JOINT STOCK COMPANY HALYK BANK GEORGIA

Financial Statements and Management Report
For the Year Ended December 31, 2021

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, 2021

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, 2021, 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, 2021 were authorised for issue on March 7, 2022 by the Management Board of the Bank.

On behalf of the Management Board:

Nikoloz Geguchadze
General Director

March 7, 2022
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 7, 2022
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

As of December 31, 2021, share capital of the bank comprised 76,000 ordinary shares with a nominal amount of GEL 1,000. 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 loans due to its focus on long-term partnership, top-quality financial products and services. Concentration levels in banks' gross loan portfolio: SME-43%, corporate-36%, retail-20%. Despite amid challenging operating environment bank has managed to increase its gross loan portfolio by 39% where SME served as the main driver of the growth. In 2021 SME portfolio increased by 70%, retail up by 34% and corporate up by 17%. Bank plans to keep its strategic focus on SME and retail segments in coming years as well. As at December 31, 2021 according to the consolidated report of commercial banks of Georgia issued by the NBG, the Bank ranked at 10th place by total assets and it has reached market share of 1.62% in the banking sector.

Despite pandemic-related complications on 12 August 2021 Fitch Ratings has revised the Outlook on JSC Halyk Bank Georgia's (HBG) Long-Term Issuer Default Ratings (IDRs) to Stable from Negative and affirmed the IDRs at 'BB+'.

Later in November 2021, Fitch held a scheduled revision of the Bank's rating, has affirmed JSC Halyk Bank Georgia's (HBG) Long-Term Issuer Default Rating (IDR) at 'BB+' with Stable Outlook.

The rebound in ROE (return on equity, calculated by dividing net income to average monthly equity) – a basic measure of profitability – to 11.6% as at 31, 2021 came ahead of banks' projections from the beginning of the year, as well as surpassed banks' pre-pandemic level.

Other key performance indicators are as follows:

- Loan Loss Rate (Expected Credit Loss divided by Gross amount of Loans to Customers) - 2021: 2.88%; 2020: 3.73%;
- Cost to income Ratio 2021 (Operating expenses divided by the sum of other income and interest income less provisions and recoveries): 52.74%; 2020: 46.97%
- Personnel outflow - 2021: 11.5%; 2020: 8.34%

It is worth mentioning that the LLR ratio of the Bank remains coherent to the Georgian banking sector. Non-performing loans (overdue days more than 90) has been decreased from 3.8% to 3.1%.

Among other indicators, number of depositors of the bank (2021: 24,439; 2020: 21,198; Growth: 15%), and number of employees (2021: 290; 2020: 263; Growth: 10%) has increased.

The Bank fully complied with the requirements of the National Bank of Georgia.

In particular, as of December 31, 2021:

- CET 1 amounted to GEL 110,553 thousand versus the required GEL 58,157 thousand. (Common Equity Tier1 (CET1) is a component of Tier1 capital that is mostly common stock held by bank)
- Tier 1 capital amounted to GEL 110,553 thousand versus the required GEL 77,574 thousand.
- Total regulatory capital amounted to GEL152,499 thousand versus the required GEL 120,401 thousand.

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

Corporate governance and 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, Risk Committee, Audit Committee, Financial Risk and Portfolio Analysis department, Operations risk department, Asset and Liability Management Committee (the "ALMC"), 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 risk committee considers risk strategies, risks management policies and monitors Bank's compliance with them. It provides recommendations to Supervisory body to bring all risks in accordance with the risk appetites.
- 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 Management Committee (the "ALMC") provides important management information systems and oversight financial risk management process in the Bank. One of the ALMC'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 ALMC 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 ALMC occasionally reviews the policies and limits of financial risk management limits.

- There are three departments operating in different risk management areas. The Financial Risk and Portfolio Analysis department guides the risk management activities and monitors the major risk trends to ensure that the risk profile complies with the established risk appetites in the areas of financial risks and portfolio analysis. In 2021, was established separate operation risk management department to manage the operational risks issues. Besides, Credit risk management department is responsible for controlling credit activities and preparing conclusions on credit projects.

- 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 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 it's overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.

- The Bank has various 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 committees are : Large Credit Committee, Small/Medium Credit Committee and three levels of Retail Credit Committees. Each committee in Corporate and SME segments consists of at least one director and head of credit risks department or a director – supervisor of risks. Membership of credit committees in retail segment differs by the level of committee. 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 the senior management, which explains 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:

- The principle of dividing a portfolio into segments is the maximum homogeneity of the borrower's default in the segment.
- The bank-lending direction is 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 is 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 on 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.

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 the 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 the existence of 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 (financial institutes), countries, currency position, value at risk (the "VaR") by foreign currencies, currency revaluation, liquidity and the Interest rate gaps, which determines the size of risk acceptable to the Bank. Reports regarding the limit usage are 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 is regulated by the relevant policies of the Bank where special focus is on currency and interest rate risks. Market risk management policies are coherent with the policy and requirements of the Parent and regulatory body.

Currency risk

The Treasury is the key department for managing the early signs of currency risks, and the Financial Risk and Portfolio Analysis Department is performing permanent monitoring of risks and controls limits. The report of the Asset and Liability Management Committee is 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, the following limits are defined by the end of 2021: in foreign currencies (USD, EURO) open currency position should not exceed USD 3,000 thousand and EUR 450 thousand, GEL 185 thousand for VaR limit of position in USD, GEL 35 thousand for VaR limit of position in EURO, GEL 220 thousand for VaR limit of total OCP, GEL 270 000 for Stop loss limit;

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 ALMC on a monthly basis. The ALMC 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 to perform activities for hedging or reducing the risk level in accordance with their recommendations. Following to the mentioned steps regular assessment and analysis of risks are performed for the products and policies, which drives possible updates and adjustments within existing recommendations or even establishing new recommendations and policies. In 2021 was established separate operation risk department to manage operational risks.

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 staff rights matrices are prepared for the departments and the software rights matrices are 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. 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

Financial analysis department calculates the regulatory ratios. The compliance with capital adequacy ratios set by the NBG is regularly monitored with the Bank's report prepared in accordance with the NBG accounting rules by the risk management bodies Bank has developed recovery plan too, which was elaborated according to NBG regulation, that includes stress scenario of negative impact on loan portfolio quality and capital adequacy and covers detailed meauseres to overcome it.

The Bank's capitalisation as of December 31, 2021 stood at 11.87% and 11.87% against the regulatory minimum requirement of 6.24% and 8.33% for Tier 1 and Total Tier 1 capital, respectively. The ratios are 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".

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

Despite positive trnds, the Bank still 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 13.6% of total loan portfolio. It is also subject to cyclicality of certain economic sectors. This exposes the Bank to the 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 21.8% of the total loan portfolio.

Risk mitigation

The Credit Committees continuously performs the 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 reflects the level ofcredit risk of clients. .

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

The liquidity risk is inherent in the banking operations and can be heightened by the 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 -ALMC, 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. Besides, other liquidity indicators (LCR, NSFR, early warning, liquid assets to liabilities, loans to assets, average liquidity) are introduced and monitored. Bank has developed contingency plan to manage the liquidity crisis situation, which provides an action plan for various crises. There is also recovery plan in place, which was elaborated according to of NBG regulation, that includes liquidity stress scenario and recovery measures for that situation.

Throughout 2021, the Bank was in compliance with the risk appetite limits, including for liquidity. As of December 31, 2021, liquidity coverage ratio stood at 97.4%(GEL)/125.4% (FXD)/112.5% (total) with the corresponding regulatory requirements 75% (GEL)/100% (FXD)/100% (Total) and NSFR stood at 121,1% with regulatory requirement 100%.

COVID 19 and its impact

Due to COVID-19 pandemic complications bank swiftly conducted all required activities to meet the government requirements and provide a safe working and service environment to its employees and customers. The Bank has elaborated special contingency plan to organize activities of all branches, departments and employees in different scenarios.

The Bank was equipped with all necessary items to perform a routine of thermal screenings and kept the facility clean and safe by regular sanitization. Besides, following all defined safety rules, the Bank has made required investments to switch on the remote working mode and only a few critical positions remained at the office to maintain cash desk activities. However, regular shifts took place between employees to prevent the risks of spreading the virus. The Bank and its branches did not stop activities. Such measures ensured the Bank to proceed serving the clients and maintain the financial stability.

Since the outbreak, the Bank has offered the payment holidays to its clients, that was provided with the different waves. Significant part of client have used this opportunity in 2021-2021 years. The last wave of holidays was provided in 2021. The Bank is actively monitoring the quality of portfolio to avoid the accumulation of overdue loans. Clients operating in vulnerable segments (Hotels, Restaurants cafe) with material exposures are assessed individually for the impairment under IFRS 9.

The Bank has methodology under which all assets are undergoing SPPI test to determine the appropriate classification category under IFRS 9. According to this methodology, the Bank impairs the assets taking into account the impact of COVID 19. The macro scenarios provided by National Bank of Georgia ("NBG") are employeed for the impairment assessment that reflects the impact of COVID 19 on different macro indicators including the real estate prices.

The Bank has created a significant amount of reserve to absorb upcoming shocks and meet further economic uncertainties. However, in 2021 NBG allowed to release the remaining part of general provision by NBG standards (about third of original buffer) created by requirement of NBG in Q1 2020 to cover COVID 19 related credit risk, since risks were not fully realized. .

Despite the outbreak of COVID 19, the Bank had enough liquidity to withstand the pandemic situation. The Bank has created buffers that helped it to keep strong liquidity position, to ensure the stable activity of the Bank and satisfy the regulatory requirements: Liquidity Coverage Ratio, Average Liquidity, NSFR (Net Stable Funding Ratio) after outbreak of COVID 19. The Bank did not apply to Central Bank or Government for for liquidity purposes. Aside from regular analysis of liquidity position, the Bank performed liquidity stress tests to check the liquidity position for different stress scenarios (deposit outflow, rise in price or shortening the financing, and impact of depreciation of GEL) and has developed the recovery plan, including systemic and idiosyncratic stress scenarios to analyse their possible impact and has elaborated the plan for their overcoming. The Parent expresses its commitment to provide the support in case of neccessity. The Bank does not have financial covenants that could be violated due to liquidity crisis.

