JSC Cartu Bank

Consolidated financial statements

Year ended 31 December 2023

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Building a better working world

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Independent auditor's report

To the Shareholder and Supervisory Board of JSC Cartu Bank

Opinion

We have audited the consolidated financial statements of JSC Cartu Bank and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023 and its consolidated financial performance and its consolidated 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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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 included in the Group's 2023 Management Report

Other information consists of the information included in the Group's 2023 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2023 Management Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board 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.

Ruslan Khoroshvili (SARAS-A-615243)

On behalf of EY LLC (SARAS-F-855308)

10 May 2024

Tbilisi, Georgia

Consolidated statement of financial position

For the year ended 31 December 2023

(thousands of Georgian lari)

	Notes	*31 December 2023*	*31 December 2022* (Restated)*	*1 January 2022* (Restated)*
Assets				
Cash and cash equivalents	6	700,326	454,584	82,904
Amounts due from credit institutions	7	371,382	236,949	195,855
Loans to customers	8	833,903	746,011	917,931
Investment securities	9	62,897	37,174	51,266
Property and equipment	10	13,888	12,717	12,934
Right of use assets	11	7,160	1,518	2,767
Intangible assets	12	9,012	5,447	3,913
Deferred income tax asset	16	–	7	9
Reinsurance contract assets		2,685	126	4,609
Other assets	13	94,079	95,999	77,708
Total assets		**2,095,332**	**1,590,532**	**1,349,896**
Liabilities				
Amounts due to credit institutions		9	6	15
Amounts due to customers	14	1,562,461	1,104,659	877,321
Current income tax liability		6,006	4,830	3,211
Deferred income tax liability	16	2,137	9,289	5,579
Lease liabilities	11	7,167	1,801	3,171
Insurance contract liabilities		3,360	986	5,276
Reinsurance contract liabilities		307	132	60
Provisions	18	263	201	2,335
Subordinated debt	15	81,058	81,550	96,981
Other liabilities	13	15,825	6,017	3,021
Total liabilities		**1,678,593**	**1,209,471**	**996,970**
Equity				
Share capital	17	114,430	114,430	114,430
Additional paid–in capital	17	25,764	25,764	25,764
Retained earnings and other reserves	17	275,300	239,813	211,804
Total equity attributable to shareholders of the Bank		**415,494**	**380,007**	**351,998**
Non–controlling interests		1,245	1,054	928
Total equity		**416,739**	**381,061**	**352,926**
Total equity and liabilities		**2,095,332**	**1,590,532**	**1,349,896**

* Starting from 1 January 2023 the Group has adopted IFRS 17 *Insurance Contracts* and according to the standard's requirements retrospectively applied presentation of respective balances for 2022 as described in Note 5.

Signed and authorized for release on behalf of the Board of Directors of the Bank on 10 May 2024:

Zurab Gelenidze — Chief Executive Officer

Givi Lebanidze — Chief Financial Officer

The accompanying notes on pages 5 to 47 are an integral part of these Consolidated financial statements

Consolidated statement of financial position

For the year ended 31 December 2023

(thousands of Georgian lari)

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Zurab Gelenidze Chief Executive Officer

Givi Lebanidze Chief Financial Officer

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Consolidated statement of comprehensive income

For the year ended 31 December 2023

(thousands of Georgian lari)

	Notes	*2023*	*2022* (Restated)*
Interest revenue calculated using effective interest rate			
Loans to customers		72,852	73,491
Investment securities		5,631	3,256
Amounts due from credit institutions		19,126	5,494
		97,609	**82,241**
Interest expense			
Amounts due to credit institutions		(1)	(54)
Amounts due to customers		(21,733)	(21,927)
Subordinated debt		(5,637)	(6,254)
Lease liabilities		(100)	(236)
		(27,471)	**(28,471)**
Net interest income		**70,138**	**53,770**
Credit loss recovery/(expense) on interest bearing assets	19	2,561	19,232
Net interest income after credit losses		**72,699**	**73,002**
Fee and commission income	20	7,664	14,774
Fee and commission expense	20	(5,223)	(12,516)
Net gains/(losses) from foreign currencies			
- *dealing*		6,947	8,119
- *translation differences*		(835)	(15,506)
Insurance revenue		6,068	5,222
Result from reinsurance contracts held		1,609	(829)
Insurance service expenses		(5,389)	(2,557)
Other income, net	21	12,378	9,545
Non–interest income		**23,219**	**6,252**
Personnel expenses	22	(21,359)	(17,020)
Other operating expenses	22	(23,420)	(19,517)
Depreciation and amortisation	10,11,12	(4,084)	(4,287)
Other reversal of impairment/(Impairment and provisions)	19	(498)	4,066
Non–interest expenses		**(49,361)**	**(36,758)**
Profit before income tax		**46,557**	**42,496**
Income tax expense	16	(10,891)	(14,524)
Net profit for the period		**35,666**	**27,972**
Attributable to:			
shareholders of the Parent		35,475	27,846
non–controlling interests		191	126
		35,666	**27,972**
Other comprehensive income for the yea			
Movement in fair value reserve for investment securities measured at fair value through other comprehensive income	9	12	163
Total comprehensive income for the year		**35,678**	**28,135**
Attributable to:			
shareholders of the Parent		35,487	28,009
non–controlling interests		191	126

* Starting from 1 January 2023 the Group has adopted IFRS 17 and according to the standard's requirements retrospectively applied presentation of respective net insurance income items for 2022 as described in Note 5.

Consolidated statement of changes in equity

For the year ended 31 December 2023

(thousands of Georgian lari)

	Attributable to shareholders of the Group					
	Share capital	***Additional paid–in capital***	***Retained earnings and other reserves***	***Total***	***Non–controlling interests***	***Total equity***
1 January 2022 (as previously reported)	**114,430**	**25,764**	**211,766**	**351,960**	**925**	**352,885**
Adoption of IFRS 17 (Note 5)	–	–	38	**38**	3	**41**
1 January 2022 (restated)	**114,430**	**25,764**	**211,804**	**351,998**	**928**	**352,926**
Profit for the year	–	–	27,846	**27,846**	126	**27,972**
Other comprehensive income for the year (Note 9)	–	–	163	**163**	–	**163**
Total comprehensive income for the year	**–**	**–**	**28,009**	**28,009**	**126**	**28,135**
31 December 2022 (restated)	**114,430**	**25,764**	**239,813**	**380,007**	**1,054**	**381,061**
Profit for the year	–	–	35,475	**35,475**	191	**35,666**
Other comprehensive income for the year (Note 9)	–	–	12	**12**	–	**12**
Total comprehensive income for the year	**–**	**–**	**35,487**	**35,487**	**191**	**35,678**
31 December 2023	**114,430**	**25,764**	**275,300**	**415,494**	**1,245**	**416,739**

The accompanying notes on pages 5 to 47 are an integral part of these Consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2023

(thousands of Georgian lari)

	Notes	*2023*	*2022* (restated)*
Cash flows from operating activities:			
Profit before income tax		**46,557**	**42,496**
Adjustments for non–cash Items:			
(Recovery)/Provision for impairment losses on interest bearing assets	19	(2,561)	(19,232)
(Recovery)/Provision for impairment losses on non−interest bearing assets	19	424	(587)
(Recovery)/Provision on other operations	19	64	(768)
(Reversal)/Impairment of repossessed assets	19	10	(2,711)
Modification (gain)/loss	8	(494)	1,631
Net gain on disposal of property and equipment	21	–	(11)
Net gain on disposal of repossessed assets	21	(1,826)	(6,289)
Gain on sale of Investment securities	21	–	(1,083)
Gain on Asset Recovery		(9,074)	–
Depreciation and amortization expense	10,11,12	4,084	4,287
Change in interest accruals, net		(84)	(126)
Gain on foreign exchange operations from translation differences		835	15,506
Cash inflow from operating activities before changes in operating assets and liabilities		**37,935**	**33,113**
Changes in operating assets and liabilities			
Amounts due from credit institutions		(133,655)	(73,177)
Loans to customers		(83,404)	113,136
Other assets		(24,178)	(34,848)
Amounts due to credit institutions		2	(8)
Amounts due to customers		449,045	361,969
Other liabilities		13,146	(1,223)
Cash inflow from operating activities before taxation		**258,891**	**398,962**
Income tax paid		(16,860)	(5,929)
Net cash inflow/(outflow) from operating activities		**242,031**	**393,033**
Cash flows from investing activities:			
Purchase of property and equipment	10	(2,466)	(1,577)
Purchase of intangible assets	12	(4,836)	(2,751)
Proceeds from sale of property and equipment	10	30	177
Proceeds from sale of repossessed assets	13	34,385	25,164
Proceeds from investments securities at amortised cost	9	–	21,510
Acquisition of investments securities at amortised cost	9	(26,000)	(8,000)
Proceeds from investments securities at FVOCI	9	–	2,000
Acquisition of investments securities at FVOCI	9	–	(7)
Net cash inflow from investing activities		**1,113**	**36,516**
Cash flows from financing activities:			
Payment of lease liabilities	11	(1,824)	(1,565)
Net cash outflow from financing activities		**(1,824)**	**(1,565)**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		4,422	(56,304)
Net increase/(decrease) in cash and cash equivalents		**245,742**	**371,680**
Cash and cash equivalents, beginning	6	454,584	82,904
Cash and cash equivalents, ending	6	**700,326**	**454,584**

* Starting from January 2023 the Group has adopted IFRS 17 and according to the standard requirements retrospectively applied presentation of cash flows for 2022 as described in Note 5.

During 2023 The Group received GEL 75,980 interest (2022: GEL 106,752) and paid GEL 27,033 interest (2022: GEL 27,630).

Material non−cash transactions:

- In 2023 change in other assets includes repossession of collaterals in amount of GEL 26,736 (2022: GEL 36,469).

(thousands of Georgian lari)

1. Principal activities

Joint Stock Company Cartu Bank (the "Bank") was incorporated in Georgia in 1996. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 229. The Bank's primary business consists of commercial activities, originating loans and guarantees, investing in securities, trading foreign currencies and taking deposits.

The registered office of the Bank is located on 39a Chavchavadze Avenue, Tbilisi, Georgia.

As at 31 December 2023, the Bank had five service centers and one division operating in Tbilisi, division in Shekvetili and service centers in Gori, Telavi, Kutaisi and Batumi. As at 31 December 2022, the Bank had five service centres operating in Tbilisi, division in Shekvetili and service centres in Gori, Telavi, Kutaisi and Batumi.

The Bank is the parent company of the group (the "Group"), which consists of the following entities:

		Ownership interest (%)		
Name	***Country of operation***	***2023***	***2022***	***Type of operation***
Cartu Broker LLC	Georgia	100.00%	100.00%	Brokerage
Insurance Company Cartu JSC	Georgia	91.39%	91.39%	Insurance
Investment Company Cartu Invest LLC	Georgia	100.00%	100.00%	Dormant
Geoplast LLC	Georgia	100.00%	100.00%	Dormant

As at 31 December 2023 and 2022 International Charity Foundation Cartu (the "Parent" or the "Shareholder") owned 100% of the Group's shares. The Group is ultimately controlled by Uta Ivanishvili, the son of Bidzina Ivanishvili.

These consolidated financial statements have not yet been approved by the Parent on the general meeting of shareholders of the Group. The shareholders have the power and authority to amend the financial statements after the issuance.

