ANNUAL REPORT

წლიური ანგარიში

2019

ბანკი ქართუ
CARTU BANK

შინაარსი
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წლიური 2019 ანგარიში
ANNUAL REPORT

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CARTU BANK

სამეთვალყურეო საბჭოს თავმჯდომარის მიმართვა

მოგესალმებით,

ბანკის სამეთვალყურეო საბჭოს სახელით მინდა მადლობა გადავუხადო ბანკი ქართუს მენეჯმენტს, მის თანამშრომლებს, პარტნიორებსა და მომხმარებლებს წარმატებული 2019 წლისთვის.

ბანკი უკვე 22 წელია სტაბილურად აგრძელებს თავის სტრატეგიას, ემსახურება მისიას, რომ ხელი შეუწყოს ქვეყნისთვის მნიშვნელოვანი დარგების განვითარებას, ამართლებს რა თავის სლოგანს „ძლიერი ბანკი ძლიერი საქართველოსთვის“.

წარმატებას ვუსურვებ ბანკის მენეჯმენტსა და მის თანამშრომლებს 2020 წელს, იმედია მომავალი წელი უფრო მეტ წინსვლასა და წარმატებას მოგვიტანს.

ნიკოლოზ ჩხეტიანი

სამეთვალყურეო საბჭოს თავმჯდომარე

ADDRESS OF THE CHAIRPERSON OF THE SUPERVISORY BOARD

Ladies and Gentlemen!

On behalf of the Bank's Supervisory Board I wish to say "Thank You" to its Management, staff, partners and clients for successful 2019.

Over the last 22 years, true to its slogan: "Strong Bank for Stronger Georgia," Cartu Bank has pursued its strategies and mission in order to support the industries significant to the country's progress.

I wish all the best to the Bank Management and its staff in the new 2020, which will hopefully be even more successful.

MR. NIKOLOZ CHKHETIANI

Chairperson of the Supervisory Board

გენერალური დირექტორის მიმართვა

ქალბატონებო და ბატონებო,

მოხარული ვარ გაცნობოთ, რომ 2019 წელი საკმაოდ წარმატებული იყო სს „ბანკი ქართუსთვის“, რაც, რა თქმა უნდა, აისახა ჩვენი ბანკის ფინანსურ შედეგებზე:

- 2018 წელთან შედარებით მთლიანი აქტივები 123.4 მლნ ლარით გაიზარდა, ხოლო წმინდა სესხები - 57.4 მლნ ლარით;
- 136.4 მლნ ლარიანი ზრდა ფიქსირდება ასევე სადეპოზიტო პორტფელში;
- სტაბილურად იზრდება ბანკის საკრედიტო პორტფელი და შეადგინა 992.9 მლნ ლარი.

აღსანიშნავია, რომ სარეიტინგო კომპანია Standard & Poor’s-მა დაადასტურმა ბანკი ქართუს მოქმედი საერთაშორისო რეიტინგი (B) - სტაბილური განვითარების პერსპექტივით.

ბანკი შევიდა ფასიანი ქაღალდების ბაზარზე, შეიძინა 2 კომპანიის ობლიგაციები.

ასევე, მომხმარებელს შესთავაზა ახალი პროდუქტები - საპროცენტო და დისკონტური სადეპოზიტო სერთიფიკატები, ასევე, აქტიურად ვმუშაობდით პრემიალური ბარათების - ვიზა ინფინიტისა (Visa Infinite) და მასტერქარდ ვორლდ ელიტ (Mastercard World Elite) პრომოციასა და გაყიდვებზე.

2019 წლის განმავლობაში ვთანამშრომლობდით არსებულ და ახალ საბანკო ინსტიტუტებთან, გაიხსნა ახალი საკორესპონდენტო ანგარიშები.

ბანკი ქართუს მენეჯმენტის სახელით მინდა მადლობა გადავუხადო ჩვენს ერთგულ მომხმარებლებსა და თანამშრომლებს, რომლებმაც წვლილი შეიტანეს ბანკის 2019 წლის წარმატებაში.

2020 წელს ბანკი სტაბილურად გეგმავს ზრდასა და განვითარებას, რისთვისაც ჩვენ არ დავიშურებთ ძალისხმევას.

ვუსურვებ ჩვენს მენეჯმენტსა და თანამშრომლებს წარმატებას 2020 წელს.

ნათო ხაინდრავა

გენერალური
დირექტორი

Address of the Chief Executive Officer (CEO)

Ladies and Gentlemen!