Since outbreak of Covid 19, NBG weakened regulatory pressure on banks, which is still reflected on Capital requirements:

- Combined buffer reduced from 2.5% to 0%
- Currency induced credit risk weigthing reduced to 25%
- Pilar 2 requirement on CET1 reduced from 2.9% to 1.7%
- Pilar 2 – Tier 1 reduced from 3.9% to 2.3%
- Regulatory Capital Requirement reduced from 7.0% to 4.9%

Currently the Bank has enough capital to satisfy the regulatory requirements. Besides, the Bank is actively working to diversify the sources of financing. Overall, the bank has managed to implement all regulatory and internal requirements.

The Bank is well-positioned with strong capital, funding and liquidity resources and it aims to ensure that this remains the case. The Bank also continues to work with Government of Georgia and National Bank of Georgia to take appropriate actions to manage this process.

Human resource management

The management of the Bank promotes high ethical standards, values and respects human rights,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,procedures and closely monitors their execution.

Due to spread of COVID-19, majority of back office staff transferred to distance work regime. They were provided with technical support with ensuring cyber security measures. The front office continued its activity in normal way in accordance with the government regulations regarding COVID-19 to protect the Bank's staff and client's health.

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 the employees.

The new transparent and flexible incentive system operates in the form of monthly 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 2021, performance based bonuses for SME and retail front office emploees were awarded monthly and back office emploees were awarded for two quarters, which was in accordance with the Bank's financial results.

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

In 2021, with the 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 2021, 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 February, in April and in December (Zestafoni,Tbilisi);

On behalf of the Management:

Nikoloz Gegudhadze
General Director

March 7, 2022
Tbilisi, Georgia

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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, 2021, 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, 2021, 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, but does not include the financial statements and our auditor's report thereon.

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

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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. We have nothing to report, in this regard. 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.

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- 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, 2021 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, 2021 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, 2021 is consistent, in all material respects, with the financial statements for the year ended December 31, 2021.

Srbuhi Hakobyan
on behalf of Deloitte and Touche LLC
Deloitte & Touche
Tbilisi, Georgia
March 7, 2022

JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Georgian Lari)

	Notes	December 31, 2021	December 31, 2020
ASSETS:			
Cash and cash equivalents	6	116,169	43,032
Mandatory cash balance with the NBG	7	100,835	50,364
Due from financial institutions		815	862
Loans to customers	8	725,031	516,327
Investments in equity instruments		54	54
Investments in debt instruments	9	17,309	17,293
Property and equipment*	10	17,007	16,753
Intangible assets		4,499	4,464
Current income tax asset		21	1,115
Other assets	11	21,243	17,760
TOTAL ASSETS		**1,002,983**	**668,024**
LIABILITIES:			
Due to financial institutions	12	432,978	313,537
Deposits by customers	13	385,266	186,304
Lease liability*	14	2,206	2,654
Provisions	19	366	853
Income Tax Liability		2,115	-
Deferred income tax liabilities	23	837	3,158
Subordinated debt	15	31,057	32,862
Other liabilities	16	6,973	2,880
TOTAL LIABILITIES		**861,798**	**542,248**
EQUITY:			
Share capital	17	76,000	76,000
Revaluation reserve		1,960	1,983
Retained earnings		63,225	47,793
TOTAL EQUITY		**141,185**	**125,776**
TOTAL LIABILITIES AND EQUITY		**1,002,983**	**668,024**

* Rights-of-use assets included in property and equipment as disclosed in Note 10.

On behalf of the Management Board:

Nikoloz Gegucnadze
General Director

March 7, 2022
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 7, 2022
Tbilisi, Georgia

The notes on pages 19-83 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, 2021
(in thousands of Georgian Lari)

	Notes	2021	2020
Interest income calculated using the effective interest rate method	18	51,801	39,943
Other interest income	18	2,214	1,094
Interest expense	18	(21,993)	(14,340)
Net interest income before impairment losses	18	**32,022**	**26,697**
Impairment losses on interest bearing assets	19	(869)	(11,696)
Net interest income		**31,153**	**15,001**
Fee and commission income	20	2,592	1,901
Fee and commission expense	20	(2,419)	(1,860)
Modification loss on loans to customers		(254)	(837)
Net gain/(loss) on financial assets at fair value through profit or loss		2,131	(1,232)
Net (loss)/gain on foreign exchange operations	21	(800)	3,382
Impairment losses on non-interest bearing assets	19	(70)	(72)
Recovery/(provisions) of provisions	19	488	(642)
Net non-interest income		**1,668**	**640**
Operating income		**32,821**	**15,641**
Other income		139	220
Operating expenses	22	(17,756)	(13,673)
Profit before income tax		**15,204**	**2,188**
Income tax benefit/(expense)	23	205	(33)
Profit for the year		**15,409**	**2,155**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property	10	-	476
Income tax related to revaluation of property		-	(71)
Other comprehensive income, net of income tax		-	**405**
Total comprehensive income		**15,409**	**2,560**

On behalf of the Management Board:

Nikoloz Gegučhadze	**Gulnara Marshanishvili**
General Director	**Chief Accountant**
March 7, 2022	March 7, 2022
Tbilisi, Georgia	Tbilisi, Georgia

The notes on pages 19-83 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, 2021
(in thousands of Georgian Lari)

	Note	Share capital	Property revaluation reserve	Retained earnings	Total equity
January 1, 2020		**76,000**	**1,596**	**45,620**	**123,216**
Profit for the period		-	-	2,155	2,155
Release of revaluation reserve due to depreciation of previously revalued assets		-	(18)	18	-
Other comprehensive income, net of income tax		-	405	-	405
December 31, 2020		**76,000**	**1,983**	**47,793**	**125,776**
Profit for the period		-	-	15,409	15,409
Release of revaluation reserve due to depreciation of previously revalued assets			(23)	23	-
December 31, 2021		**76,000**	**1,960**	**63,225**	**141,185**

On behalf of the Management Board:

Nikoloz Geguchadze	**Gulnara Marshanishvili**
General Director	**Chief Accountant**
March 7, 2022	March 7, 2022
Tbilisi, Georgia	Tbilisi, Georgia

The notes on pages 19-83 form an integral part of these financial statements.

JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Georgian Lari)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		55,738	35,412
Interest expense paid		(17,563)	(11,811)
Foreign exchange gain realized		1,956	495
Fee and commission income received		2,592	1,901
Fee and commission expense paid		(2,419)	(1,860)
Other income received		139	220
Operating expenses paid		(13,940)	(11,870)
Cash flows from operating activities before changes in operating assets and liabilities		**26,503**	**12,487**
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Mandatory cash balance with the NBG		(59,808)	(9,038)
Due from financial institutions		1	1,130
Loans to customers		(248,817)	(48,300)
Other assets		(1,613)	(13,353)
(Decrease)/increase in operating liabilities:			
Due to financial institutions		(1)	(10,750)
Deposits by customers		203,177	65,611
Other liabilities		2,823	497
Cash outflow from operations		**(77,735)**	**(1,716)**
Income taxes paid		-	(1,115)
Net cash outflow/ from operating activities		**(77,735)**	**(2,831)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	10	(1,601)	(1,246)
Proceeds from disposal of property and equipment		29	50
Purchase of intangible assets		(605)	(1,307)
Proceeds from investments in debt securities		-	2,757
Purchase of investments in debt securities		-	(5,684)
Net cash outflow from investing activities		**(2,177)**	**(5,430)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceed from loans from the parent*	12	335,890	367,358
Repayment of loans from the parent*	12	(91,371)	(345,833)
Proceed from the deposits from parent*	12	79,158	119,847
Repayment of deposits from parent*	12	(167,304)	(126,650)
Repayment of lease liabilities	14	(1,102)	(938)
Net cash inflow from financing activities		**155,271**	**13,784**
Effect of exchange rate changes on cash and cash equivalents		(2,224)	2,258
Net increase in cash and cash equivalents		**73,135**	**7,781**
Cash and cash equivalents, beginning of the year	6	**43,032**	**35,251**
Cash and cash equivalents, end of the year	6	**116,169**	**43,032**

*Included in due to financial institutions, presented in the statement of the financial position.

On behalf of the Management Board:

Nikoloz Geguchadze
General Director

March 7, 2022
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 7, 2022
Tbilisi, Georgia

The notes on pages 19-83 form an integral part of these financial statements.

(in thousands of Georgian Lari)

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, 2021 and 2020 the Bank had eight branches, operating in Georgia.

As at December 31, 2021 and 2020 the following shareholders owned the issued shares of the Bank:

	December 31, 2021	December 31, 2020
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 7, 2022 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. In making this assumption, the management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources.

The Bank's financial position strengthened in 2021, Net income amounted GEL 15,409 thousand up to 502% year-on-year, driven by an increase in both net interest income and non-interest income.

Total assets Increased by GEL335 million or +33.4% y/y growth, as a result the total assets amounted to GEL 1 billion GEL as at 31 December 2021. The growth mainly originated from increase Loans to custemers and cash and cash equivalents. Net loans portfolio growth contributed 62% to the total assets growth.

As at December 31, 2021 current assets exceeded current liabilities by GEL 42,546 thousand, while as at December 31, 2020 current liabilities of the bank exceeded current assets by GEL 16,240 thousand. As at December 31, 2021 cash generated income was equal to GEL26,503 and outflow from operating activities was equal to GEL 77,735 thousand, while as at December 31, 2020 cash generated income was GEL 12,489 and net cash outflow from operating activities was equal to GEL 2,832 thousand.

The parent, JSC Halyk Bank Kazakhstan demonstrates its commitment to continue the financing the Bank's operations. The commitment is evidenced by the provision of financing in the form of placed deposits and issued loans to the Bank during 2021 as well as the receipt of comfort letter dated February 14, 2022 on which the parent expresses the readiness to support the operations for the Bank.

The Bank's management believes that based on current forecasts and measures, the Bank has enough funds to continue its activities in 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.