2. Basis of preparation

General

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

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These consolidated financial statements are presented in Georgian lari ("GEL"), all values are rounded to the nearest thousand GEL, except when otherwise indicated.

The Group has prepared its consolidated financial statements on the basis that it will continue to operate as a going concern.

3. Summary of material accounting policies

Changes in accounting policies

The Group has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective in these consolidated financial statements.

The following amendments to standards were applied for the first time in the 2023 year, resulting in consequential changes to the accounting policies and other note disclosures:

- IFRS 17 Insurance Contracts
- Definition of Accounting Estimates − Amendments to IAS 8
- Disclosure of Accounting Policies − Amendments to IAS 1 and IFRS Practice Statement 2
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- International Tax Reform − Pillar two model rules − Amendment to IAS 1

(thousands of Georgian lari)

3. Summary of material accounting policies (continued)

Changes in accounting policies (continued)

Please refer to Note 5 below for the impact IFRS 17 adoption on the consolidated financial statements of the Group related to the subsidiary insurance company, besides as part of this determination of an impact of the adoption of the standard, the Group assessed credit cards and similar products. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Group has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants, and therefore they are exempt from IFRS 17. The Group evaluated whether its contracts contain insurance risk, focusing on performance guarantees and credit cards and concluded that there are no material contracts related to the banking business in scope of IFRS 17 considering practical expedients available.

Disclosure of Accounting Policies − Amendments to IAS 1 and IFRS Practice Statement 2 − the amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

Other amendments effective since 1 January 2023 do not have an impact on consolidated financial statements of the Bank.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As at 31 December 2023 and 2022 the Group owns at least 91% of each subsidiary.

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 24.

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

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

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

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

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

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

(thousands of Georgian lari)

3. Summary of material accounting policies (continued)

Financial assets and liabilities

Guarantees

Guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Guarantees are in scope of IFRS 9 and effectively are a form of a contingent loan commitment. Provision for Performance guarantees are measured under IFRS 9.

Renegotiated loans

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

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

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

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

For modifications not resulting in derecognition, the Group also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit−impaired.

Cash and cash equivalents

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

Mandatory reserve deposit with the NBG

Mandatory reserve deposits with the NBG are carried at amortised cost and represent interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory reserve is included in amounts due from credit institutions.

Taxation

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

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

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

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

(thousands of Georgian lari)

3. Summary of material accounting policies (continued)

Leases

Short−term leases and leases of low−value assets

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

Property and equipment

Property and equipment are carried at cost, excluding the costs of day−to−day servicing, less accumulated depreciation and any accumulated impairment.

Depreciation is calculated on a straight−line basis using the following annual depreciation rates:

Buildings and other real estate	2−3%
Furniture and office fixtures	10−20%
Computers and office equipment	10−33%
Other	5−20%

Intangible assets

Intangible assets include computer software and licenses.

As at 31 December 2023 and 2022 the Group did not own intangible assets with indefinite useful lives.

Intangible assets are amortised over the useful economic lives of 5−10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year−end.

Repossessed Assets

Repossessed assets are initially recognized at cost (net book value of the derecognized loan) plus any expenses related to repossession and subsequently measured at the lower of cost and fair value less costs to sell.

Provisions

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

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.

Share capital

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

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

(thousands of Georgian lari)

3. Summary of material accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

The Group earns fee and commission income from several types of services it provides to its customers. Fee income can be divided into the following categories:

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income on guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income earned at a point in time

Fees arising from settlement and cash operations are recognized upon completion of the underlying transactions. Each cash operation and settlement operation is treated as a consolidated performance obligation.

Fee income from providing transaction services

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

Foreign currency translation

These consolidated financial statements are presented in thousands of Georgian lari ("GEL"), which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official GEL exchange rates at 31 December 2023 and 2022 were 2.6894 GEL and 2.9753 GEL to 1 USD and 1 EUR, respectively, 2.7020 GEL and 3.0976 GEL to 1 USD and 1 EUR, respectively.

Standards issued but not yet effective

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

(thousands of Georgian lari)

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in consolidated financial statements. The most significant use of judgments and estimates are as follows:

Impairment losses on financial assets

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

- The Group's model which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of relationship between borrowers' financials and, macroeconomic inputs, such as GDP growth rate, foreign exchange rates and inflation rate, and the effect on PDs, EADs and LGDs;
- Selection of forward−looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models,
- Assessing values of collaterals, including the assessment of timing of cash inflows from collaterals.

The Group calculates impairment losses on cash and cash equivalents, amounts due from credit Institutions, loans to customers, investment securities, other financial assets, unused credit lines and issued guarantees which are disclosed in Notes 6, 7, 8, 9, 13, 18 respectively.

Fair value of financial instruments

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

Valuation of repossessed assets

The valuation of repossessed assets is carried out on regular basis 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. The values of most of the assets have been estimated using the market approach. Additional details are provided in Note 13.

5. Adoption IFRS 17

Starting from 1 January 2023 the Group has adopted IFRS 17 *Insurance Contracts.* According to the standard's requirements the Group retrospectively applied presentation of respective balances in the consolidated statement of financial position as at 31 December and 1 January 2022 and in consolidated statement of profit or loss and other comprehensive income for 2022.

In May 2017, the IASB issued IFRS 17, Insurance Contracts. IFRS 17 replaces IFRS 4 and sets out principles for the recognition, measurement, presentation and disclosure of insurance contracts that are in the scope of IFRS 17. In June 2020, the IASB issued Amendments to IFRS 17, introducing various changes to assist entities implementing the Standard and moving an effective date to 1 January 2023.

IFRS 17 introduces an internationally consistent approach to insurance. Regarding the accounting of the contract before IFRS 17, there was considerable variation around the world. In relation to the accounting and presentation of insurance contracts, IFRS 4 allowed multiple (non−IFRS) accounting approaches. The entry into force of IFRS 17 will lead to many significant changes. For the insurer, that means making changes to existing systems and processes.

(thousands of Georgian lari)

5. Adoption IFRS 17 (continued)

According to the new standard, the insurance contract covers financial instruments and services. The elements of the contract, along with a large portion of the cash flows generated, are inherently variable with time. As a result, the standard establishes the following approaches:

- Recognition of the present value of future cash flows in the profit and loss of the period when the service is provided according to the contract.
- Presentation of insurance service results (including insurance income) separately from insurance financial income or expenses.
- Choice of accounting policies toward individual portfolios of insurance in connection with presenting financial income or expense fully in profit and loss, or presenting partially in comprehensive income

Level of aggregation.

The Group identifies portfolios of insurance contracts. A portfolio of insurance contracts is defined as insurance contracts that are subject to similar risks and managed together. Portfolios are further disaggregated into profitability−based groups of insurance contracts that are, on initial recognition: (a) onerous, if any, (b) profitable, with no significant possibility of subsequently becoming onerous, if any, and (c) remaining contracts, if any. IFRS 17 prohibits to include contracts issued more than one year apart in the same group, a requirement commonly referred to as annual cohort requirement.

Contract boundary

The contract boundary concept is used to determine which cash flows are considered in the measurement of an insurance contract. Cash flows that are not within the boundary of an insurance contract relate to future insurance contracts. The Group generally determines the contract boundary with a reference to its ability to reprice the insurance contract as a whole.

Expected future cash flows.

Included in the measurement of each group of contracts within the scope of IFRS 17 are all the future cash flows within the boundary of each group of contracts. The estimates of these future cash flows are based on probability−weighted expected future cash flows. The Group estimates which cash flows are expected and the probability that they will occur as at the measurement date. In making these expectations, the Group uses information about past events, current conditions, and forecasts of future conditions.

Premium Allocation Approach

The Groups uses premium allocation approach (PAA). When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under IFRS 4. The Group does not consider effect of time value of money on a carrying value of insurance liability for the remaining term, as at initial recognition the group assumes that time between performance of the service and payment of related premium is less than 12 months.

For limited number of insurance and reinsurance contracts which have term more than one year, group chooses PPA approach after review of contracts, as the group does not expect that that remaining insurance term (after 12 months) liability to be materially different from basic valuation model.

(thousands of Georgian lari)

5. Adoption IFRS 17 (continued)

Premium Allocation Approach (continued)

Effects on Consolidated Statement of Financial Position, after the transition to IFRS 17 are presented below:

*Assets**	*31 December 2022 (as originally presented)*	*Effect of Adopting of IFRS 17 ***	*31 December 2022 (asrestated following IFRS 17 Adoption)*
Other assets	97,499	(1,500)	95,999
Reinsurance contract assets	–	126	126
Total Assets	**1,591,906**	**(1,374)**	**1,590,532**
Liabilities*			
Other liabilities	8,489	(2,472)	6,017
Insurance contract liabilities	–	986	986
Reinsurance contract liabilities	–	132	132
Total Liabilities	**1,210,825**	**(1,354)**	**1,209,471**
Total equity attributable to shareholders of the Bank	380,025	**(18)**	380,007
Non−controlling interest	1,056	**(2)**	1,054
Total Equity	**381,081**	**(20)**	**381,061**

** Total effect of adoption of IFRS 17 amounted to GEL (20) and is recorded directly through equity in retained earnings.

*Assets**	*1 January 2022 (asoriginally presented)*	*Effect of Adopting of IFRS 17 recorded directly through equity ***	*1 January 2022 (asrestated following IFRS 17 Adoption)*
Other assets	84,555	(6,847)	77,708
Reinsurance contract assets	–	4,609	4,609
Total Assets	**1,352,134**	**(2,238)**	**1,349,896**
Liabilities*			
Other liabilities	10,636	(7,615)	3,021
Insurance contract liabilities	–	5,276	5,276
Reinsurance contract liabilities	–	60	60
Total Liabilities	**999,249**	**(2,279)**	**996,970**
Total equity attributable to shareholders of the Bank	351,960	38	351,998
Non−controlling interest	925	3	928
Total Equity	**352,885**	**41**	**352,926**

** Total effect of adoption of IFRS 17 amounted to GEL 41 and is recorded directly through equity in retained earnings.

(thousands of Georgian lari)

5. Adoption IFRS 17 (continued)

Premium Allocation Approach (continued)

Effects on the Consolidated Statement of Profit or Loss and Other Comprehensive Income, after the transition to IFRS 17are presented below:

	*2022 (as originally presented)**	*IFRS 17 adoption effect*	*2022 (as restated)*
Other income, net	11,945	(2,400)	9,545
Fee and commission income	15,058	(284)	14,774
Insurance revenue	–	5,222	5,222
Insurance service expenses	–	(2,557)	(2,557)
Result from reinsurance contracts held	–	(829)	(829)
Other operating expenses	(19,511)	(6)	(19,517)
Personal expenses	(17,732)	712	(17,020)
− translation differences	(15,587)	81	(15,506)
Net Income	**28,033**	**(61)**	**27,972**
Attributable to:			
Equity shareholders of the Parent	27,902	(56)	27,846
Non−controlling interest	131	(5)	126

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2023	*2022*
Cash on hand	29,068	27,978
Current accounts with the NBG	5,248	97,042
Current accounts with other credit institutions	512,048	264,955
Time deposits with credit institutions up to 90 days	153,971	64,634
Less: allowance for impairment	(9)	(25)
Cash and cash equivalents	**700,326**	**454,584**

As at 31 December 2023, current accounts and time deposit accounts with credit institutions denominated in USD EUR and other currencies represent 66%, 33% and 1% of total current and time deposit accounts respectively (31 December 2022: USD 68%, GEL 20%, EUR 12%).

