745	518	7	-	**3,270**
TOTAL FINANCIAL ASSETS	**139,720**	**302,807**	**66,681**	**92**	**509,300**
FINANCIAL LIABILITIES					
Due to financial institutions	-	200,730	59,844	-	**260,574**
Deposits by customers	49,504	53,481	7,325	69	**110,379**
Lease liability	-	2,049	-	-	**2,049**
Subordinated debt	-	28,777	-	-	**28,777**
Other financial liabilities	395	139	9	-	**543**
TOTAL FINANCIAL LIABILITIES	**49,899**	**285,176**	**67,178**	**69**	**402,322**
OPEN POSITION	**89,821**	**17,631**	**(497)**	**23**	

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBG.

The Bank's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	USD USD 1 = GEL 2.6766	EUR EUR 1 = GEL 3.0701	Other currency	December 31, 2018 Total
FINANCIAL ASSETS					
Cash and cash equivalents	6,661	6,217	10,788	1,210	**24,876**
Mandatory cash balance with the NBG	-	22,392	4,044	-	**26,436**
Due from financial institutions	-	1,732	-	-	**1,732**
Loans to customers	91,621	290,769	18,701	-	**401,091**
Investments in equity securities	54	-	-	-	**54**
Investments held to maturity	16,857	-	-	-	**16,857**
Other financial assets	258	344	-	-	**602**
TOTAL FINANCIAL ASSETS	**115,451**	**321,454**	**33,533**	**1,210**	**471,648**
FINANCIAL LIABILITIES					
Due to financial institutions	-	248,143	26,117	-	**274,260**
Deposits by customers	32,282	46,760	7,355	80	**86,477**
Subordinated debt	-	26,860	-	-	**26,860**
Other financial liabilities	298	417	84	-	**799**
TOTAL FINANCIAL LIABILITIES	**32,580**	**322,180**	**33,556**	**80**	**388,396**
OPEN POSITION	**82,871**	**(726)**	**(23)**	**1,130**	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 25% increase and decrease in the USD against the GEL. 25% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 25% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2019 and 2018:

	As at December 31, 2019		As at December 31, 2018	
	GEL/USD 25%	GEL/USD (25%)	GEL/USD 25%	GEL/USD (25%)
Impact on profit or loss	4,408	(4,408)	(182)	182
Impact on equity	3,747	(3,747)	(154)	154

	As at December 31, 2019		As at December 31, 2018	
	GEL/EUR 25%	GEL/EUR (25%)	GEL/EUR 25%	GEL/EUR (25%)
Impact on profit or loss	(124)	124	(6)	6
Impact on equity	(105)	105	(5)	5

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the

assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations. However, the bank does not own portfolio of securities traded in the market.

With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

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

28. Transactions with related parties

Details of transactions between the Bank and it's related parties are disclosed below:

	December 31, 2019		December 31, 2018	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Cash and cash equivalents	1,590	35,251	1,629	24,876
- the parent	1,068		1,615	
-other related parties	522		14	
Gross loans to customers	855	428,714	1,177	408,414
- key management personnel of the Bank	681		825	
-other related parties	174		352	
Allowance for expected credit losses/impairment losses on loans to customers	(2)	(7,742)	(10)	(7,323)
- key management personnel of the Bank	(1)		(6)	
- other related parties	(1)		(4)	
Due to financial institutions	250,505	260,574	271,603	274,260
- the parent	250,505		271,603	
Deposits by customers	1,337	110,379	3,113	86,477
- key management personnel of the Bank	275		204	
- other related parties	1,062		2,909	
Subordinated debt	28,777	28,777	26,860	26,860
- the parent	28,777		26,860	

The remuneration of directors and other members of key management were as follows:

	2019		2018	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	1,214	7,933	1,255	7,907
Total	**1,214**	**7,933**	**1,255**	**7,907**

Included in the statement of profit or loss and other comprehensive income for the year ended December 31, 2019 and 2018 are the following amounts which were recognised in transactions with related parties:

	2019		2018	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income calculated using the effective interest rate	52	37,818	94	36,249
- key management personnel of the entity or its parent	32		77	
-Other related parties	20		17	
Interest expense	(11,079)	(15,811)	(9,536)	(12,077)
-Parent	(11,054)		(9,454)	
- key management personnel of the Bank	(4)		(5)	
- Other related parties	(21)		(77)	
Fee and commission expense	(125)	(1,125)	(129)	(861)
-Parent	(125)		(129)	
Net gain on foreign exchange operations	5	1,044	29	1,103
-Parent	5		29	
Operating expenses	(1,214)	(13,385)	(1,255)	(12,703)
-key management personnel	(1,214)		(1,255)	

29. Subsequent events

Subsequent to the year end, no events were occurred that requires disclosure in the financial statements or adjustments to the reported figures.