(in thousands of Georgian Lari)

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)

In the current year, the Bank has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after January 1, 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7	In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments are not relevant to the Bank given that it does not apply hedge accounting to its benchmark interest rate exposures. Respectively, the application of the amendments does not impact the Bank's accounting for the year ended December 31, 2021. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9..

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 (including the June 2020 Amendments to IFRS 17)	*Insurance Contracts*
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment—Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts—Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

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

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, 2021 and 2020.

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.

(in thousands of Georgian Lari)

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 May 13, 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.

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. Starting from January 1, 2023 the financial institutions will not hold deferred tax assets or liabilities due to the fact that corporate income tax will be only accrued when dividends are declared.

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, 2021	December 31, 2020
GEL/1 US Dollar	3.0976	3.2766
GEL/1 Euro	3.5040	4.0233

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.

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.

(in thousands of Georgian Lari)

- **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.

6. Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash	10,331	7,981
Balances with the NBG	54,493	9,797
Correspondent accounts and time deposits with original maturities up to 90 days	51,347	25,255
Less: allowance for expected credit losses	(2)	(1)
Total cash and cash equivalents	**116,169**	**43,032**

Cash and cash equivalents are non-past due financial assets as at December 31, 2021 and 2020. The allowance for expected credit losses as at December 31, 2021 and 2020 was estimated based on counterparty ratings determined by the international rating agencies.

As at December 31, 2021 and 2020 the majority of the Bank's cash in banks is with banks rated by Fitch Ratings as B (short-term rating) and BB- (long-term rating).

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, 2021	December 31, 2020
Mandatory balances with the NBG	100,836	50,365
Less: allowance for expected credit losses/impairment losses	(1)	(1)
Total mandatory Balances with the NBG	**100,835**	**50,364**

Mandatory balances with the NBG are non-past due financial assets as at December 31, 2021 and 2020. The allowance for expected credit losses as at December 31, 2021 and 2020 was estimated based on counterparty ratings determined by the international rating agencies.

(in thousands of Georgian Lari)

Country rating for Georgia stands at BB, while outlook downgraded from Stable to Negative.

8. Loans to customers

Loans to customers comprise:

	December 31, 2021	December 31, 2020
Loans to customers	746,561	536,332
Less: allowance for expected credit losses	(21,530)	(20,005)
Total loans to customers	**725,031**	**516,327**

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, 2021 and 2020 loans to customers included accrued interest in the amount of GEL 9,050 thousand and GEL 9,623 thousand, respectively.

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

	December 31, 2021	December 31, 2020
Loans to legal entities		
Trade and service	299,710	238,935
Mining and production	72,392	24,785
Construction	68,134	47,505
Agriculture	23,855	19,929
Leasing	10,962	18,300
Energy	4,616	5,298
Other sector	9,450	9,212
Total loans to legal entities	**489,119**	**363,964**
Loans to individuals		
Consumer loans	144,758	78,174
Mortgage loans	112,684	94,194
Total loans to individuals	**257,442**	**172,368**
Gross loans to customers	**746,561**	**536,332**
Less: allowance for expected credit losses	(21,530)	(20,005)
Total loans to customers	**725,031**	**516,327**

(in thousands of Georgian Lari)

As at December 31, 2021 and 2020 the Bank granted loans to 14 and 16 customers totaling GEL 146,567 thousand and GEL 157,971 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, 2021	December 31, 2020
Loans collateralized by combined collateral*	488,263	358,980
Loans collateralized by pledge of real estate	219,772	147,410
Loans collateralized by guarantees	23,493	18,832
Loans collateralized by cash	6,389	4,328
Unsecured loans	8,644	6,782
Gross loans to customers	**746,561**	**536,332**
Less: allowance for expected credit losses	(21,530)	(20,005)
Total loans to customers	**725,031**	**516,327**

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

As at December 31, 2021 and 2020 significant amount of customers (99% of total loans to customers) is granted to companies operating in Georgia.

(in thousands of Georgian Lari)

Analysis by credit quality of individually significant and non-significant loans to customers outstanding as at December 31, 2021 and 2020 was as follows:

As at December 31, 2021	Gross loans	Allowance for ECL	Net loans	ECL to gross loans
Collectively assessed				
Not past due	572,768	(7,294)	565,474	1.27%
Overdue:				
up to 30 days	8,148	(418)	7,730	5.13%
31 to 60 days	4,882	(621)	4,261	12.72%
61 to 90 days	1,881	(280)	1,601	14.89%
91 to 180 days	2,567	(410)	2,157	15.97%
over 180 days	8,240	(1,731)	6,509	21.01%
Total collectively assessed loans	**598,486**	**(10,754)**	**587,732**	**1.80%**
Individually significant				
Not past due	128,611	(8,953)	119,658	6.96%
Overdue:				
up to 30 days	4,197	(224)	3,973	5.34%
31 to 60 days	2,655	(263)	2,392	9.91%
over 180 days	12,612	(1,336)	11,276	10.59%
Total individually assessed loans	**148,075**	**(10,776)**	**137,299**	**7.28%**
Total loans to customers	**746,561**	**(21,530)**	**725,031**	**2.88%**

As at December 31, 2020	Gross loans	Allowance for ECL	Net loans	ECL to gross loans
Collectively assessed				
Not past due	304,541	(9,265)	295,276	3.04%
Overdue:	-	-	-	
up to 30 days	10,509	(516)	9,993	4.91%
31 to 60 days	3,504	(429)	3,075	12.24%
61 to 90 days	1,169	(153)	1,016	13.09%
91 to 180 days	685	(162)	523	23.65%
over 180 days	10,929	(1,994)	8,935	18.25%
Total collectively assessed loans	**331,337**	**(12,519)**	**318,818**	**3.78%**
Individually significant				
Not past due	180,701	(5,752)	174,949	3.18%
Overdue:	-	-	-	
up to 30 days	9,556	(230)	9,326	2.41%
31 to 60 days	2,170	(162)	2,008	7.47%
61 to 90 days	3,684	(70)	3,614	1.90%
91 to 180 days	4,460	-	4,460	0.00%
over 180 days	4,424	(1,272)	3,152	28.75%
Total individually assessed loans	**204,995**	**(7,486)**	**197,509**	**3.65%**
Total loans to customers	**536,332**	**(20,005)**	**516,327**	**3.73%**

During 2021 and 2020 the Bank received non-financial asset by taking possession of collateral it held as security for loans. The amount of repossessed assets received during 2021 and 2020 is 1,445 thousand and 13,763 thousand, respectively. As at December 31, 2021 and 2020 the carrying value of the asset included in other assets as repossessed assets was GEL 15,767 thousand and GEL 15,378 thousand, respectively.

(in thousands of Georgian Lari)

Allocation of loans to customers to expected credit loss by stages as at December 31, 2021 and December 31, 2020 are as following:

	December 31, 2021			December 31, 2020		
	Gross loans	**Allowance for ECL**	**Net loans**	**Gross loans**	**Allowance for ECL**	**Net loans**
Stage 1- 12 month ECL	539,750	(2,244)	**537,506**	252,222	(3,444)	**248,778**
Stage 2 - Lifetime ECL – not credit- impaired:						
Individually assessed	96,227	(7,148)	89,079	*155,364*	(3,936)	*151,428*
Collectively assessed	22,340	(2,400)	19,940	43,525	(3,469)	*40,056*
	118,567	(9,548)	**109,019**	**198,889**	**(7,405)**	**191,484**
Stage 3 - Lifetime ECL – credit-impaired:						
Individually assessed	51,848	(3,628)	48,220	*49,631*	*(3,549)*	*46,082*
Collectively assessed	36,396	(6,110)	30,286	*35,590*	*(5,607)*	*29,983*
	88,244	(9,738)	**78,506**	**85,221**	**(9,156)**	**76,065**
Total loans to customers	**746,561**	(21,530)	**725,031**	**536,332**	**(20,005)**	**516,327**

9. **Investments in debt instruments**

Investments in debt instruments comprise:

	December 31, 2021		December 31, 2020	
	Nominal annual interest rate	**Amount**	**Nominal annual interest rate**	**Amount**
T-notes	9.37%-11.6%	17,328	9.37%-11.6%	17,315
Less: allowance for expected credit losses		(19)		(22)
Total investments in debt instruments		**17,309**		**17,293**

As at December 31, 2021 and 2020 interest accrued on investments in debt instruments represents GEL 728 thousand and GEL 728 thousand, respectively.

Investments in debt instruments are non-past due financial assets as at December 31, 2021 and 2020. The allowance for expected credit losses as at December 31, 2021 and 2020 was estimated based on counterparty ratings determined by the international rating agencies.

(in thousands of Georgian Lari)

10. Property and equipment

Property and equipment comprise:

	Buildings and other real estate	Computers and communi-cation equipment	Vehicles	Furniture and fixture	Other	Leasehold improve-ments	Right of use assets	Total
At cost / revalued amount								
January 1, 2020	**10,577**	**3,727**	**586**	**1,006**	**1,129**	**507**	**2,425**	**19,957**
Additions	341	301	-	133	75	396	1,083	2,329
Disposals	-	(45)	-	-	(5)	-	-	(50)
Revaluation	103	-	-	-	-	-	-	103
December 31, 2020	**11,021**	**3,983**	**586**	**1,139**	**1,199**	**903**	**3,508**	**22,339**
Additions	-	1,431	-	109	58	4	582	2,184
Disposals	-	(30)	(82)	(3)	(21)	(141)	(325)	(602)
December 31, 2021	**11,021**	**5,384**	**504**	**1,245**	**1,236**	**766**	**3,765**	**23,921**
Accumulated depreciation								
January 1, 2020	**240**	**1,695**	**284**	**717**	**654**	**217**	**520**	**4,327**
Charge for the year	147	416	51	85	136	114	733	1,682
Eliminated on disposals	-	(45)	-	-	(5)	-	-	(50)
Eliminated on revaluation	(373)	-	-	-	-	-	-	(373)
December 31, 2020	**14**	**2,066**	**335**	**802**	**785**	**331**	**1,253**	**5,586**
Charge for the year	162	428	44	100	135	194	837	1,900
Eliminated on disposals	-	(30)	(55)	(2)	(20)	(141)	(324)	(572)
December 31, 2021	**176**	**2,464**	**324**	**900**	**900**	**384**	**1,765**	**6,914**
Net book value:								
As at December 31, 2020	**11,007**	**1,917**	**251**	**337**	**414**	**572**	**2,255**	**16,753**
As at December 31, 2021	**10,845**	**2,920**	**180**	**345**	**336**	**382**	**2,000**	**17,007**

Rights-of-use assets represent the leases of items related to the building and other real estate group.