All balances of cash equivalents are held at amortized cost and are allocated to Stage 1.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2023	*2022*
Mandatory reserve with the NBG	278,574	233,292
Time deposits for more than 90 days	92,868	3,709
Less: allowance for impairment	(60)	(52)
Amounts due from credit institutions	**371,382**	**236,949**

In 2023 the credit institutions are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% and 20% (2022: 5% and 25%) of the average of funds attracted from customers and non−resident financial institutions for the appropriate two−week period in GEL and foreign currencies, respectively.

(thousands of Georgian lari)

7. Amounts due from credit institutions (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to amounts due from credit institutions (excluding mandatory reserves with the NBG) during the year ended 31 December 2023 is as follows:

	Gross carrying value
As at 1 January 2023	**3,709**
New assets originated	2,470,500
Assets repaid	(2,382,257)
Foreign exchange and other movements	916
At 31 December 2023	**92,868**

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

	Gross carrying value
As at 1 January 2022	**6,730**
New assets originated	–
Assets repaid	(2,481)
Foreign exchange and other movements	(540)
At 31 December 2022	**3,709**

All balances of amounts due from credit institutions are held at amortized cost and are allocated to Stage 1.

8. Loans to customers

Loans to customers comprise:

	2023	*2022*
Corporate loans	848,480	794,227
Loans to individuals	34,338	21,531
Gross loans to customers at amortized cost	**882,818**	**815,758**
Less: allowance for impairment	(48,915)	(69,747)
Loans to customers at amortized cost	**833,903**	**746,011**

An analysis of changes in the gross carrying value in relation to corporate lending during the year ended 31 December 2023 is as follows:

Corporate loans at amortized cost, gross	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2023	**560,805**	**41,210**	**164,322**	**27,890**	**794,227**
New assets originated or purchased	336,404	–	–	–	**336,404**
Assets repaid or derecognised	(228,813)	(26,288)	(15,674)	(11,995)	**(282,770)**
Transfers to Stage 1	32,243	(31,923)	(320)	–	**–**
Transfers to Stage 2	(42,004)	46,693	(4,689)	–	**–**
Transfers to Stage 3	(7,223)	(4,283)	11,506	–	**–**
Unwinding of discount	–	–	1,886	–	**1,886**
Changes to contractual cash flows due to modifications not resulting in derecognition	323	121	34	–	**478**
Recoveries	–	–	2,526	–	**2,526**
Amounts written off	–	–	(7,557)	(14,443)	**(22,000)**
Foreign exchange and other movements	19,987	505	(2,750)	(13)	**17,729**
At 31 December 2023	**671,722**	**26,035**	**149,284**	**1,439**	**848,480**

(thousands of Georgian lari)

8. Loans to customers (continued)

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2023	**7,684**	**1,238**	**44,071**	**16,032**	**69,025**
New assets originated or purchased	2,968	–	–	–	**2,968**
Assets repaid or derecognised	(1,310)	(161)	(5,349)	(1,577)	**(8,397)**
Transfers to Stage 1	854	(831)	(23)	–	**–**
Transfers to Stage 2	(251)	251	–	–	**–**
Transfers to Stage 3	(1,058)	(11)	1,069	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(644)	388	4,987	–	**4,731**
Unwinding of discount	–	–	1,886	–	**1,886**
Changes due to modifications not resulting in derecognition	2	4	10	–	**16**
Recoveries	–	–	2,526	–	**2,526**
Amounts written off	–	–	(7,557)	(14,443)	**(22,000)**
Foreign exchange and other movements	(3,762)	63	994	(5)	**(2,710)**
At 31 December 2023	**4,483**	**941**	**42,614**	**7**	**48,045**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2023 is as follows:

Loans to individuals at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2023	**16,940**	**1,581**	**3,010**	**21,531**
New assets originated	25,137			**25,137**
Assets repaid or derecognised	(11,661)	(218)	(485)	**(12,364)**
Transfers to Stage 1	86	(31)	(55)	**–**
Transfers to Stage 2	(526)	526	–	**–**
Transfers to Stage 3	–	(83)	83	**–**
Unwinding of discount	–	–	29	**29**
Changes to contractual cash flows due to modifications not resulting in derecognition	–	13	3	**16**
Recoveries	–	–	31	**31**
Amounts written off			(378)	**(378)**
Foreign exchange and other movements	136	(8)	208	**336**
At 31 December 2023	**30,112**	**1,780**	**2,446**	**34,338**

Loans to individuals at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**60**	**38**	**624**	**722**
New assets originated	732	–	–	**732**
Assets repaid or derecognised	(120)	(6)	(135)	**(261)**
Transfers to Stage 1	3	(3)		
Transfers to Stage 2	(5)	5		
Transfers to Stage 3		(1)	1	
Impact on period end ECL of exposures transferred between stages during the period	(3)	1		**(2)**
Unwinding of discount			29	**29**
Changes due to modifications not resulting in derecognition			1	**1**
Recoveries			31	**31**
Amounts written off			(378)	**(378)**
Foreign exchange and other movements	(326)	(15)	337	**(4)**
At 31 December 2023	**341**	**19**	**510**	**870**

(thousands of Georgian lari)

8. Loans to customers (continued)

An analysis of changes in the gross carrying value in relation to corporate lending during the year ended 31 December 2022 is as follows:

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**596,729**	**41,193**	**359,937**	**35,723**	**1,033,582**
Resegmentation*	1,466	–	–	–	**1,466**
New assets originated or purchased	281,267	–	–	–	**281,267**
Assets repaid or derecognised	(273,607)	(31,130)	(81,975)	(3,398)	**(390,110)**
Transfers to Stage 1	30,137	(22,874)	(7,263)	–	**–**
Transfers to Stage 2	(33,829)	68,598	(34,769)	–	**–**
Transfers to Stage 3	(13,011)	(9,643)	22,654	–	**–**
Unwinding of discount	–	–	2,054	–	**2,054**
Changes to contractual cash flows due to modifications not resulting in derecognition	(1,289)	129	(465)	–	**(1,625)**
Recoveries	–	–	2,655	–	**2,655**
Amounts written off	–	–	(60,146)	–	**(60,146)**
Foreign exchange and other movements	(27,058)	(5,063)	(38,360)	(4,435)	**(74,916)**
At 31 December 2022	**560,805**	**41,210**	**164,322**	**27,890**	**794,227**

* During 2022 the Group revisited segmentation of a single loan to individual. The loan was recognized as loan to individual in the previous year, but as the borrower is a founder of a Company that has corporate loans from the Group and the debt was disbursed for business purposes. It was reclassified to corporate loans category.

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**14,093**	**365**	**109,607**	**19,072**	**143,137**
Resegmentation*	26			–	**26**
New assets originated or purchased	2,777			–	**2,777**
Assets repaid or derecognised	(2,674)	(301)	(13,551)	(300)	**(16,826)**
Transfers to Stage 1	1,760	(203)	(1,557)	–	**–**
Transfers to Stage 2	(1,169)	4,332	(3,163)	–	**–**
Transfers to Stage 3	(2,027)	(1,036)	3,063	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(2)	(1,048)	1,696	–	**646**
Unwinding of discount	–	–	2,054	–	**2,054**
Changes due to modifications not resulting in derecognition	(1,134)	25	(426)	–	**(1,535)**
Recoveries	–	–	2,655	–	**2,655**
Amounts written off	–	–	(60,146)	–	**(60,146)**
Foreign exchange and other movements	(3,966)	(896)	3,839	(2,740)	**(3,763)**
At 31 December 2022	**7,684**	**1,238**	**44,071**	**16,032**	**69,025**

(thousands of Georgian lari)

8. Loans to customers (continued)

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

Loans to individuals at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**20,324**	**1,983**	**6,665**	**28,972**
Resegmentation*	(1,466)	–	–	**(1,466)**
New assets originated	10,165	–	–	**10,165**
Assets repaid or derecognised	(11,514)	(324)	(1,346)	**(13,184)**
Transfers to Stage 1	1,524	(1,524)	–	**–**
Transfers to Stage 2	(443)	1,789	(1,346)	**–**
Transfers to Stage 3	(63)	(79)	142	**–**
Unwinding of discount	–	–	58	**58**
Changes to contractual cash flows due to modifications not resulting in derecognition	(6)	–	–	**(6)**
Recoveries	–	–	62	**62**
Amounts written off	–	–	(579)	**(579)**
Foreign exchange and other movements	(1,581)	(264)	(646)	**(2,491)**
At 31 December 2022	**16,940**	**1,581**	**3,010**	**21,531**

Loans to individuals at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**166**	**47**	**1,273**	**1,486**
Resegmentation*	(26)	–	–	**(26)**
New assets originated	74	–	–	**74**
Assets repaid or derecognised	(93)	(8)	(56)	**(157)**
Transfers to Stage 1	8	(8)	–	**–**
Transfers to Stage 2	(7)	61	(54)	**–**
Transfers to Stage 3	–	(1)	1	**–**
Impact on period end ECL of exposures transferred between stages during the period	(6)	–	3	**(3)**
Unwinding of discount	–	–	58	**58**
Changes due to modifications not resulting in derecognition	2	–	(8)	**(6)**
Recoveries	–	–	62	**62**
Amounts written off	–	–	(579)	**(579)**
Foreign exchange and other movements	(58)	(53)	(76)	**(187)**
At 31 December 2022	**60**	**38**	**624**	**722**

Modified and restructured loans

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan. The newly recognised loans are classified as Stage 1 for ECL measurement purposes unless the new loan is deemed to be POCI.

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

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification gain/(loss) incurred by the Bank.

	2023	*2022*
Loans modified during the period		
Amortised cost before modification	14,106	42,036
Net modification gain/(loss)	170	(336)
Loans modified since initial recognition		
Gross carrying amount at 31 December of loans for which loss allowance has changed to 12−month measurement during the period	9,164	23,558
Corresponding ECL	41	2,045

(thousands of Georgian lari)

8. Loans to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The types of collateral normally obtained are charges over real estate properties, also cash covers and guarantees, provided by borrowers or third parties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The following table provides the analysis of the loan portfolio by collateral types. For loans where various type of collateral is pledged, the most significant one is taken as a major type of collateral for the purpose of this allocation:

Type of collateral	*Gross carrying amount at 31 December 2023*	*ECL as at 31 December 2023*	*Net carrying amount as at 31 December 2023*
Loans collateralized by pledge of real estate	644,191	(27,479)	**616,712**
Loans collateralized by pledge of cash	69,138	(28)	**69,110**
Loans collateralized by pledge of equipment	60,885	(6,352)	**54,533**
Loans collateralized by pledge of Inventory	49,267	(1,321)	**47,946**
Other collateral	849	(581)	**268**
Unsecured loans	58,488	(13,154)	**45,334**
Total	**882,818**	**(48,915)**	**833,903**

Type of collateral	*Gross carrying amount at 31 December 2022*	*ECL as at 31 December 2022*	*Net carrying amount as at 31 December 2022*
Loans collateralized by pledge of real estate	**598,055**	(37,927)	**560,128**
Loans collateralized by pledge of cash	47,166	–	**47,166**
Loans collateralized by pledge of equipment	65,328	(10,972)	**54,356**
Loans collateralized by pledge of Inventory	19,497	(841)	**18,656**
Other collateral	2,576	(1,988)	**588**
Unsecured loans	83,136	(18,019)	**65,117**
Total	**815,758**	**(69,747)**	**746,011**

According to Group's ECL methodology all stage 3 loans have 100% probability of default, thus the ECL calculation is solely based on collateral value. ECL of POCI loans is based on borrower financials, overdue days and collateral. Without the collateral, all stage 3 loans would be impaired by 100% and POCI loans would be impaired by 73.7%, which would translate to GEL 109,604 additional ECL as at 31 December 2023 (31 December 2022: GEL 134,495).