As at December 31, 2021 and 2020 the Bank did not have any pledged property and equipment.

(in thousands of Georgian Lari)

As at December 31, 2021 and 2020 included in property and equipment were fully depreciated assets totaling GEL 2,574 thousand and GEL 1,627 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 on October 31, 2020.
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, 2021 were as follows:

	Valuation technique	Unobservable inputs	Fair value hierarchy	Fair value as at December 31, 2021
Buildings in following region:				
- Tbilisi - Shartava street	Sales comparison approach	Price per square meter	Level 3	6,829
- Tbilisi - Kostava street				2,559
- Batumi - Gorgasali street				1,291
- Tbilisi - Gamsakhurdia street				342
Total				**11,021**

Had the Bank's buildings been measured on a historical cost basis, their carrying amount would have been GEL 8,547 thousand and GEL 8,699 thousand as at December 31, 2021 and December 31, 2020, respectively.

11. Other assets

Other assets comprise:

	December 31, 2021	December 31, 2020
Other financial assets		
Accounts receivable	4,099	300
Less: allowance for expected credit losses	(230)	(160)
Accounts receivable, net	**3,869**	**140**
Financial assets at fair value through profit and loss (Note 16)	80	-
Total financial assets	**3,949**	**140**
Other non-financial assets		
Repossessed assets	15,767	15,378
Prepaid expenses	696	233
Tax settlements, other than income tax	263	1,760
Prepayments for property and equipment	151	-
Other	417	249
	17,294	**17,620**
Total other assets	**21,243**	**17,760**

(in thousands of Georgian Lari)

Financial assets through profit and loss 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, 2021 and 2020 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, 2021	**December 31, 2020**
Sell USD buy GEL		
Less than 3 months	13,749	-

	Notional amount	
	December 31, 2021	**December 31, 2020**
Sell EUR buy USD		
Less than 3 months	-	12,874

12. Due to financial institutions

Due to financial institutions comprise:

	Currency	**Maturity Year**	**Nominal /Weighted average effective rate 2021**	**December 31, 2021**	**Nominal /Weighted average effective rate 2020**	**December 31, 2020**
Loans from the Parent	EUR/USD	2022-2024	2.70%	431,142	2.70%	218,465
Deposits by the Parent	EUR	2022	1.01%	1,768	1.19%	95,003
Loro accounts by residentcommercial banks	EUR/USD	2022	0%	68	0%	69
Total due to financialinstitutions				**432,978**		**313,537**

As at December 31, 2021 and 2020 due to financial institutions included accrued interest in the amount of GEL 7,661 thousand and GEL 4,882 thousand, respectively. As at December 31, 2021 and 2020 due to financial institutions totaling GEL 432,910 thousand and GEL 313,468 thousand (99.9% and 99.9%), respectively, were due to 1 Bank (the Parent), which represents a significant concentration.

Reconcilation of changes arising from Loans and deposits from the Parent during 2021 and 2020 are presented below:

(in thousands of Georgian Lari)

	January 1, 2021	Receipt of principal	Repayment of principal	Interest accrual during the year	Interest paid during the year	Foreign exchange loss during the year	December 31, 2021
Loans from the Parent	218,465	335,890	(91,371)	6,679	(3,237)	(35,284)	431,142
Deposits by the Parent	95,003	79,158	(167,304)	816	(1,093)	(4,812)	1,768

	January 1, 2020	Receipt of principal	Repayment of principal	Interest accrual during the year	Interest paid during the year	Foreign exchange gain during the year	December 31, 2020
Loans from the Parent	167,647	367,358	(345,833)	5,930	(4,604)	27,967	218,465
Deposits by the Parent	82,858	119,847	(126,650)	995	(963)	18,916	95,003

13. Deposits by customers

Deposits by customers comprise:

	December 31, 2021	December 31, 2020
Repayable on demand	281,620	121,979
Term deposits	103,646	64,325
Total deposits by customers	**385,266**	**186,304**

As at December 31, 2021 and 2020 deposits by customers included accrued interest in the amount of GEL 3,115 thousand and GEL 1,515 thousand, respectively.

As at December 31, 2021 and 2020 deposits by customers totaling GEL 233,525 thousand and GEL 108,525 thousand (60.52% and 58,25% of total deposits by customers), respectively were due to 10 customers, which represents a significant concentration.

As at December 31, 2021 and 2020 deposits by customers totaling GEL 9,081 thousand and GEL 290 thousand, respectively were held as security against guarantees issued by the Bank.

As at December 31, 2021 and 2020 deposits by customers totaling GEL 6,642 thousand and GEL 8,724 thousand, respectively, were pledged as security for loans to customers.

	December 31, 2021	December 31, 2020
Analysis by industries:		
State and public organisations	139,593	57,723
Trade and service	126,843	56,694
Individuals	79,010	40,184
Construction	17,818	13,026
Transportation and communication	5,125	5,042
Energy	159	139
Other	16,718	13,496
Total deposits by customers	**385,266**	**186,304**

(in thousands of Georgian Lari)

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, Recognition of lease liability	Addition during the year	Interest accrual during the year	Repayments of Lease during the year	Foreign exchange gain/loss during the year	December 31
2021	2,654	582	132	(1,102)	(60)	2,206
2020	2,049	1,083	150	(938)	310	2,654

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

	December 31, 2021	December 31, 2020
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	837	733
Interest expense on lease liabilities	132	150
Expense related to short-term and low-value assets	44	34

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, 2021	December 31, 2020
JSC Halyk Bank Kazakhstan	USD	2028	4.5%	31,057	32,862
Total subordinated debt				**31,057**	**32,862**

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, 2021 and 2020 subordinated debt included accrued interest in the amount of GEL 81 and GEL 96 thousand, respectively.

(in thousands of Georgian Lari)

Movement of subordinated debt for the year ended December 31, 2021 and 2020 was as follows:

	January 1	Interest accrual during the year	Interest paid during the year	Foreign exchange gain/(loss) during the year	December 31
2021	32,862	1,499	(1,511)	(1,793)	31,057
2020	28,777	1,636	(1,955)	4,404	32,862

16. Other liabilities

Other liabilities comprise:

	December 31, 2021	December 31, 2020
Other financial liabilities:		
Accounts payable	4,306	994
Financial liabilities through profit and loss	-	878
Other non-financial liabilities:		
Provision for employee benefits	2,249	904
Taxes payable, other than income tax	418	104
Total other liabilities	**6,973**	**2,880**

17. Share capital

As at December 31, 2021 and 2020 the Bank's authorized and issued share capital consisted of 76,000 ordinary shares with par value of GEL 1,000 each. As at December 31, 2021 and 2020 the Bank's issued share capital was fully paid.

(in thousands of Georgian Lari)

18. Net interest income before impairment losses

Net interest income and expense before impairment losses comprise:

	2021	2020
Interest revenue calculated using the effective interest rate method:		
Loans to customers	47,471	37,196
Investments in debt instruments	1,752	1,576
Cash and cash equivalents	2,483	934
Mandatory cash balance with the NBG	95	237
	51,801	**39,943**
Other interest income:		
Penalty income	1,960	874
Other	254	220
	2,214	**1,094**
Total interest income	**54,015**	**41,037**
Interest expense calculated using the effective interest rate method:		
Deposits by customers	(12,697)	(5,580)
Due to financial institutions	(7,665)	(6,974)
Subordinated debt	(1,499)	(1,636)
Lease liability	(132)	(150)
Total interest expense	**(21,993)**	**(14,340)**
Net interest income	**32,022**	**26,697**

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, 2021 and 2020 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
January 1, 2020	**33**	**3**	**1**	**7,742**	**18**	**7,797**
Impairment losses/(recovery of impairment losses)	(32)	(2)	(1)	11,727	4	11,696
Interest income correction	-	-	-	536	-	536
December 31, 2020	**1**	**1**	**-**	**20,005**	**22**	**20,029**
Impairment losses/(recovery of impairment losses)	1	-	-	871	(3)	869
Interest income correction	-	-	-	654	-	654
December 31, 2021	**2**	**1**	**-**	**21,530**	**19**	**21,552**

(in thousands of Georgian Lari)

The movements in allowance for expected credit losses on non-interest bearing assets for the year ended December 31, 2021 and 2020 were as follows:

	Other financial assets
January 1, 2020	**88**
Impairment losses	72
December 31, 2020	**160**
Impairment losses	70
December 31, 2021	**230**

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, 2020	**211**
Provisions	642
December 31, 2020	**853**
Recovery of provisions	(487)
December 31, 2021	**366**

20. Fee and commission income and expense

Fee and commission income and expense comprise:

	2021	2020
Fee and commission income:		
Plastic card operations	1,582	1,150
Settlements	474	348
Cash operations	360	173
Other	176	230
Total fee and commission income	**2,592**	**1,901**
Fee and commission expense:		
Plastic card operations	(2,176)	(1,661)
Settlements	(202)	(170)
Cash operations	(41)	(29)
Total fee and commission expense	**(2,419)**	**(1,860)**

For the years ended December 31, 2021 and 2020 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.

(in thousands of Georgian Lari)

21. Net (loss)/gain on foreign exchange operations

Net (loss)/gain on foreign exchange operations comprise:

	2021	2020
Dealing, net	785	849
Translation differences, net	(1,585)	2,533
Total net (loss)/gain on foreign exchange operations through profit or loss	**(800)**	**3,382**

22. Operating expenses

Operating expenses comprise:

	2021	2020
Staff costs	10,991	8,268
Depreciation and amortization	2,467	2,105
IT services	1,189	738
Professional services	387	435
Taxes, other than income tax	409	261
Utilities	233	168
Communications	198	161
Advertising costs	174	119
Card operations and settlement expenses	121	118
Office supplies	137	84
Insurance expense	70	52
Security expenses	60	49
Property and equipment maintenance	69	45
Representative expenses	22	39
Expenses related to short-term and low-value assets	44	34
Business trip expenses	16	4
Other expenses	1,169	993
Total operating expenses	**17,756**	**13,673**

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, 2021 and 2020 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.

(in thousands of Georgian Lari)

Starting from January 1, 2023 new profit tax law is effective. The new system of corporate income taxation shifts CIT taxation from the moment of earning the profits to the moment of their distribution, respectively, the financial institutions will not hold any deferred tax assets or liablities after January 1, 2023. The Bank has determined that GEL 690 thousand of deferred tax liability will not be utilized at the moment of transition to new tax requirements. Respectively, the deferred tax liability was decreased by this amount. Unutilized deferred tax liability correction for the year 2020 was GEL 1,802 thousand.

Deferred tax liabilities as at December 31, 2021 and 2020 comprise:

	Deferred tax assets/(liabilities) as at December 31. 2020	Deferred tax liability decrease due to change in tax legislation	Net Deferred tax assets/liabilities as at December 31, 2021
Other assets	2	91	93
Provisions for other operations	156	181	337
Lease liabilities	256	(119)	137
Other liabilities	58	58	86
Property and equipment and intangible assets	(578)	392	(186)
Loans to customers	(3,052)	1,748	(1,304)
Net deferred tax liability	**(3,158)**	**2,321**	**(837)**

	Deferred tax assets/(liabilities) as at December 31. 2019	Deferred Tax expense recognized in profit and loss	Deferred Tax Due to change in legislations	Recognized in other comprehensive income	Net Deferred tax assets/(liabilities) as at December 31, 2020
Other assets	40	(38)	-	-	2
Provisions for other operations	181	(25)	-	-	156
Lease liabilities	307	91	(142)	-	256
Other liabilities	82	(24)	-	-	58
Property and equipment and intangible assets	(1,144)	(174)	811	(71)	(578)
Loans to customers	(2,520)	(1,665)	1,133	-	(3,052)
Net deferred tax liability	**(3,054)**	**(1,835)**	**1,802**	**71**	**(3,158)**

(in thousands of Georgian Lari)

The effective tax rate reconciliation is as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Profit before income tax	**15,204**	**2,188**
Tax at the statutory tax rate (15%)	2,281	328
Utilization of prior year losses	(1,468)	-
Tax effect of permanent differences	(1,018)	(295)
Income tax (expense)/benefit	**(205)**	**33**
Current year tax expense	3,583	-
Deferred tax expense recognised in the current year	(2,321)	33
Utilization of prior year losses	(1,468)	-
Income tax (expense)/benefit	**(205)**	**33**

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 totalled GEL 365 thousand and 853 as at December 31, 2021 and 2020, respectively.

As at December 31, 2021 and 2020 contingent liabilities comprise:

	December 31, 2021	December 31, 2020
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	7,631	6,652
Unused credit lines	29,444	16,941
Total contingent liabilities and credit commitments	**37,075**	**23,593**

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, 2021 and 2020.

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.

Last tax inspection took place in August 2018, thus the open period for tax inspection is 2019-2021.

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 2021 and 2020 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

There is no material impact on operations due to COVID-19 pandemic complications, except the increase in ECL during 2020, which is disclosed in note 20. Bank swiftly conducted all required activities to meet the government requirements and provide a safe working and service environment to its employees and customers. The Bank has elaborated special contingency plan to organize activities of all branches, departments and employees in different scenarios.

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.

(in thousands of Georgian Lari)

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, 2021		December 31, 2020	
	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
Loans to customers	Level 3	725,031	736,457	516,327	519,208
Investments in debt securities	Level 2	17,309	17,328	17,293	17,498
Due to financial institutions	Level 3	432,978	426,162	313,537	313,162
Deposits by customers	Level 3	385,266	383,845	186,304	186,704
Subordinated debt	Level 3	31,057	31,309	32,862	32,860

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, 2021	December 31, 2020	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	80	-	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
Financial liability at fair value through profit or loss	-	878	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:

- 50,000 thousand GEL as at December 31, 2020
- 50,000 thousand GEL as at December 31, 2021

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.

The Bank had to maintain minimum Capital Requirements in accordance with the Regulation on capital Adequacy Requirements for Commercial Banks, compatible with framework established by Basel committee of banking supervision.

Pillar 1 minimum requirements are as follows:

- CET 1 – 4.5%
- Tier 1 Capital – 6%
- Regulatory Capital adequacy ratio - 8%

Pre-pandemic 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 from December 31, 2018;
- The Systemic Risk (“SR”) buffer applied to systematically important banks from 2018 and gradually increasing year over year..
- 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 from 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.

Supervision plan adoption – COVID 19

By the end of Q1 2020 National Bank of Georgia established supervision plan in order to minimize negative impact of economic shocks driven by COVID 19 pandemic.

(in thousands of Georgian Lari)

Purpose of the actions taken according to supervision plan will allow banks to utilize capital and liquidity buffers during the stress in order to neutralize potential losses and continue the process of normal business and lending activities without interruptions.

According to the supervisory plan, the following changes has been made:

- Capital conservation buffer reduced to from 2.5% to 0% by indefinite term;
- For HHI and Grape buffers, the transitional schedule of buffer allocation rates between CET 1, Tier 1 postponed and remained at the pre-pandemic level until 31 March, 2021; 15% for CET 1, instead of 30% and 20% for Tier 1 instead of 40%, for regulatory capital buffers allocation rate, remained untouched at 100%;
- CICR buffer requirement reduced by 2/3;
- LCR requirement at national currency reduced from 75% to 0% by 1-year period, until May 2021.

Financial Stability Committee deemed it appropriate to begin the recovery of capital buffers released in March, 2020. January 1, 2022 is set as the starting date for the recovery of capital buffer requirements and banks are given 2 years to meet restored capital requirements. Banks will be required to restore currency induced credit risk (CICR) buffer by January 1, 2023 and capital conservation buffer requirement by January 1, 2024.

The summary of the Capital Adequacy ratio requirements set under the Capital Adequacy Framework effective as at December 31, 2021 and 2020 are as follows:

Capital to the Risk-Weighted Assets			**Pillar 1**					**Pillar 2**	**December 31, 2021**
	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%	0%	0%	0%	0.57%	0.24%	0.00%	0.93%	6.24%
Tier 1 Capital ratio	6.00%	0%	n/a	n/a	0.77%	0.32%	0.00%	1.02%	8.33%
Total Regulatory Capital ratio	8.00%	0%	n/a	n/a	1.02%	0.80%	0.00%	3.10%	12.92%

Capital to the Risk-Weighted Assets			**Pillar 1**					**Pillar 2**	**December 31, 2020**
	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%	0%	0%	0%	0.57%	0.18%	0.00%	0.42%	5.67%
Tier 1 Capital ratio	6.00%	0%	n/a	n/a	0.77%	0.24%	0.00%	0.56%	7.57%
Total Regulatory Capital ratio	8.00%	0%	n/a	n/a	1.03%	1.20%	0.00%	2.80%	13.03%

(in thousands of Georgian Lari)

As at December 31, 2021 and 2020 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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Share capital	76,000	76,000
Revaluation reserve	1,958	1,983
Retained earnings for capital adequacy	39,052	17,556
Deductions from Common Equity Tier 1 Capital	(6,458)	(6,446)
Common Equity Tier 1 Capital	**110,553**	**89,093**
Tier 1 Capital	**110,553**	**89,093**
Convertible subordinated debts	30,976	32,766
General loan loss provisions (up to 1.25 % of risk–weighted assets)	10,970	7,409
Total regulatory capital	**152,499**	**129,268**
Risk weighted assets	**931,551**	**645,230**
Common Equity Tier 1 Capital Adequacy Ratio	11.87%	13.81%
Tier 1 Capital Adequacy Ratio	11.87%	13.81%
Total regulatory capital adequacy Ratio	16.37%	20.03%

As at December 31, 2021 and 2020, in the computation of total regulatory capital for capital adequacy purposes the Bank included 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, 2021 and 2020, in the computation of total regulatory capital for capital adequacy purposes the Bank included 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, 2021 and 2020, 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+ 3 3+ 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- 4+ 4 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.
5+ 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.
6+ 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.
7+ 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.
8 9 10	Very high risk of default. Customer solvency is low. 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.

*loans without rating: 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 34.8% for undrawn loan commitments and 100% for financial guarantees as at December 31, 2021. That is comparable to 34.6% for undrawn loan commitments and 100% for financial guarantees as at December 31, 2020.

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 based on provision rates of collective approach of impairment. .

Loans to customers

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

The 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 Tier 1 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. The spread of Covid19 is considered as event that significantly increased the credit risk of loan portfolio in some areas. Therefore, customers operated in the segments of economy, most vulnerable to the impact of Covid-19, like Horeca (hotels, restarurants and cafes) and the clients that have used Covid 19 related bank's payment holidays in 2021 are considered as having signs of significant increase in credit risk.

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 realization of assets held as collateral against the loans 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 10% expenses for asset liquidatation. Liquidation value used in calculation is at least 25% less than market value of collateral. 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
- Currency

Portfolio subject to collective assessment of ECL is divided into by sectors: Trade, construction and real estate management, other business sectors, by product: 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 and, in some terms, credit rating.

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
- The borrower's any material credit obligation was restructured by protocols of different credit commitees, 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 or borrower is considered as "problematic" or the borrower is under litigation process to be recognised as bankrupt.
- Active credit rating is 8,9 or 10

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 the lowest grades by internal credit rating model, 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 credit rating 8,9 or 10 or assigning the status of "problematic" to the borrower 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 or 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. Customers operated in the segments of economy, most vulnerable to the impact of COVID-19, like hotels, restarurants and cafes, are considered as having signs of significant increase in credit risk. Besides, if the client has used COVID 19 related bank's payment holidays in 2021, it is considered as a stage 2 sign of impairment model.