Management estimates that the fair value of collateral at the inception of the loans is at least equal to the carrying amounts of corresponding secured loans.

Concentration of loans to customers

As at 31 December 2023, the Group had a concentration of loans due from 10 major groups of borrowers in the total exposure of GEL 480,674 that represented 54.56% of the total gross loan portfolio (31 December 2022: GEL 393,951 with 48.40% of the gross loan portfolio). An allowance of GEL 33,140 (31 December 2022: an allowance of GEL 39,812) was recognised against these loans.

(thousands of Georgian lari)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans are made within Georgia in the following industry sectors:

	2023	*2022*
Trade and services	295,139	270,959
Manufacturing	288,418	241,889
Construction	181,237	194,836
Agriculture	46,127	44,228
Individuals	34,338	21,531
Transport and communication	558	2,804
Energy	137	175
Other	36,864	39,336
	882,818	**815,758**

9. Investment securities

Investment securities comprise:

	2023	*2022*
Debt securities at amortised cost		
Treasury notes of the Ministry of Finance of Georgia	21,951	21,943
Debt securities of corporations	34,149	8,073
	56,100	**30,016**
Less: allowance for impairment	(450)	(95)
Debt securities at amortised cost	**55,650**	**29,921**

Equity securities at FVOCI	*% of ownership*	*2023*	*2022*
Investment in OJSC United Clearing Center	6.25%	54	54
Investment in JSC GCSD	0.27%	3	3
Investment in JSC United finance corporation	0.47%	111	111
Equity securities at FVOCI		**168**	**168**

Debt securities at FVOCI	*2023*	*2022*
Treasury notes of the Ministry of Finance	7,079	7,085
Debt securities at FVOCI	**7,079**	**7,085**

An analysis of changes in the gross carrying value and associated ECL in relation to debt securities at amortized cost is as follows:

	Treasury bills of the Ministry of Finance of Georgia	*Treasury notes of the Ministry of Finance of Georgia*	*Debt securities of corporations*	*Total*
Gross carrying value as at 1 January 2023	**–**	**21,943**	**8,073**	**30,016**
New assets originated	–	–	26,000	**26,000**
Foreign exchange and other movements	–	8	76	**84**
At 31 December 2023	**–**	**21,951**	**34,149**	**56,100**

(thousands of Georgian lari)

9. Investment securities (continued)

	Treasury bills of the Ministry of Finance of Georgia	*Treasury notes of the Ministry of Finance of Georgia*	*Debt securities of corporations*	*Total*
ECL as at 1 January 2023	**–**	**58**	**37**	**95**
New assets originated	–	**–**	229	**229**
Foreign exchange and other movements	–	16	128	**144**
At 31 December 2023	**–**	**74**	**394**	**468**

	Treasury bills of the Ministry of Finance of Georgia	*Treasury notes of the Ministry of Finance of Georgia*	*Debt securities of corporations*	*Total*
Gross carrying value as at 1 January 2022	**–**	**23,599**	**19,001**	**42,600**
New assets originated	–	–	8,000	**8,000**
Assets repaid	–	(1,614)	(3,000)	**(4,614)**
Assets sold		–	(15,259)	**(15,259)**
Foreign exchange and other movements	–	(42)	(669)	**(711)**
At 31 December 2022	**–**	**21,943**	**8,073**	**30,016**

	Treasury bills of the Ministry of Finance of Georgia	*Treasury notes of the Ministry of Finance of Georgia*	*Debt securities of corporations*	*Total*
ECL as at 1 January 2022	**1**	**61**	**370**	**432**
New assets originated	–	–	37	**37**
Assets repaid	–	(1)	(370)	**(371)**
Foreign exchange and other movements	(1)	(2)	–	**(3)**
At 31 December 2022	**–**	**58**	**37**	**95**

All balances of investment securities that are held at amortized cost are allocated to Stage 1.

Changes in carrying value of debt securities at fair value through other comprehensive income during 2023 consists of increase in fair value amounted to GEL 12 and changes in carrying value of debt securities at fair value through other comprehensive income during 2022 consists of selling securities amounted GEL 2,000 and increase in fair value amounted to GEL 163. Gain on sale on debt securities of non−financial corporations was GEL 1,083 during 2022.

(thousands of Georgian lari)

10. Property and equipment

The movements in property and equipment were as follows:

	Buildings and other real estate	*Furniture and fixtures*	*Computers and equipment*	*Leasehold improvements and other*	*Construction in progress*	*Total*
Cost						
1 January 2022	**9,905**	**6,422**	**8,959**	**1,463**	**868**	**27,617**
Additions	–	174	936	389	78	**1,577**
Disposals and write−offs	–	(334)	(146)	(16)	(222)	**(718)**
31 December 2022	**9,905**	**6,262**	**9,749**	**1,836**	**724**	**28,476**
Additions	–	126	1,502	120	718	**2,466**
Transfer	–	451	13	9	(473)	**–**
Disposals and write−offs	–	(904)	(457)	(75)	(8)	**(1,444)**
31 December 2023	**9,905**	**5,935**	**10,807**	**1,890**	**961**	**29,498**
Accumulated depreciation						
1 January 2022	**2,450**	**4,977**	**6,437**	**819**	–	**14,683**
Depreciation charge	252	308	900	168	–	**1,628**
Disposals and write−offs	–	(334)	(198)	(20)	–	**(552)**
31 December 2022	**2,702**	**4,951**	**7,139**	**967**	**–**	**15,759**
Depreciation charge	251	315	536	163	–	**1,265**
Disposals and write−offs	–	(904)	(457)	(53)	–	**(1,414)**
31 December 2023	**2,953**	**4,362**	**7,218**	**1,077**	**–**	**15,610**
Net book value						
1 January 2022	**7,455**	**1,445**	**2,522**	**644**	**868**	**12,934**
31 December 2022	**7,203**	**1,311**	**2,610**	**869**	**724**	**12,717**
31 December 2023	**6,952**	**1,573**	**3,589**	**813**	**961**	**13,888**

As at 31 December 2023 fully depreciated items amounted to GEL 8,733 (31 December 2022: GEL 9,724).

11. Leases

The movement in right−of−use assets and lease liabilities were as follows:

	Right of use assets − Buildings	*Lease liabilities*
As at 1 January 2023	**1,518**	**1,801**
Additions	7,190	7,190
Depreciation expense	(1,548)	–
Interest expense	–	101
Payments	–	(1,925)
As at 31 December 2023	**7,160**	**7,167**

The Group recognized rent expense of GEL 206 from short−term and low value operating leases for the period ended 31 December 2023 (2022: GEL 233). Total lease payment for the reporting period is GEL 2,131 (2022: GEL 2,034).

(thousands of Georgian lari)

11. Leases (continued)

	Right of use assets − Buildings	*Lease liabilities*
As at 1 January 2022	**2,767**	**3,171**
Additions	195	195
Depreciation expense	(1,444)	−
Interest expense	−	236
Payments	−	(1,801)
As at 31 December 2022	**1,518**	**1,801**

12. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
1 January 2022	**7,753**	**2,705**	**10,458**
Additions	2,460	291	**2,751**
Disposals and write offs	(3,578)	(49)	**(3,627)**
31 December 2022	**6,635**	**2,947**	**9,582**
Additions	715	4,121	**4,836**
Disposals and write offs	(365)	(340)	**(705)**
31 December 2023	**6,985**	**6,728**	**13,713**
Accumulated amortization			
1 January 2022	**4,693**	**1,852**	**6,545**
Amortisation charge	1,070	145	**1,215**
Disposals and write offs	(3,578)	(47)	**(3,625)**
31 December 2022	**2,185**	**1,950**	**4,135**
Amortisation charge	1,117	154	**1,271**
Disposals and write offs	(365)	(340)	**(705)**
31 December 2023	**2,937**	**1,764**	**4,701**
Net book value			
1 January 2022	**3,060**	**853**	**3,913**
31 December 2022	**4,450**	**997**	**5,447**
31 December 2023	**4,048**	**4,964**	**9,012**

(thousands of Georgian lari)

13. Other assets and liabilities

Other assets comprise:

	31 December 2023	*31 December 2022* (Restated)*	*1 January 2022* (Restated)*
Other non–financial assets			
Repossessed assets	91,004	91,640	69,807
Prepaid taxes other than income tax	625	575	3,825
Advances paid	1,111	2,389	1,695
Inventory	85	92	95
Other	262	304	200
	93,087	**95,000**	**75,622**
Other financial assets			
Accounts receivable	1,245	1,754	2,473
Claims for guarantees paid	–	–	1,624
Other Receivables	20	20	22
Less: allowance for impairment of other assets	(273)	(775)	(2,033)
	992	**999**	**2,086**
Total other assets	**94,079**	**95,999**	**77,708**

* *Certain amounts related to insurance subsidiary do not correspond 2022 and 2021 consolidated financial statements due to restatements related to adoption of IFRS 17 as described in Note 3 and Note 5.*

An analysis of changes in the ECLs for stage 3 other financial assets for the year ended 31 December 2023 and 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Allowance for impairment of other assets*
ECL at 1 January 2022	**–**	**–**	**2,033**	**2,033**
ECL charge	110	–	(158)	(48)
Payments	(70)	–	(469)	(539)
Write−offs	–	–	(671)	(671)
At 31 December 2022	**40**	**–**	**735**	**775**
ECL charge	7	–	1,137	**1,144**
Payments	(45)	–	(675)	**(720)**
Write−offs	–	–	(926)	**(926)**
At 31 December 2023	**2**	**–**	**271**	**273**

An analysis of changes in the carrying value of repossessed assets for the year ended 31 December 2023 and 2022:

	2023	*2022*
Carrying value at the beginning of the year	**91,640**	**69,807**
Repossession	20,637	36,469
Gain on assets recovery (Note 21)	9,074	–
Assets sold	(32,559)	(18,875)
Improvements	2,222	2,893
Reversal/(Impairment)	(10)	1,346
Carrying value at the end of the year	**91,004**	**91,640**

Repossessed assets as at 31 December 2023 include land and buildings in amount of GEL 88,938 (31 December 2022: GEL 86,147) and movable properties in amounts of GEL 2,066 (31 December 2022: GEL 5,492), which are measured at the lower of its carrying amount and fair value less cost to sell. Gain on sale of repossessed assets during 2023 was GEL 1,826 (2022: GEL 6,289) (Note 21).