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 2020 to November -2021. During the observation period, the one month migration matrices were generated. To exclude portfolio growth effect, the loans disbursed from July 2020 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 by future 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, 2021, 10% increase/ (decrease) in average PD per each pool results in ECL increase/(decrease) by 2.1%/2.1% that represents GEL 460/(460) thousand.

LGD model

Another component of impairment model is LGD (loss given default), that 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 real estate pledged using 2 years of time to collect period, 10% percent realization expenses and minimum 25% valuation haircut to market value of collateral. LGDs are measured on segment rather than on group level.

As at December 31, 2021, 10% increase/ (decrease) in minimum valuation haircut results in ECL increase/(decrease) by 5.20-%/-5.67% that represents GEL 1,119/(-1,220) thousand.

As at December 31, -2021, 10% increase/ (decrease) in time to collect period results in ECL increase/(decrease) by 6.7%/7.5% that represents GEL 1,445/(-1,619) 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, adjusted by the potential changes in case of moving in stage 3 (Default), that is 1.006 for stage 1 loans and 1.011 for stage 2 loans.

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) are used to adjust marginal probabilities of default . Weighting of these 3 different scenarios forms the basis of a weighted average probabilities of default that are used in calculations of ECL. 12-month ECL (stage 1 loans) is measured only with the twelve month PD. Lifetime ECL (stages 2 and 3 loans) is measured with all annual marginal PDs until the maturity of loan expires.

(in thousands of Georgian Lari)

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, have estimated relationships between macro-economic variables and probabilities of default. Three macroeconomic indicators (GDP growth, GEL/USD exchange rate, and real estate prices) are included in future economic scenarios for individual assessed loans. For collectively assessed portfolio the Bank is able to estimate the impact of GDP growth rate, annual inflation rate and GEL/USD exchange rate on probabilities of default and final ECL.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at 31 December 2021 for the years 2022 to 2024, for Georgia and therefore have a significant impact on ECL.

	2022	2023	2024
GDP growth rate			
Base scenario	5.00%	4.00%	4.50%
Upside scenario	6.00%	5.00%	4.50%
Downside scenario	2.00%	4.00%	5.00%
GEL/USD foreign exchange rate change (YoY)			
Base scenario	0.00%	0.00%	0.00%
Upside scenario	4.00%	2.00%	2.00%
Downside scenario	-10.00%	2.00%	3.00%
Real Estate Price change (YoY)			
Base scenario	7.00%	5.00%	5.00%
Upside scenario	6.00%	5.00%	5.50%
Downside scenario	9.00%	1.00%	3.00%
Annual inflation			
Base scenario	7.00%	2.50%	3.00%
Upside scenario	5.50%	3.00%	3.00%
Downside scenario	8.00%	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 5 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 of collective assessment, 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 (th. GEL)
GDP growth rate scenario changes	10%	9.94%	17.75%	(199)
	-10%	10.31%	17.75%	199
	10%	10.17%	17.75%	49
GEL/USD exchange rate scenario change	-10%	9.98%	17.75%	(151)
	10%	10.17%	17.75%	45
Inflation growth rate scenario change	-10%	10.05%	17.75%	(78)
Real Estate Prices	10%	10.12%	13.32%	(2,680)
	-10%	10.12%	22.68%	2,992

(in thousands of Georgian Lari)

Calculation of ECL

When the marginal PDs and LGDs 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 by credit committees or other qualitative indicators). The results of LLP calculation on loan portfolio allows to derive the 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 2021 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, 2021 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+	4,723	(2)	-	-	(2)	4,721	0.04%
5	13,506	(25)	-	-	(25)	13,481	0.19%
5-	36,612	(195)	-	-	(195)	36,417	0.53%
6+	53,783	(190)	(1,498)	(17)	(1,705)	52,078	3.17%
6	75,759	(226)	(1,846)	(76)	(2,148)	73,611	2.84%
6-	46,640	(32)	(2,108)	(1,292)	(3,432)	43,208	7.36%
7+	4,260	(1)	-	(21)	(22)	4,238	0.52%
10	16,921	-	-	(1,057)	(1,057)	15,864	6.25%
Not rated	18,633	(27)	-	-	(27)	18,606	0.14%
Total corporate loans	**270,837**	**(698)**	**(5,452)**	**(2,463)**	**(8,613)**	**262,224**	**3.18%**
SME loans							
5-	7,333	(73)	-	-	(73)	7,260	1.00%
6+	13,160	(70)	(63)	(36)	(169)	12,991	1.28%
6	83,634	(456)	(924)	(740)	(2,120)	81,514	2.53%
6-	130,115	(398)	(1,691)	(1,092)	(3,181)	126,934	2.44%
7+	17,408	(21)	(251)	(273)	(545)	16,863	3.13%
7	2,859	-	-	-	-	2,859	0.00%
7-	4,224	(2)	-	(935)	(937)	3,287	22.18%
8	-	-	-	-	-	-	0.00%
9	907	-	-	(144)	(144)	763	15.88%
10	4,226	-	-	(509)	(509)	3,717	12.04%
Not rated	59,441	(298)	(1,040)	(614)	(1,952)	57,489	3.28%
Total SME loans	**323,307**	**(1,318)**	**(3,969)**	**(4,343)**	**(9,630)**	**313,677**	**2.98%**
Retail loans							
Not rated	152,417	(227)	(127)	(2,932)	(3,287)	149,130	2.16%
Total retail loans	**152,417**	**(227)**	**(127)**	**(2,932)**	**(3,287)**	**149,130**	**2.16%**
Total loans to customers	**746,561**	**(2,243)**	**(9,549)**	**(9,738)**	**(21,530)**	**725,029**	**1.79%**

(in thousands of Georgian Lari)

The following tables provide information on the credit quality of loans to customers as at December 31, 2020 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	2,736	(22)	-	-	(22)	2,714	0.80%
5-	25,745	(78)	-	-	(78)	25,667	0.30%
6+	9,875	(7)	-	-	(7)	9,868	0.07%
6	108,343	(183)	(444)	(458)	(1,085)	107,258	1.00%
6-	56,561	(79)	(230)	(397)	(706)	55,855	1.25%
7+	11,926	-	(1,568)	(1,355)	(2,923)	9,003	24.51%
7	-	-	-	-	-	-	0.00%
10	12,826	-	-	(198)	(198)	12,628	1.54%
Not rated	3,585	(113)	(46)	-	(159)	3,426	4.44%
Total corporate loans	**231,597**	**(482)**	**(2,288)**	**(2,408)**	**(5,178)**	**226,419**	**2.24%**
SME loans							
5	-	-	-	-	-	-	0.00%
5-	4,828	(36)	-	-	(36)	4,792	0.75%
6+	8,247	(161)	(135)	(83)	(379)	7,868	4.60%
6	65,382	(386)	(754)	(741)	(1,881)	63,501	2.88%
6-	69,719	(896)	(1,256)	(849)	(3,001)	66,718	4.30%
7+	13,681	-	(417)	(1,405)	(1,822)	11,859	13.32%
7	2,414	-	-	(105)	(105)	2,309	4.35%
7-	4,780	-	(36)	(389)	(425)	4,355	8.89%
8	2,588	-	-	(191)	(191)	2,397	7.38%
9	655	-	-	-	-	655	0.00%
Not rated	18,439	(537)	(392)	(429)	(1,358)	17,081	7.36%
Total SME loans	**190,733**	**(2,016)**	**(2,990)**	**(4,192)**	**(9,198)**	**181,535**	**4,82%**
Retail loans							
Not rated	114,002	(946)	(2127)	(2,556)	(5,629)	108,373	4.94%
Total retail loans	**114,002**	**(946)**	**(2,127)**	**(2,556)**	**(5,629)**	**108,373**	**4.94%**
Total loans to customers	**536,332**	**(3,444)**	**(7,405)**	**(9,156)**	**(20,005)**	**516,327**	**3.73%**

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.

(in thousands of Georgian Lari)

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

Financial asset class	December 31, 2021	December 31, 2020
Loans to customers	68,813	66,333
Less: allowance for expected credit losses	(9,989)	(7,410)

In addition, as at December 31, 2021 loans with the carrying amount of GEL 60,097 thousand has received payment holidays due to COVID 19 in 2021 (2020,GEL 208,000).

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.

Stage movements in loans to customers

Movements in the gross carrying value of the loans to customers for the year ended December 31, 2021 was as following:

	2021			
	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, 2021	**252,222**	**198,889**	**85,221**	**536,332**
New loans originated	437,575	-	-	453,575
–Transfer from stage 2 to stage 1	88,344	(88,344)	-	-
–Transfer from stage 1 to stage 2	(105,223)	105,223	-	-
–Transfer from stage 2 to stage 3	-	(37,525)	37,525	-
Loans repaid	(137,801)	(54,995)	(31,310)	(224,106)
Changes due to modifications that did not result in derecognition	(187)	(91)	24	(254)
Foreign exchange differences	(11,180)	(4,590)	(3,217)	(18,987)
Gross carrying amount as at December 31, 2021	**539,750**	**118,567**	**88,243**	**746,561**

Movements in the allowance for expected credit losses for the year ended December 31, 2021 was as following:

	2021			
	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 2021	**3,444**	**7,405**	**9,156**	**20,005**
Changes in the loss allowance				
New loans originated	**11,439**	**-**	**-**	**11,439**
–Transfer from stage 2 to stage 1	2,524	(2,524)	-	**-**
–Transfer from stage 1 to stage 2	(9,841)	9,841	-	**-**
–Transfer from stage 2 to stage 3	-	(4,531)	4,531	**-**
—Increases due to change in credit risk	-	1,126	378	**1,504**
Loans repaid	(1,760)	(3,470)	(2,821)	**(8,051)**
Changes in risk paramaters	(3,538)	1,774	(1,980)	**(3,744)**
Interest income correction	-	-	654	**654**
Foreign exchange differences	(26)	(72)	(180)	**(278)**
Loss allowance as at December 31, 2021	**2,242**	**9,549**	**9,738**	**21,530**

(in thousands of Georgian Lari)

Movements in the gross carrying value of the loans to customers for the year ended December 31, 2020 was as following:

	2020			
	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, 2020	**370,392**	**14,616**	**43,706**	**428,714**
New loans originated	288,947	-	-	288,947
–Transfer from stage 2 to stage 1	2,288	(2,288)	-	-
–Transfer from stage 1 to stage 2	(247,737)	247,737	-	-
–Transfer from stage 2 to stage 3	-	(59,466)	59,466	-
Loans repaid	(183,916)	(2,981)	(20,405)	(207,302)
Changes due to modifications that did not result in derecognition	(77)	(319)	(181)	(577)
Foreign exchange differences	22,325	1,590	2,635	26,550
Gross carrying amount as at December 31, 2020	**252,222**	**198,889**	**85,221**	**536,332**

Movements in the allowance for expected credit losses for the year ended December 31, 2020 was as following:

	2020			
	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 2020	**3,261**	**264**	**4,217**	**7,742**
Changes in the loss allowance				
New loans originated	5,841	**-**	**-**	**5,841**
–Transfer from stage 2 to stage 1	2	(2)	-	**-**
–Transfer from stage 1 to stage 2	(6,630)	6,630	-	**-**
–Transfer from stage 2 to stage 3	-	(416)	416	**-**
—Increases due to change in credit risk	2,377	1,047	6,083	**9,507**
Loans repaid	(1,163)	(154)	(1,308)	**(2,625)**
Changes in risk paramaters	(282)	(19)	(1,139)	**(1,440)**
Interest income correction	-	-	536	**536**
Foreign exchange differences	38	55	351	**444**
Loss allowance as at December 31, 2020	**3,444**	**7,405**	**9,156**	**20,005**

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 and any expected credit loss. 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.

(in thousands of Georgian Lari)

December 31, 2021	Maximum Exposure	Net exposure
Cash and cash equivalents excluding cash on hand	105,840	105,838
Mandatory cash balance with the NBG	100,836	100,835
Due from financial institutions	815	815
Loans to customers	746,561	725,031
Investments in equity instruments	54	54
Investments in debt instruments	17,328	17,309
Other financial assets	4,179	3,949
Guarantees and letter of credits	7,714	7,631

December 31, 2020	Maximum Exposure	Net exposure
Cash and cash equivalents excluding cash on hand	35,052	35,051
Mandatory cash balance with the NBG	50,365	50,364
Due from financial institutions	862	862
Loans to customers	536,332	516,327
Investments in equity instruments	54	54
Investments in debt instruments	17,315	17,293
Other financial assets	300	140
Guarantees and letter of credits	7,300	6,652

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, 2021 and 2020 were concentrated in Georgia.

(in thousands of Georgian Lari)

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

	Georgia	Other non-OECD countries	OECD countries	December 31, 2021 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	108,215	2,787	5,167	116,170
Mandatory cash balance with the NBG	100,835	-	-	100,835
Due from financial institutions	-	815	0	815
Loans to customers	717,858	5,604	1,569	725,031
Investments in equity instruments	54	-	-	54
Investments in debt instruments	17,309	-	-	17,309
Other financial assets	3,949	-	-	3,949
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**948,220**	**9,206**	**6,736**	**964,163**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to financial institutions	68	432,910	-	432,978
Deposits by customers	366,596	16,451	2,218	385,265
Lease Liability	2,206	-	-	2,206
Subordinated debt	-	31,057	-	31,057
Other financial liabilities	4,306	-	-	4,306
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**373,176**	**480,418**	**2,218**	**855,812**
NET POSITION ON FINANCIAL INSTRUMENTS	**575,044**	**(471,212)**	**4,518**	**108,351**

	Georgia	Other non-OECD countries	OECD countries	December 31, 2020 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	37,099	549	5,384	43,032
Mandatory cash balance with the NBG	50,364	-	-	50,364
Due from financial institutions	-	862	-	862
Loans to customers	512,836	3,097	394	516,327
Investments in equity instruments	54	-	-	54
Investments in debt instruments	17,293	-	-	17,293
Other financial assets	140	-	-	140
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**617,786**	**4,508**	**5,778**	**628,072**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to financial institutions	69	313,468	-	313,537
Deposits by customers	169,533	15,058	1,713	186,304
Lease Liability	2,654	-	-	2,654
Subordinated debt	-	32,862	-	32,862
Other financial liabilities	1,872	-	-	1,872
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**174,128**	**361,388**	**1,713**	**537,229**
NET POSITION ON FINANCIAL INSTRUMENTS	**443,658**	**(356,880)**	**4,065**	**90,843**

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.

(in thousands of Georgian Lari)

The following table details the credit ratings of financial assets held by the Bank as at December 31, 2021 and 2020:

December 31, 2021	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**Total**
Cash and cash equivalents	-	-	-	2,787	113,382	-	**116,169**
Mandatory cash balance with the NBG	-	-	-	-	100,835	-	**100,835**
Due from financial institutions	-	815	-	-	-	-	**815**
Loans to customers	-	-	-	-	9,886	715,145	**725,031**
Investments in equity instruments	-	-	-	-	-	54	**54**
Investments in debt instruments	-	-	-	-	17,309	-	**17,309**
Other financial assets	-	-	-	-	-	3,949	**3.949**

December 31, 2020	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**Total**
Cash and cash equivalents	-	-	-	549	42,483	-	**43,032**
Mandatory cash balance with the NBG	-	-	-	-	50,364	-	**50,364**
Due from financial institutions	-	862	-	-	-	-	**862**
Loans to customers	-	-	-	-	18,300	498,027	**516,327**
Investments in equity instruments	-	-	-	-	-	54	**54**
Investments in debt instruments	-	-	-	-	17,293	-	**17,293**
Other financial assets	-	-	-	-	-	140	**140**

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.

(in thousands of Georgian Lari)

	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	Maturity undefined	December 31, 2021 Total
FINANCIAL ASSETS:								
Cash and cash equivalents	6.12%	89,270	-	-	-	-	-	**89,270**
Mandatory cash balance with the NBG	-0.44%	100,835	-	-	-	-	-	**100,835**
Loans to customers	8.04%	43,517	27,527	139,720	260,296	253,971	-	**725,031**
Investments in debt instruments	10.45%	244	484	-	10,902	5,679	-	**17,309**
Total interest bearing financial assets		**233,866**	**28,011**	**139,720**	**271,198**	**259,650**	**-**	**932,445**
Cash and cash equivalents		26,899	-	-	-	-	-	**26,899**
Due from financial institutions		-	-	-	-	815	-	**815**
Investments in equity instruments		-	-	-	-	-	54	**54**
Other financial assets		3,949	-	-	-	-	-	**3,949**
Total non-interest bearing financial assets		30,848	-	-	-	815	54	**31,717**
TOTAL FINANCIAL ASSETS		**264,714**	**28,011**	**139,720**	**271,198**	**260,465**	**54**	**964,162**
FINANCIAL LIABILITIES								
Due to financial institutions	2.23%	68	1,768	37,893	393,249	-	-	**432,978**
Deposits by customers	6.75%	222,203	10,146	44,266	32,444	7,915	-	**316,974**
Lease liability	5.37%	76	154	686	1,290	-	-	**2,206**
Subordinated debt	4.50%	81	-	-	-	30,976	-	**31,057**
Total interest bearing financial liabilities		**222,428**	**12,068**	**82,845**	**426,983**	**38,891**	**-**	**783,215**
Deposits by customers		68,120	-	132	-	40	-	**68,262**
Other financial liabilities		4,306	-	-	-	-	-	**4,306**
Total non-interest bearing financial liabilities		**72,426**	**-**	**132**	**-**	**40**	**-**	**72,598**
TOTAL FINANCIAL LIABILITIES		**294,854**	**12,068**	**82,977**	**426,983**	**38,931**	-	**855,813**
Interest sensitivity gap		11,438	15,943	56,875	(155,785)	220,759	-	
Cumulative interest sensitivity gap		11,438	27,381	84,256	(71,529)	149,230	149,230	
Liquidity gap		(30,140)	15,943	56,743	(155,785)	221,534	54	3,734)
Cumulative liquidity gap		**(30,140)**	**(14,197)**	**42,546**	**(113,239)**	**108,295**	**108,309**	

(in thousands of Georgian Lari)

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.

	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	Maturity undefined	December 31, 2020 Total
FINANCIAL ASSETS:								
Cash and cash equivalents	6.06%	23,178	-	-	-	-	-	**23,178**
Mandatory cash balance with the NBG	-0.51%	50,364	-	-	-	-	-	**50,364**
Loans to customers	8.23%	30,024	19,224	112,353	191,456	163,270	-	**516,327**
Investments in debt instruments	10.45%	244	483	-	10,887	5,679	-	**17,293**
Total interest bearing financial assets		**103,810**	**19,707**	**112,353**	**202,343**	**168,949**	**-**	**607,162**
Cash and cash equivalents		19,854	-	-	-	-	-	**19,854**
Due from financial institutions		-	-	-	-	862	-	**862**
Investments in equity instruments		-	-	-	-	-	54	**54**
Other financial assets		140	-	-	-	-	-	**140**
Total non-interest bearing financial assets		19,994	-	-	-	862	54	**20,910**
TOTAL FINANCIAL ASSETS		**123,804**	**19,707**	**112,353**	**202,343**	**169,811**	**54**	**628,072**
FINANCIAL LIABILITIES								
Due to financial institutions	2.50%	70	4,066	99,078	210,323	-	-	**313,537**
Deposits by customers	4.63%	89,221	4,506	34,011	14,615	5,685	-	**148,038**
Lease liability	5.84%	76	155	687	1,736	-	-	**2,654**
Subordinated debt	5.00%	96	-	-	-	32,766	-	**32,862**
Total interest bearing financial liabilities		**89,463**	**8,727**	**133,776**	**226,674**	**38,451**	**-**	**497,091**
Deposits by customers		38,257	9	-	-		-	**38,266**
Other financial liabilities		1,872	-	-	-	-	-	**1,872**
Total non-interest bearing financial liabilities		**40,129**	**9**	**-**	**-**	**-**	**-**	**40,138**
TOTAL FINANCIAL LIABILITIES		**129,592**	**8,736**	**133,776**	**226,674**	**38,451**	**-**	**537,229**
Interest sensitivity gap		14,347	10,980	(21,423)	(24,331)	130,498	-	
Cumulative interest sensitivity gap		14,347	25,327	3,904	(20,427)	110,071	110,071	
Liquidity gap		(5,788)	10,971	(21,423)	(24,331)	131,360	54	3,7 34)
Cumulative liquidity gap		**(5,788)**	**5,183**	**(16,240)**	**(40,571)**	**90,789**	**90,843**	

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.