(thousands of Georgian lari)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	31 December 2023	*31 December 2022* (Restated)*	*1 January 2021* (Restated)*
Other financial liabilities			
Accounts payable	10,955	1,967	2,528
	10,955	**1,967**	**2,528**
Other non–financial liabilities			
Taxes other than income tax	3,345	3,793	369
Other	1,525	257	124
	4,870	**4,050**	**493**
Total other liabilities	**15,825**	**6,017**	**3,021**

* *Certain amounts related to insurance subsidiary do not correspond 2022 and 2021 consolidated financial statements due to restatements related to adoption of IFRS 17 as described in Note 3 and Note 5.*

14. Amounts due to customers

The amounts due to customers include the following:

	2023	*2022*
Current and demand accounts	688,133	493,201
Time deposits (including certificates of deposit)	874,328	611,458
Amounts due to customers	**1,562,461**	**1,104,659**

As at 31 December 2023, amounts due to customers included balances with ten largest customers of GEL 847,015 that constituted 54% of the total of customer accounts (31 December 2022: GEL 459,497 that constituted 41.6% of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

	2023	*2022*
Trade and service	674,802	457,340
Individuals	675,165	460,154
Government Services	49,157	59,827
Construction	59,305	28,316
Manufacturing	4,147	4,786
Transport and communication	2,348	4,288
Agriculture	271	943
Other	97,266	89,005
Amounts due to customers	**1,562,461**	**1,104,659**

As at 31 December 2023 deposits by customers included balances classified in Trade and service and individual sectors amounting to GEL 184,822 (31 December 2022: GEL 185,504), that were frozen on the basis of a court decision dated as of 11 September 2015.

(thousands of Georgian lari)

15. Subordinated debt

All Subordinated loans are obtained from related parties and consisted of the following:

Facility provider	*Commencement date*	*Maturity date*	*Interest rate*	*Currency*	*Original contractual value in GEL*	*Carrying value as at 31 December 2023*
Fin Service XXI	31−Mar−11	31−Mar−28	5.50%	USD	8,530	13,447
Fin Service XXI	9−Oct−20	Perpetual	5.50%	USD	32,233	10,967
Fin Service XXI	19−Apr−21	Perpetual	5.50%	USD	34,363	18,975
Cartu Group	24−Jun−19	Perpetual	5.50%	USD	19,459	18,843
Inter Consulting Plus	17−Oct−05	17−Oct−27	5.50%	USD	12,642	18,826
						81,058

Facility provider	*Commencement date*	*Maturity date*	*Interest rate*	*Currency*	*Original contractual value in GEL*	*Carrying value as at 31 December 2022*
Fin Service XXI	31−Mar−11	31−Mar−28	5.50%	USD	8,530	13,510
Fin Service XXI	9−Oct−20	Perpetual	5.50%	USD	32,233	11,094
Fin Service XXI	19−Apr−21	Perpetual	5.50%	USD	34,363	19,101
Cartu Group	24−Jun−19	Perpetual	5.50%	USD	19,459	18,931
Inter Consulting Plus	17−Oct−05	17−Oct−27	5.50%	USD	12,642	18,914
						81,550

In the event of bankruptcy or liquidation of the Group, repayment of these debts is subordinate to the repayments of the Group's liabilities to all other creditors.

All subordinated debts are convertible to common equity. If the coefficient of common Tier 1 capital (CET1) falls below the trigger level, which is the greater of the regulatory requirement of CET1 and 5.125% of CET1, perpetual subordinated debts are converted into common equity. For long−term subordinated debts, the Group holds the option to convert the debt into common shares at their nominal value. However, the Group also retains the right to fully repay the subordinated debt instead of opting for the conversion into common equity.

The table below details changes in the Group's subordinated debts arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2023	*Interest accrual during 2023*	*Interest paid during 2023*	*Foreign exchange gain during 2023*	*31 December 2023*
Subordinated debt	**81,550**	5,637	(5,637)	(492)	**81,058**

The table below details changes in the Group's subordinated debts arising from financing activities during 2022:

	1 January 2022	*Interest accrual during 2022*	*Interest paid during 2022*	*Foreign exchange gain during 2022*	*31 December 2022*
Subordinated debt	**96,981**	6,254	(6,257)	(15,428)	**81,550**

The principal value of the subordinated loan qualified for the inclusion in the Tier 2 capital under the Basel III requirements, was GEL 22,053 under IFRS 9 (31 December 2022: GEL 28,641). The principal value of the subordinated loan qualified for the inclusion in the additional Tier 1 capital under the Basel III requirements, was GEL 48,768 under IFRS 9 (31 December 2022: GEL 49,109).

(thousands of Georgian lari)

16. Taxation

In June 2016 amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date was initially set at January 2019. On 5 May 2018 amendment was made in tax code and the date was revised to January 2023.Therefore the Group had recognized those deferred tax asset and deferred tax liability which are estimated to be realised before 2023. Under the 2018−year amendment, corporate income tax should be levied on profit distributed as dividends, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution should be calculated as 15/85 of the amount of net distribution. The companies would be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008−2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies would not be subject to corporate income tax. In December 2022 the amendment was abolished for commercial banks and for insurance companies effective date was revised to 1 January 2024.

According to the amendment, effective from 1 January 2023, existing taxation rules for financial institutions, including banks, will be maintained. At the same time, the existing corporate tax rate for banks will be increased from 15% to 20% from 2023 going forward. In addition, with effect from 2023, taxable interest income and deductible ECLs on loans to customers will be defined as per IFRS, instead of local NBG regulations.

Differences in transition for ECLs were taxed as a one−off at 15%. Due to lack of clarification in treatment of transition differences in interest income, management considered it reasonable that an approach similar to ECL on transition is applicable on interest income and calculated deferred tax, respectively, in 2022. In 2023 amended law clarified the treatment of transition differences in interest income, taxing it as a one−off at 20%. The difference is reflected in current tax liability and calculated income tax expense respectively.

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

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant tax authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation as at 31 December 2023 is appropriate and that the Group's tax, currency and customs positions will be sustained.

The Group does not recognize deferred tax liability in relation to temporary differences associated with investments in subsidiaries as the Group does not expect reversal of these differences for the foreseeable future. Aggregate taxable temporary difference associated with investments in subsidiaries in respect of which no deferred tax liability was recognized is GEL 4,434 as at 31 December 2023 (2022: GEL 2,286).

The corporate income tax expense for the years ended 31 December 2023 and 2022 comprised:

	2023	***2022***
Current tax expense	18,043	10,805
Deferred tax expense/(benefit)	(7,152)	3,719
Income tax expense	**10,891**	**14,524**

In 2023 the income tax rate applicable to most of the Bank's income is 20% (2022: 15%). The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense on statutory rates with actual is as follows:

	2023	***2022***
Profit before income tax	**46,557**	**42,498**
Statutory tax rate	20%	15%
Theoretical income tax expense at the statutory rate	**9,311**	**6,375**
Tax exempt income	(527)	(736)
Non−deductible expenses	921	626
Effect from change in tax legislation	1,186	8,259
Income tax expense	**10,891**	**14,524**

(thousands of Georgian lari)

16. Taxation (continued)

Deferred tax liabilities and assets as at 31 December 2023 and 31 December 2022 and their movements for the respective period.

	31 December 2021	*Through profit or loss*	*31 December 2022*	*Through profit and loss*	*31 December 2023*
Tax effect of temporary differences					
Lease liabilities	**381**	(61)	**320**	997	**1,317**
Provisions	**350**	(350)	**–**	–	**–**
Loans to customers	**(6,777)**	(2,321)	**(9,098)**	9,098	**–**
Amounts due from credit institutions	**1,115**	(1,024)	**91**	(99)	**(8)**
Investment securities	**40**	(61)	**(21)**	–	**(21)**
Amounts due to credit Institutions	**(22)**	(5)	**(27)**	–	**(27)**
Amounts due to customers	**426**	114	**540**	(656)	**(116)**
Other Liabilities	**(1,474)**	891	**(583)**	440	**(143)**
Intangible assets	**7**	(31)	**(24)**	(144)	**(168)**
Other Assets	**1,201**	14	**1,215**	(1,680)	**(465)**
Property and Equipment	**(457)**	(971)	**(1,428)**	238	**(1,190)**
Right of use assets	**(361)**	87	**(274)**	(1,042)	**(1,316)**
Deferred tax (liability)/asset	**(5,571)**	**(3,718)**	**(9,289)**	**7,152**	**(2,137)**

17. Equity

As at 31 December 2023 and 2022, authorized, issued and fully paid capital amounted to GEL 114,430 comprising of 114,430,000 common shares with nominal value of GEL 1 each. Each share entitles one vote to the shareholder.

In 2023 and 2022 the Group has not declared or paid any dividends.
As at 31 December 2023 The Group's retained earnings and other reserves includes GEL 43 fair value changes in investment securities (31 December 2022: GEL 31).

Additional paid−in capital represents the difference between a fair value and a nominal amount at initial recognition, and modification, which were deemed non−substantial, of the subordinated loans received from the Parent and entities under common control.

18. Commitments and contingencies

As at 31 December 2023 and 2022, the Group's commitments and contingencies comprised the following:

	2023	*2022*
Credit related commitments		
Unused credit lines	25,026	31,665
Guarantees issued	139,253	51,024
	164,279	**82,689**
Less: ECL for credit related commitments	(265)	(201)
Commitments and contingencies	**164,014**	**82,488**

An analysis of changes in the ECL allowances during the year ended 31 December 2023 is as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2023	**113**	**2**	**10**	**125**
New exposures	548	3	1	**552**
Amounts paid	(439)	(5)	(18)	**(462)**
Foreign exchange adjustments	(29)	(1)	11	**(19)**
At 31 December 2023	**193**	**(1)**	**4**	**196**

(thousands of Georgian lari)

18. Commitments and contingencies (continued)

An analysis of changes in the ECLs during the year ended 31 December 2022 is as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2022	**408**	**71**	**137**	**616**
New exposures	611	5	364	**980**
Amounts paid	(750)	(6)	(534)	**(1,290)**
Transfers to Stage 1	1	(1)	–	**–**
Transfers to Stage 3	–	(55)	55	**–**
Impact on period end ECL of exposures transferred between stages during the period	(1)	3	8	**10**
Foreign exchange adjustments	(156)	(15)	(20)	**(191)**
At 31 December 2022	**113**	**2**	**10**	**125**

19. Credit loss expense and other impairment and provisions

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

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	(16)	–	–	–	**(16)**
Amounts due from credit institutions	7	8	–	–	–	**8**
Loans to customers	8	(2,915)	(318)	1,889	(1,582)	**(2,926)**
Debt securities measured at amortised cost	9	355	–	–	–	**355**
Debt securities measured at FVOCI	9	18	–	–	–	**18**
Credit loss charge/(reversal) on interest bearing assets		**(2,550)**	**(318)**	**1,889**	**(1,582)**	**(2,561)**
Other financial assets	13	–	–	–	424	**424**
Guarantees	18	(6)	(1)	–	–	**(7)**
Undrawn loan commitments	18	79	(2)	(6)	–	**71**
Charge/(reversal) of other impairment and provisions excluding repossessed assets		**73**	**(3)**	**(6)**	**424**	**488**
Impairment of repossessed assets	13					**10**
Other impairment and provisions						**498**

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

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	16	–	–	–	**16**
Amounts due from credit institutions	7	7	–	–	–	**7**
Loans to customers*	8	(6,515)	865	(10,290)	(3,040)	**(18,980)**
Debt securities measured at amortised cost	9	(337)	–	–	–	**(337)**
Debt securities measured at FVOCI	9	62	–	–	–	**62**
Credit loss charge/(reversal) on interest bearing assets		**(6,767)**	**865**	**(10,290)**	**(3,040)**	**(19,232)**
Other financial assets	13	40	–	(627)	–	**(587)**
Guarantees	19	(107)	1	(171)	–	**(277)**
Undrawn loan commitments	19	(294)	(70)	(127)	–	**(491)**
Charge/(reversal) of other impairment and provisions excluding repossessed assets		**(361)**	**(69)**	**(925)**	**–**	**(1,355)**
Impairment of repossessed assets	13					**(2,711)**
Other impairment and provisions						**(4,066)**

* The Group significantly reduced the stage 3 and POCI loan portfolio in 2022 which is mainly attributable to repayment of several large stage 3 loans as a result of the negotiation with these borrowers, where the Group forgave some portion of accrued penalty and interest in lieu of full repayment the whole remaining exposure. Also there were cases, where large loans were sold, collaterals were repossessed or loans were cured.

(thousands of Georgian lari)

20. Fee and commission income and expense

Fee and commission income and expense comprise:

	2023	*2022*
Plastic card operations	3,046	11,665
Guarantees and letters of credits issued	1,955	871
Settlement operations	1,150	1,336
Cash operations	500	464
Documentary operations	48	35
Other	965	403
Fee and commission income	**7,664**	**14,774**
Plastic card operations	(4,708)	(11,832)
Settlement operations	(396)	(631)
Other	(119)	(53)
Fee and commission expense	**(5,223)**	**(12,516)**

The Group's revenue from contracts with customers is mostly represented by fee and commission income. As at 31 December 2023 the Group recognized contract assets related to guarantees with amount of GEL 219 (31 December 2022: GEL 89), which is included in other financial assets (Note 13).

21. Other income, net

Other income/(expenses), net comprise:

	2023	*2022* (Restated)*
Net gain on disposal of repossessed assets	1,826	6,289
Income from operating lease	1,085	1,669
Gain on sale of investment securities	−	1,083
Fines and penalties received	8	321
Gain on disposal of property		11
Other (a)	9,459	172
Total other income, net	**12,378**	**9,545**

* Certain amounts related to insurance subsidiary do not correspond to 2022 consolidated financial statements due to restatements related to adoption of IFRS 17 as described in Note 5.

In 2022 the Tbilisi City Court ruled on a lawsuit brought by Cartu Bank against several state−owned entities, including the Ministry of Justice, the National Enforcement Bureau, the Ministry of Economy, and the Revenue Service. The court ordered the defendants to jointly pay USD 9,428 thousands(approx. GEL 25,428 thousands).

This legal case stemmed from the criminal proceedings, so called Cartu Bank's bankruptcy case. In these proceedings certain individuals were convicted by the decision of court in 2019. The verdict also highlighted the involvement of the deputy minister of economy and the head of the revenue service in the bank's bankruptcy crime, alongside the convicted individuals.

The judgment determined that with the intention of causing financial distress to the bank, fictitious tax debts were documented in the tax records by the certain borrowers of the Bank. This action led to the seizure of the mortgaged property under the loan agreements which were subsequently transferred to state ownership through execution. Consequently, the bank's mortgages was annulled. As a consequence of the client's failure to repay the bank's debt, the bank incurred damages equivalent to the value of the collaterals − the mortgaged assets, amounting to USD 9,428 thousands (approx.. GEL 25,428 thousands). This sum was mandated by the court to be paid by the relevant state authorities.

To settle the dispute, Bank Cartu and the National State Property Agency reached an agreement wherein the bank received state−owned real estate in the Vake district of Tbilisi, comprising 58 cadastral units, at a nominal price of 1 GEL. The Bank recognized gain from asset recovery of GEL 9,074 thousands as the result of this settlement,(Note 13)
To fulfil its privatization obligation, the bank opted to reject two significant legal actions. Firstly, it declined the USD 9,428 thousands claim imposed by the court of first instance. Secondly, it withdrew from an ongoing dispute involving "Logos" LLC, a state−owned company, which was being heard in the Tbilisi Court of Appeal. In this dispute, the request was made for the recognition and enforcement of the arbitration decision dated December 24, 2010, against LLC "Logos" (as a result of the cancelled mortgages stemming from the aforementioned crime, the case had no prospect of recovering credit debt in favour of the Bank).

(thousands of Georgian lari)

22. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2023	*2022*
Salaries	19,143	14,256
Bonuses and other employee benefits	2,216	2,764
Personnel expenses	**21,359**	**17,020**
Charity Costs*	9,723	7,915
Communication	5,397	4,635
Taxes other than income tax	1,389	1,362
Security Expenses	1,255	944
Transportation and business trip expenses	879	301
Professional services	813	793
Maintenance and exploitation	651	695
Utilities	504	604
Office supplies	314	220
Deposit insurance fee	212	225
Operating leases	208	233
Membership Fees	131	120
Insurance	124	97
Personnel Training	63	41
Advertising costs	19	6
Other Expenses	1,738	1,326
Other operating expenses	**23,420**	**19,517**

* The Group paid 9,500 to the International charity fund Cartu

The average number of the Group’s employees during 2023 was 338, including average 7 top management employees, average 40 middle management employees, and average 291 other full−time employees and average temporary employees were 14 during 2023. (2022: average number of employees was 314, including average 6 top management employees, average 25 middle management employees, and average 283 other full−time employees, average temporary employees were 9).

Remuneration of the Group’s auditor for the years ended 31 December 2023 and 2022 comprises (net of VAT):

	2023	*2022*
Fees for the audit of the Group’s annual financial statements for the year ended 31 December	374	301
Expenditures for other professional service	−	17
Total fees and expenditures	**374**	**318**

Fees and expenditures payable to other auditors and audit firms in respect of other professional services comprised GEL 257 (2022: GEL 211).

23. Risk management

Introduction

Risk is inherent in the Group’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group’s continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

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

(thousands of Georgian lari)

23. Risk management (continued)

Risk management structure

Supervisory Board

Supervisory Board defines Group's risk appetite in cooperation with CRO and other members of Board of Directors. Board is responsible for the existence of the effective risk management, monitoring and internal controls within Group that corresponds to the risk appetite statement, policies and limits. Along with other functions, the Supervisory board members, together and individually, are responsible for maintaining strong risk culture that is necessary for business continuity within organization.

Risk Committee

Risk committee is responsible for reviewing effectiveness of risk strategies as on aggregate level, so on individual level, evaluates compliance with risk appetite and give recommendations to Supervisory Board. This committee also reviews all risk management related policies. Risk committee is comprised of three members, out of which two are independent.

Board of Directors

The Board of Directors is responsible for the implementing and maintaining of risk strategies and corresponding risk management processes. The Board of Directors is ultimately responsible for identifying and controlling risks and different departments and committees which are responsible for managing and monitoring risks.

Risk management

The Risk Management Department is responsible for implementing and maintaining risk management framework.

Asset and Liability Committee

Asset and Liability Committee (ALCO) is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding, liquidity, interest rate, and capital adequacy risks of the Group.

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function on a constant basis, which examines the adequacy of the procedures, their design and operational effectiveness, and the Group's compliance both with the regulatory requirements and internal procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Audit Committee

The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions and performance of control functions by other departments in the Group pertaining to general control environment, manual, IT dependent or application controls, intentional or unintentional misstatement risks, risk of fraud or misappropriation of assets, information security, anti−money laundering, etc. Audit committee is comprised of three members, out of which two are independent.

Risk measurement and reporting systems

Risk monitoring and controlling is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. The main body to which the risks are reported is a risk committee. The respective meetings are held once per quarter.

Credit risk

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

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

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

Actual exposure per borrower against limits is monitored on loans granted. The Credit Committee may initiate a change in the limits. Where appropriate, the Group obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Credit−related commitments risks

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

Impairment assessment

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

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

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

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

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

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit−impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or credit risk score of the borrower increases to the “high risk” category according to the internal credit risk assessment methodology. The Group considers amounts due from Banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

The Group has defined certain criteria which should be met in order to consider asset as cured. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD model

To determine the PD rates for each group, the Group utilizes migration matrices based on “Markov chain” model. At the beginning of analysing 12−month period borrowers in each pool are grouped in 11 buckets by overdue days and classification based on former NBG asset classification rule. The analysis is conducted on every 12−month period from December 2014 to the reporting date. The final PD used in the model represents the weighted average of the historical 12−month period PDs.

The Group has assessed the impact of the forward−looking information into collective assessment model as not material, thus, the results were not incorporated in ECLs.

As at 31 December 2023, 10% increase in average PD per each pool results in total ECL increase by 0.77% that represents GEL 377 and 10% decrease in average PD per each pool results in total ECL decrease by 1.86% that represents GEL 909 (31 December 2022: 10% increase in average PD per each pool results in total ECL increase by 0.88% that represents GEL 612 and 10% decrease in average PD per each pool results in total ECL decrease by 1.67% that represents GEL 1,168).

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 properties pledged using 2.5 years of time to collect period and valuation haircut. Impact of LGD is very material and ECL of the Group is heavily depended on the value of collateral.

As at 31 December 2023, 10% increase in valuation haircut results in ECL increase by 3.91% that represents GEL 1,914 and 10% decrease in valuation haircut results in ECL decrease by 3.57% that represents GEL 1,744 (31 December 2022: 10% increase in valuation haircut results in ECL increase by 1.98% that represents GEL 1,378 and 10% decrease in valuation haircut results in ECL decrease by 1.92% that represents GEL 1,336).

As at 31 December 2023,10% (three month) increase in time to collect period results in ECL increase by 7.58% that represents GEL 3,707 and 10% (three month) decrease in time to collect period results in ECL decrease by 5.99% that represents GEL 2,932 (31 December 2022: 10% (three month) increase in time to collect period results in ECL increase by 3.83% that represents GEL 2,712 and 10% (three month) decrease in time to collect period results in ECL decrease by 3.83% that represents GEL 2,670).

EAD model

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

Significant increase in credit risk

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

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

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

Treasury and interbank relationships, investment securities measured at amortized cost

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks. For these relationships, the Bank's risk management department analyses publicly available information such as financial information and other external data, e.g., the external ratings assigned by international rating agencies. The Group's investment securities measured at amortized cost include T−bills, T−Notes, and corporate bonds. The T−bills and T−notes are issued by the Ministry of Finance of Georgia, thus credit rating of the country is used in estimation of the ECLs for these instruments The ECL estimation for corporate bonds is based on the assigned credit ratings by international credit agencies.

Corporate lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment takes into account various historical, current and forward−looking information such as:

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

Retail lending

For retail loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment takes into account various historical, current and forward−looking information such as:

- Historical financial information together with forecasted monthly cash flows. This financial information includes realised and expected results, and any other relevant ratios (i.e. PTI, LGD) to measure the client's financial performance;
- Any publicly available information on the clients from external parties.
- Any other objectively supportable information on the abilities of the client to generate future cash flows.

Grouping financial assets measured on a collective basis

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

Asset classes where the Group calculates ECL on an individual basis include stage 1 exposures that exceeds 1% of Tier 1 capital, and stage 2, stage 3 and POCI exposures that exceeds 0.5% of Tier 1 capital.

The Group calculates ECL on a collective basis for all other asset classes.

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

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The group employs a rigorous methodology to evaluate the concentration of the largest borrowers, taking into account both the specific group and industry in which they operate.

Forward−looking information and multiple economic scenarios

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

- GDP growth;
- Inflation rate;
- GEL/USD foreign exchange rate change.