(in thousands of Georgian Lari)

	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, 2021 Total
xed interest rate struments							
ue to financial stitutions	2.23%	66	1,770	38,333	407,274	-	**447,445**
eposits by ıstomers	6.75%	222,516	10,302	46,711	39,743	8,621	**327,893**
ease liability	5.37%	86	171	750	1,362	-	**2,369**
ıbordinated debt	4.50%	119	227	1,059	5,625	33,511	**40,541**
otal fixed interest earing financial abilities		**222,789**	**12,470**	**86,853**	**454,004**	**42,132**	**818,248**
on-interest bearing struments							
eposits by ıstomers		68,120	-	132	-	40	68,292
ther financial abilities		4,306	-	-	-	-	4,306
otal non-interest earing financial abilities		72,426	-	132	-	40	72,598
otal financial abilities		**295,215**	**12,470**	**86,985**	**454,004**	**42,172**	**890,846**

	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, 2020 Total
xed interest rate struments							
ue to financial stitutions	2.50%	70	4,076	99,893	222,298	-	326,337
eposits by ıstomers	4.63%	89,416	4,596	35,885	17,383	7,090	154,370
ease liability	5.84%	89	179	778	1,862	-	2,908
ıbordinated debt	5.00%	139	265	1,235	6,558	37,065	45,262
otal fixed interest earing financial abilities		**89,714**	**9,116**	**137,791**	**248,101**	**44,155**	**528,877**
on-interest bearing struments							
eposits by ıstomers		38,257	9	-	-	-	**38,266**
ther financial abilities		1,872	-	-	-	-	**1,872**
otal non-interest earing financial abilities		**40,129**	**9**	**-**	**-**	-	**40,138**
otal financial abilities		**129,843**	**9,125**	**137,791**	**248,101**	**44,155**	**569,015**

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 from those estimates of interest rates determined at the end of the reporting period.

(in thousands of Georgian Lari)

Market risk

Market risk is 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 12% 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, 2021 and 2020:

	As at December 31, 2021		As at December 31, 2020	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Non-derivative financial assets:				
Cash and cash equivalents	1,785	(1,785)	464	(464)
Mandatory cash balance with the NBG	2,017	(2,017)	1,007	(1,007)
Loans to customers	14,501	(14,501)	10,327	(10,327)
Investments in debt securities	346	(346)	346	(346)
Non-derivative financial liabilities:				
Due to financial institutions	(8,660)	8,660	(6,271)	6,271
Deposits by customers	(6,339)	6,339	(2,961)	2,961
Lease liability	(44)	44	(53)	53
Subordinated debt	(621)	621	(657)	657
Net impact on profit before tax	**2,985**	**(2,985)**	**2,202**	**(2,202)**

Impact on shareholders' equity:

(in thousands of Georgian Lari)

	As at December 31, 2021		As at December 31, 2020	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
Non-derivative financial assets:				
Cash and cash equivalents	1,517	(1,517)	394	(394)
Mandatory cash balance with the NBG	1,714	(1,714)	856	(856)
Loans to customers	12,326	(12,326)	8,778	(8,778)
Investments in debt securities	294	(294)	294	(294)
Non-derivative financial liabilities:				
Due to financial institutions	(7,361)	7,361	(5,330)	5,330
Deposits by customers	(5,388)	5,388	(2,517)	2,517
Lease liability	(37)	37	(45)	45
Subordinated debt	(528)	528	(558)	558
Net impact on equity	**2,537**	**(2,537)**	**1,872**	**(1,872)**

Currency risk

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, which gives the Bank an opportunity to minimize losses from national currency fluctuations towards its foreign currency. The Treasury Department performs daily monitoring of the Bank’s open currency position with the aim to match the requirements of the NBG.

(in thousands of Georgian Lari)

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 3.0976	EUR EUR 1 = GEL 3.0540	Other currency	December 31, 2021 Total
FINANCIAL ASSETS					
Cash and cash equivalents	77,246	24,939	13,793	191	**116,169**
Mandatory cash balance with the NBG	-	58,700	42,135	-	**100,835**
Due from financial institutions	-	815	-	-	**815**
Loans to customers	200,431	287,366	237,234	-	**725,031**
Investments in equity instruments	54	-	-	-	**54**
Investments debt instruments	17,309	-	-	-	**17,309**
Other financial assets	284	2,333	1,332	-	**3,949**
TOTAL FINANCIAL ASSETS	**295,324**	**374,153**	**294,494**	**191**	**964,162**
FINANCIAL LIABILITIES					
Due to financial institutions	-	163,759	269,219	-	**432,978**
Deposits by customers	193,804	165,257	26,130	75	**385,266**
Lease liability	-	1,936	-	-	**2,206**
Subordinated debt	270.00	31,057	-	-	**31,057**
Other financial liabilities	1,197	1,587	1,463	59	**4,306**
TOTAL FINANCIAL LIABILITIES	**195,271**	**363,596**	**296,812**	**134**	**855,813**
OPEN POSITION	**100,053**	**10,557**	**(2,318)**	**57**	

	GEL	USD USD 1 = GEL 3.2766	EUR EUR 1 = GEL 4.0233	Other currency	December 31, 2020 Total
FINANCIAL ASSETS					
Cash and cash equivalents	23,487	15,317	4,093	135	**43,032**
Mandatory cash balance with the NBG	-	20,779	29,585	-	**50,364**
Due from financial institutions	-	862	-	-	**862**
Loans to customers	143,525	260,137	112,665	-	**516,327**
Investments in equity instruments	54	-	-	-	**54**
Investments debt instruments	17,293	-	-	-	**17,293**
Other financial assets	140	-	-	-	**140**
TOTAL FINANCIAL ASSETS	**184,499**	**297,095**	**146,343**	**135**	**628,072**
FINANCIAL LIABILITIES					
Due to financial institutions	-	186,252	127,285	-	**313,537**
Deposits by customers	84,927	92,981	8,278	118	**186,304**
Lease liability	343	2,311	-	-	**2,654**
Subordinated debt	-	32,862	-	-	**32,862**
Other financial liabilities	1,479	319	74	-	**1,872**
TOTAL FINANCIAL LIABILITIES	**86,749**	**314,725**	**135,637**	**118**	**537,229**
OPEN POSITION	**97,750**	**(17,630)**	**10,706**	**17**	

(in thousands of Georgian Lari)

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, 2021 and 2020:

	As at December 31, 2021		As at December 31, 2020	
	GEL/USD 25%	GEL/USD (25%)	GEL/USD 25%	GEL/USD (25%)
Impact on profit or loss	2,639	(2,639)	(4,408)	4,408
Impact on equity	2,243	(2,243)	(3,746)	3,746

	As at December 31, 2021		As at December 31, 2020	
	GEL/EUR 25%	GEL/EUR (25%)	GEL/EUR 25%	GEL/EUR (25%)
Impact on profit or loss	(580)	580	2,677	(2,677)
Impact on equity	(493)	493	2,275	(2,275)

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.

(in thousands of Georgian Lari)

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.

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, 2021		December 31, 2020	
	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	4,352	116,169	5,384	43,032
- the parent	3,750		3,183	
-other related parties	602		2,201	
Gross loans to customers	790	746,561	687	536,332
- key management personnel of the Bank	446		474	
-other related parties	344		214	
Allowance for expected credit losses/impairment losses on loans to customers	(1)	(21,530)	(2)	(20,005)
- key management personnel of the Bank	(1)		(1)	
- other related parties	-		(1)	
Due to financial institutions	432,910	432,978	313,468	313,537
- the parent	432,910		313,468	
Deposits by customers	1,016	385,266	687	186,304
- key management personnel of the Bank	228		223	
- other related parties	788		463	
Subordinated debt	31,057	31,057	32,862	32,862
- the parent	31,057		32,862	

(in thousands of Georgian Lari)

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

	2021		2020	
	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	805	10,991	944	8,268
Total	**805**	**10,991**	**944**	**8,268**

Included in the statement of profit or loss and other comprehensive income for the year ended December 31, 2021 and 2020 are the following amounts which were recognised in transactions with related parties:

	2021		2020	
	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	55	39,943	59	39,943
- key management personnel	41			
of the entity or its parent	-		45	
-Other related parties	14		14	
Interest expense	(9,091)	(14,340)	(8,575)	(14,340)
-parent	(9,081)		(8,562)	
- key management personnel	(2)			
of the Bank			(5)	
- other related parties	(7)		(8)	
Fee and commission expense	(98)	(1,860)	(64)	(1,860)
-parent	(98)		(64)	
Net (loss)/gain on foreign exchange operations	(2)	3,382	(63)	3,382
-parent	(2)		(63)	
Operating expenses	(811)	(17,756)	(944)	(13,673)
-key management personnel	(811)		(944)	

29. Subsequent events

On 21 February 2022, the President of Russia signed the executive orders on the recognition of the Donetsk People's Republic and the Lugansk People's Republic. On 24 February 2022, a decision to carry out a special military operation in Ukraine was announced. Subsequent to these events, the US, UK, EU and other countries announced an extension of sanctions on certain Russian officials, businessmen and companies. These developments may result in reduced access of the Russian businesses to international capital and export markets, weakening of the Russian Ruble, decline in capitals markets and other negative economic consequences.

The two major sectors of Georgian economy, wine production and tourism industry, are heavily dependent on the Russian market: 55% of export of Georgian wine in 2021 were to Russia for total amount of $130 million USD, the second largest being Ukraine with total amount of $25 million USD. In Tourism, Russia and Ukraine also account for significant portion of travelers.

The impact of these and further developments on future operations and financial position of the Bank at this stage is difficult to determine.