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

The Group obtains the forward−looking information from the sources published by the NBG and GeoStat. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long−term average and so are the same for each scenario as at 31 December 2026.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2024*	*2025*	*2026*	*Subsequent years*
GDP growth, %						
	Upside	25%	6.50%	5.50%	5.00%	5.00%
	Base case	50%	5.00%	4.50%	5.00%	5.00%
	Downside	25%	3.00%	4.00%	5.00%	5.00%
USD/GEL exchange rate						
	Upside	25%	2.64	2.64	2.64	2.64
	Base case	50%	2.69	2.69	2.69	2.69
	Downside	25%	3.09	3.25	3.41	3.41
Inflation rate, %						
	Upside	25%	3.25%	3.00%	3.00%	3.00%
	Base case	50%	3.60%	3.10%	3.00%	3.00%
	Downside	25%	5.00%	4.00%	3.00%	3.00%

Key drivers	*ECL scenario*	*Assigned probabilities ,%*	*2023*	*2024*	*2025*	*Subsequent years*
GDP growth, %						
	Upside	25%	6.00%	5.00%	5.00%	5.00%
	Base case	50%	4.00%	5.50%	5.00%	5.00%
	Downside	25%	2.00%	4.00%	5.00%	5.00%
USD/GEL exchange rate						
	Upside	25%	2.65	2.65	2.65	2.65
	Base case	50%	2.70	2.70	2.70	2.70
	Downside	25%	3.11	2.95	2.80	2.80
Inflation rate, %						
	Upside	25%	5.00%	3.00%	3.00%	3.00%
	Base case	50%	5.30%	3.10%	3.00%	3.00%
	Downside	25%	9.00%	6.00%	3.00%	3.00%

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

Predicted relationship between the economic indicators and default and loss rates on loan portfolios have been developed based on analysing historical data over the past 8 years. Based on the Group's macro−economic model, there is no significant dependency between macro−economic variables and loan portfolio quality.

Credit quality per class of financial asset

The following table shows internal and external grades used in ECL calculation and also the link between internal grades and credit quality categories disclosed in below tables:

	Internal grade
High grade	1
	2
	3
Standard grade	4
Sub−standard grade	5
Impaired	6

The table below shows the credit quality by class of financial assets as at 31 December 2023:

31 December 2023	***Note***		***High grade***	***Standard grade***	***Sub−standard grade***	***Impaired***	***Total***
Cash and cash equivalents, except for cash on hand	6	Stage 1	671,258	−	−	−	**671,258**
Amounts due from credit institutions	7	Stage 1	371,382	−	−	−	**371,382**
Loans to customers at amortised cost	8						
		Stage 1	371,048	294,854	−	1,337	**667,239**
		Stage 2	−	−	25,094	−	**25,094**
		Stage 3	739	−	1,475	104,456	**106,670**
Corporate lending		POCI			791	641	**1,432**
		Stage 1	19,240	10,531	−	−	**29,771**
		Stage 2	−	−	1,761	−	**1,761**
Loans to individuals		Stage 3	−	90	−	1,846	**1,936**
Debt investment securities − measured at amortised cost	9	Stage 1	21,894	33,756	−	−	**55,650**
Debt investment securities − measured at FVOCI	9	Stage 1	7,079	−	−	−	**7,079**
	13	Stage 1	116	367	−	−	**483**
		Stage 2	−	−	−	−	**−**
Other financial assets		Stage 3	−	−	−	509	**509**
	19	Stage 1	12,098	12,357	−	170	**24,625**
		Stage 2	−	−	5	−	**5**
Undrawn loan commitments		Stage 3	−	−	−	200	**200**
	19	Stage 1	88,999	47,011	4	−	**136,014**
		Stage 2	−	−	−	−	**−**
Guarantees		Stage 3	−	−	−	3,170	**3,170**
Total			**1,563,853**	**398,966**	**29,130**	**112,329**	**2,104,278**

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of financial assets as at 31 December 2022:

31 December 2022	*Note*		*High grade*	*Standard grade*	*Sub−standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	426,606	−	−	−	**426,606**
Amounts due from credit institutions	7	Stage 1	236,949	−	−	−	**236,949**
Loans to customers at amortised cost	8						
		Stage 1	324,498	223,991	4,632	−	**553,121**
		Stage 2	−	8,579	31,393	−	**39,972**
		Stage 3	−	−	−	120,251	**120,251**
Corporate lending		POCI	−	−	−	11,858	**11,858**
		Stage 1	16,158	720	2	−	**16,880**
		Stage 2	−	−	1,543	−	**1,543**
Loans to individuals		Stage 3	−	−	−	2,386	**2,386**
Debt investment securities − measured at amortised cost	9	Stage 1	21,888	8,033	−	−	**29,921**
Debt investment securities − measured at FVOCI	9	Stage 1	7,085	−	−	−	**7,085**
	13	Stage 1	−	259	−	−	**259**
		Stage 2	−	−	−	−	−
Other financial assets		Stage 3	−	−	−	720	**720**
	19	Stage 1	26,118	4,820	−	−	**30,938**
		Stage 2	−	−	370	−	**370**
Undrawn loan commitments		Stage 3	−	−	−	232	**232**
	19	Stage 1	21,499	26,220	−	−	**47,719**
		Stage 2	−	−	44	−	**44**
Guarantees		Stage 3	−	−	−	3,185	**3,185**
Total			**1,080,801**	**272,622**	**37,984**	**138,632**	**1,530,039**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

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

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

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

		2023				2022			
	Note	***Georgia***	***OECD***	***Other Non−OECD***	***Total***	***Georgia***	***OECD***	***Other Non−OECD***	***Total***
Assets									
Cash and cash equivalents	6	381,993	316,155	2,178	**700,326**	393,416	49,373	11,795	**454,584**
Amounts due from credit institutions	7	368,479	2,768	135	**371,382**	234,137	2,677	135	**236,949**
Loans to customers	8	809,010	2,748	22,145	**833,903**	719,606	2,570	23,835	**746,011**
Investment securities	9	62,897	−	−	**62,897**	37,174	−	−	**37,174**
Other financial assets	13	992	−	−	**992**	999	−	−	**999**
		1,623,371	**321,671**	**24,458**	**1,969,500**	**1,385,332**	**54,620**	**35,765**	**1,475,717**
Liabilities									
Amounts due to credit institutions		9	−	−	**9**	6	−	−	**6**
Amounts due to customers	14	1,535,555	1,655	25,251	**1,562,461**	839,956	39,925	224,778	**1,104,659**
Lease liabilities	11	7,167	−	−	**7,167**	1,801	−	−	**1,801**
Other financial liabilities	13	10,955	−	−	**10,955**	1,967	−	−	**1,967**
Subordinated debt	15	81,058	−	−	**81,058**	81,550	−	−	**81,550**
		1,634,744	**1,655**	**25,251**	**1,661,650**	**925,280**	**39,925**	**224,778**	**1,189,983**
Net assets/ (liabilities)		**(11,373)**	**320,016**	**(793)**	**307,850**	**460,052**	**14,695**	**(189,013)**	**285,734**

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

The risk of the insurance contract is the risk of occurrence of the insurance claim, which includes the risks of the volume and the risks of reporting period. The Group's main risk in this case is that the amount of the actual loss and insurance amount may exceed the carrying amount of the insurance liabilities. This is due of the fact that the frequency of losses and their volume may be larger than the initially estimated liability of losses.

In order to neutralize risks, the Group diversifies the portfolio of insurance contracts, thereby reducing the risk of the impact of non−recurring negative consequences on the portfolio. Neutralization of the Risks are also possible by carefully selecting and implementing an underwriting strategy, as well as by using reinsurance contracts. As part of underwriting, portfolio sensitivity analysis is carried out, which is significantly influenced by the loss rate of policies. Taking into consideration, the company establishes underwriting directives and restrictions in order to determine what kind of risks and restrictions can be accepted. Monitoring of the above−mentioned restrictions is implemented continuously.

Implemented insurance by the Group includes medicine, life, property, cargo, road and air transportation vehicles, insurance against accidents, traveling, legal responsibility or caused to third party insurance. In general, these types of insurances have 12−month duration.

The Group also uses a loss management and adjustment policy to reduce the negative impact of future non−recurring events on its activities and limits the level of risk by setting maximum loss limits for certain contracts, as well as using reinsurance mechanisms to reduce the risk associated with catastrophic events.

The management of the Group believes that due to the short−term nature of the business, the insurance portfolio is primarily sensitive to expected loss ratio volatility. The actual profit loss ratio of the company is considered along with other factors in the formation of insurance tariff in the future.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

On a monthly basis, the Assets and Liabilities Committee (“ALCO”) controls liquidity risks by means of maturity analysis, determining the Group’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 Group 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 liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the NBG including Liquidity Coverage Ratio and Net Stable Funding Ratio. The Liquidity Coverage Ratio is calculated for GEL as well as the Foreign Currency and for both, total amount. The minimum required rates are as following: GEL requirement is at least 75% or more, for USD the minimum required rate equals to 100% and the same is for the total ratio. As of 31 December, the LCR ratios were as following:

	2023, %			*2022, %*		
	GEL	***FC***	***Total***	***GEL***	***FC***	***Total***
Liquidity Coverage Ratio (Total Liquid Assets / Net Cashflow)	203%	132%	140%	314%	157%	**172%**

The Net Stable Funding Ratio is measuring Group’s available stable funding and required stable funding. The minimum requirement for the ratio despite the currency equals to 100%. As of 31 December, the NSFR ratios were as following:

By the end of the financial year 2023 the ratio, calculated in accordance with the IFRS, was as following:

	2023, %	***2022, %***
Net Stable Funding Ratio (NSFR) (Available Stable Funding / Required Stable Funding)	205%	187%

Due to the change of the regulator requirements, about transition from local reporting standards to IFRS, 2023 is presented based on IFRS, while 2022 is presented based on the reporting standards, which were mandatory regulatory requirement by the year end 2022.

(thousands of Georgian lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history. Moreover, the table does not reflect cash flows for perpetual subordinated debts with the balance of GEL 48,785 as of 31 December 2023 (31 December 2022: GEL 49,126) and with the principal amount of GEL 48,768 amount 31 December 2023 (31 December 2022: GEL 49,109 (Note 15). The cash flow on these instruments is expected to be solely interest payments paid monthly. Interest payments during 2023 was GEL 3,902 (2022: GEL 4,330).

As at 31 December 2023	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	9	–	–	–	**9**
Amounts due to customers	911,761	321,014	346,348	10,131	**1,589,254**
Lease liabilities	521	1,563	6,963	–	**9,047**
Other financial liabilities	10,955	–	–	–	**10,955**
Subordinated debt	444	1,331	37,524	–	**39,299**
Total undiscounted financial liabilities	**923,690**	**323,908**	**390,835**	**10,131**	**1,648,564**

As at 31 December 2022	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	6	–	–	–	**6**
Amounts due to customers	584,338	234,393	268,937	39,659	**1,127,327**
Lease liabilities	449	1,347	87	–	**1,883**
Other financial liabilities	1,967	–	–	–	**1,967**
Subordinated debt	446	1,337	25,874	13,751	**41,408**
Total undiscounted financial liabilities	**587,206**	**237,077**	**294,898**	**53,410**	**1,172,591**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn loan commitment and guarantees can be drawn down In less than 3 months period.

	Note	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2023	19	31,564	44,442	86,902	1,371	**164,279**
2022	19	39,436	21,129	20,101	2,023	**82,689**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments. The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due in less than three months in the tables above.

(thousands of Georgian lari)

23. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

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

Currency	*Change in currency rate 2023*	*Effect on profit before tax 2023*	*Change in currency rate 2022*	*Effect on profit before tax 2022*
USD	20%/(20%)	3,173/(3,173)	20%/(20%)	7,093/(7,093)
EUR	20%/(20%)	47/(47)	20%/(20%)	156/(156)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected.

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

	Decrease of net interest income
2023	8,444
2022	7,340

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's statement of profit or loss.

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

Currency	*Increase/(decrease) in basis points 2023*	*Sensitivity of net interest income 2023*
GEL	100/(100)	1,702/(1,702)
EUR	100/(100)	172/(172)
USD	100/(100)	1,750/(1,750)

Currency	*Increase/(decrease) in basis points 2022*	*Sensitivity of net interest income 2022*
GEL	100/(100)	1,602/(1,602)
EUR	100/(100)	204/(204)
USD	100/(100)	824/(204)

(thousands of Georgian lari)

23. Risk management (continued)

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 Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

24. Fair value measurements

Fair value hierarchy

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Fair value measurement using			
At 31 December 2023	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets for which fair values are disclosed				
Loans to customers	−	−	854,282	**854,282**
Investment securities at amortized cost	−	56,260	−	**56,260**
Assets measured at fair value				
Investment securities at FVOCI − equity security	−	−	168	**168**
Investment securities at FVOCI − debt security	−	7,079	−	**7,079**

	Fair value measurement using			
At 31 December 2023	***Level 1***	***Level 2***	***Level 3***	***Total***
Liabilities for which fair values are disclosed				
Amounts due to customers	−	688,188	874,705	**1,562,893**
Subordinated debt	−	−	55,753	**55,753**

	Fair value measurement using			
At 31 December 2022	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets for which fair values are disclosed				
Loans to customers	−	−	783,809	**783,809**
Investment securities at amortized cost	−	29,433	−	**29,433**
Assets measured at fair value				
Investment securities at FVOCI − equity security	−	−	168	**168**
Investment securities at FVOCI − debt security	−	7,085	−	**7,085**

	Fair value measurement using			
At 31 December 2022	***Level 1***	***Level 2***	***Level 3***	***Total***
Liabilities for which fair values are disclosed				
Amounts due to customers	−	493,181	610,666	**1,103,847**
Subordinated debt	−	−	54,885	**54,885**

(thousands of Georgian lari)

24. Fair value measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non−financial assets and non−financial liabilities.

	Carrying value 2023	*Fair value 2023*	*Unrecognised gain/(loss) 2023*	*Carrying value 2022*	*Fair value 2022*	*Unrecognised gain/(loss) 2022*
Financial assets						
Cash and cash equivalents	700,326	700,326	–	454,584	454,584	–
Amounts due from credit institutions	371,382	371,382	–	236,949	236,949	–
Loans to customers	833,903	854,282	**20,379**	746,011	783,809	**37,798**
Investment securities	55,650	56,260	**610**	29,921	29,433	**(488)**
Other financial assets	992	992	–	999	999	–
Financial liabilities						
Amounts due to credit institutions	9	9	–	6	6	–
Amounts due to customers	1,562,461	1,562,893	**(432)**	1,104,659	1,103,847	**812**
Other financial liabilities	10,955	10,955	–	1,967	1,967	–
Lease liabilities	7,167	7,167	–	1,801	1,801	–
Subordinated debt	81,058	55,753	**25,305**	81,550	54,885	**26,665**
Total unrecognised change in fair value			**45,862**			**64,787**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short−term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortised cost

The fair value of loans to customers, customer deposits, amounts due from/(to) credit institutions and other financial assets and liabilities, investment securities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(thousands of Georgian lari)

25. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 23 “Risk management” for the Group’s contractual undiscounted repayment obligations.

	2023			2022		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	700,326	–	700,326	454,584	–	**454,584**
Amounts due from credit institutions	367,551	3,831	371,382	233,240	3,709	**236,949**
Loans to customers	461,776	372,127	833,903	388,881	357,130	**746,011**
Investment securities	7,079	55,818	62,897	7,085	30,089	**37,174**
Property and equipment	–	13,888	13,888	–	12,717	**12,717**
Right of use assets	–	7,160	7,160	–	1,518	**1,518**
Intangible assets	–	9,012	9,012	–	5,447	**5,447**
Deferred tax asset	–	–	–	–	7	**7**
Reinsurance contract assets	2,685	–	2,685	126	–	**126**
Other assets	1,548	92,531	94,079	2,543	93,456	**95,999**
Total	**1,540,965**	**554,367**	**2,095,332**	**1,086,459**	**504,073**	**1,590,532**
Amounts due to credit institutions	9	–	9	6	–	**6**
Amounts due to customers	1,224,567	337,894	1,562,461	812,087	292,572	**1,104,659**
Provisions	178	85	263	138	63	**201**
Current income tax liability	6,006	–	6,006	4,830	–	**4,830**
Deferred income tax liability	–	2,137	2,137	–	9,289	**9,289**
Lease liabilities	1,297	5,870	7,167	1,717	84	**1,801**
Subordinated debt	17	81,041	81,058	17	81,533	**81,550**
Insurance contract liabilities	3,360	–	3,360	986	–	**986**
Reinsurance contract liabilities	307	–	307	132	–	**132**
Other liabilities	15,825	–	15,825	6,017	–	**6,017**
Total	**1,251,566**	**427,027**	**1,678,593**	**825,930**	**383,541**	**1,209,471**
Net	**289,399**	**127,340**	**416,739**	**260,529**	**120,532**	**381,061**

26. Related party disclosures

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

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

(thousands of Georgian lari)

26. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2023			
	The Parent	***Entities under common control***	***Other related parties***	***Key management personnel***
Loans to customers, gross	–	35,858	29,110	448
(Allowance for expected credit losses)	–	(619)	(466)	(1)
Amounts due to customers	(25,527)	(24,093)	(400,884)	(406)
Insurance contract liabilities	–	–	2,676	–
Other assets	–	–	–	–
Subordinated debt (Note 15)	–	(81,041)	–	–
Commitments and guarantees issued	–	(1,178)	(31)	–
Lease liabilities	–	(6,225)	(579)	–

	2022			
	The Parent	***Entities under common control***	***Other related parties***	***Key management personnel***
Loans to customers, gross	–	32,058	28,275	440
(Allowance for expected credit losses)	–	(165)	(143)	(1)
Amounts due to customers	(32,994)	(42,121)	(163,447)	(273)
Insurance contract liabilities	–	–	74	–
Other assets	–	–	178	–
Subordinated debt (Note 15)	–	(81,550)	–	–
Commitments and guarantees issued	–	(1,278)	(31)	–
Lease liabilities	–	(1,510)	(195)	–

As of 31 December 2023, 99% (2022: 92%) of amounts due to customers of other related parties included current accounts of 5 major related parties. Maturity and the interest rate range of amounts due to customers of other related parties is 0−17 years and 0%−11.3%, respectively as of 31 December 2023 (2022: 0−17 years and 0%−12.25%), Maturity and the interest rate range of loans to customers is 4 months to 10 years and 6.5%−14.5%, respectively as of 31 December 2023 (2022: 10 months to 10 years and 7.0%−15.0%).

The income and expense arising from related party transactions are as follows:

	2023				***2022***			
	The Parent	***Entities under common control***	***Other related parties***	***Key manage−ment personnel***	***The Parent***	***Entities under common control***	***Other related parties***	***Key manage−ment personnel***
Interest income on loans to customers	–	3,580	2,987	58	–	3,625	2,931	64
Interest expense on amounts due to customers	(513)	(75)	(1,596)	(5)	–	(72)	(752)	(4)
Interest expense on subordinated debt	–	(5,637)	–	–	–	(6,254)	–	–
Charity and sponsorship	(9,500)	–	–	–	(7,700)	–	(203)	–
Insurance revenue	–	–	1,122	–	–	–	1,157	–
Insurance service expenses	–	–	(242)	–	–	–	(197)	–
Fee and commission income	5	98	111	1	1	117	136	1
Fee and commission expense	–	(4)	(2)	–	–	(5)	(2)	–
Other income			92		–	–	(153)	–
Other expenses	–	–	(203)	–	–	–	(203)	–
Interest expense on lease liabilities	–	(80)	–	–	–	(207)	(27)	–

(thousands of Georgian lari)

26. Related party disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2023	***2022***
Salaries and other short−term benefits	2,540	2,049

Key management personnel as at 31 December 2023 and 2022 was 11 and 11, respectively and includes members of the Group’s Supervisory board, Board of Directors and other key executives of the Group.

27. Capital adequacy

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

During the year ended 31 December 2023, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group’s capital management are to ensure that the Group complies with externally imposed capital requirements set by the NBG and that Group maintains healthy capital ratios in order to support its business and maximize shareholders’ value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

Regulatory capital consists of Common Tier 1 capital, which comprises common shares, reserve fund and retained earnings less amount of asset revaluation reserve transferred to authorized capital, and intangible assets. The other component of regulatory capital is Additional Tier 1 capital, which includes perpetual subordinated debts and Tier 2 capital, which includes general reserves (not more than 1.25% of risk weighted assets) and subordinated long−term debt.

In December 2017, the NBG adopted amendments to the regulations introduced amendment relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar II.

Starting from 1 January 2023, the NBG regulations are based on the IFRS for regulatory purposes. In 2023, The NBG added new buffer to capital adequacy requirements, Credit Risk Adjustment Buffer.

As at 31 December 2023 the NBG requires the Bank to maintain a minimum Total regulatory capital adequacy ratio, Tier 1 capital adequacy ratio and Common equity Tier 1 Capital Adequacy Ratio of 25.66%, 21.14%, and 17.73% respectively, calculated using IFRS. (December 2022: Minimum regulatory capital adequacy ratio, Tier 1 capital coefficient and common Tier 1 coefficient of 19.67%, 14.23% and 11.29%, respectively, calculated based on regulatory requirements that was effective by the year end 2022).

As at 31 December 2023 capital adequacy ratios based on the Bank’s reports prepared in accordance with the IFRS and as at 31 December 2022 capital adequacy ratios are calculated and prepared in accordance with the NBG accounting rules and capital adequacy framework, that was regulatory requirement by the year end 2022.

(thousands of Georgian lari)

27. Capital adequacy (continued)

	31 December 2023	*31 December 2022*
Common Equity Tier 1 Capital	**376,292**	**234,253**
Additional Tier 1 Capital	74,532	72,954
Tier 1 Capital	**450,824**	**307,207**
subordinated debt	22,053	28,641
General Loan Loss Provisions (up to 1.25% of Risk−Weighted Assets)	–	10,687
Tier 2 Capital	**22,053**	39,328
Total Regulatory Capital	**472,877**	**346,535**
Risk Weighted Assets	**1,709,985**	**1,404,710**
Common Equity Tier 1 Capital Adequacy Ratio	22.01%	16.68%
Tier 1 Capital Adequacy Ratio	26.36%	21.87%
Total Regulatory Capital Adequacy Ratio	**27.65%**	**24.67%**

During the years ended 31 December 2023 and 2022 the Bank complied in full with all of its externally imposed capital requirements.