I’m glad to report that as the annual results below show, 2019 was fairly successful to Cartu Bank JSC:

- compared to 2018, the total assets grew by 123.4 M GEL and the net loans by 57.4 M GEL;
- similarly, the deposit portfolio grew by 136.4 M GEL;
- the Bank’s credit portfolio expanded to make up 992.9 M GEL.

Here I should say that Standard & Poor’s rating company confirmed Cartu Bank’s current international rating (B) - stable development prospects.

The Bank entered the securities market and acquired bonds of two companies.

Also, we offered our customers the new products: the interest-bearing and discount deposit certificates. We are actively working on the promotion and sale of the premium Visa Infinite and Mastercard World Elite cards.

In 2019, we collaborated with the traditional and some new banking institutions and opened new correspondent accounts.

On behalf of the Cartu Bank Management I wish to say “Thank You” to our loyal customers and the staff for their contribution to the Bank’s success in 2019.

We are determined to carry on with the sustainable growth and development in2020.

Let 2020 be successful to the Bank Management and the staff.

MS. NATO KHAINDRAVA

CEO

ბანკის მისია, ხედვა, ძირითადი ფასეულობები

სს „ბანკი ქართუ“-ს მისია:

ჩვენი მისიაა, უმაღლესი ხარისხის ექსკლუზიური საფინანსო მომსახურების გზით, განსაკუთრებული წვლილი შევიტანოთ ქვეყნის მნიშვნელოვანი დარგების განვითარებაში.

ხედვა:

სს „ბანკი ქართუ“ გახდება გამორჩეული საფინანსო ინსტიტუტი, რომელიც:

- საქართველოში შექმნის კორპორატიული კლიენტების ექსკლუზიური მომსახურების სტანდარტს;
- აქტივების მოცულობით სტაბილურ ადგილს დაიკავებს საბანკო სისტემის ლიდერთა შორის;
- დაკომპლექტებული იქნება მაღალკვალიფიციური და მოტივირებული კადრებით;
- განსაკუთრებულ წვლილს შეიტანს ჩვენი ქვეყნის ეკონომიკის ზრდასა და ბიზნესის განვითარებაში;
- სტაბილურად გაზრდის საკუთარ ღირებულებებს როგორც აქციონერთა, ასევე, კლიენტებისათვის, რაც დადებითად იმოქმედებს, ზოგადად, ქვეყნის მოსახლეობის ცხოვრების დონის ამაღლებაზე.

ძირითადი ფასეულობები:

- მაღალი ხარისხის მომსახურება და თითოეული კლიენტისადმი ლოიალური დამოკიდებულება;
- საბანკო პროდუქტების სრულყოფილი და მრავალფეროვანი პაკეტი;
- მომხმარებელზე მორგებული თანამედროვე და ინოვაციური ფინანსური გადაწყვეტილებები;
- პროფესიონალი კადრები.

MISSION, VISION, CORE VALUES

Mission

Our mission is to make substantial contribution to the strategic fields of Georgian economy, by providing leading companies with superior quality and exclusive financial services.

Vision:

Cartu Bank aims to become an outstanding financial institution that will:

- Set exclusive standards for financial services for the leading corporate clients in Georgia;
- Gain stable position with Volume of Assets among the top players of Georgian Banking Sector;
- Have highly qualified, motivated and committed team;
- Make substantial contribution to the growth of Georgian economy, development of businesses and improvement of living standards for the community. As the result, Bank will significantly increase its value for its shareholders as well as for the customers, employees and the whole society.

Core Values:

- Prime quality services and loyal attitude to each client;
- Diverse range of banking products;
- Customer oriented modern and innovative financial solutions;
- High-qualified team.

ბანკის სტრუქტურა

სამეთვალყურეო საბჭო:

- **ნიკოლოზ ჩხეტიანი**
  სამეთვალყურეო საბჭოს თავმჯდომარე
- **ბესიკ დემეტრაშვილი**
  სამეთვალყურეო საბჭოს წევრი
- **თემური კობახიძე**
  სამეთვალყურეო საბჭოს დამოუკიდებელი წევრი
- **თეა ჯოხაძე**
  სამეთვალყურეო საბჭოს წევრი
- **ზაზა ვერძეული**
  სამეთვალყურეო საბჭოს დამოუკიდებელი წევრი

აღმასრულებელი მენეჯმენტი:

- **ნატო ხაინდრავა**
  გენერალური დირექტორი
- **გივი ლებანიძე**
  ფინანსური დირექტორი
- **დავით გალუაშვილი**
  ოპერაციების დირექტორი
- **ზურაბ გოგუა**
  კომერციული დირექტორი
- **ბექა კვარაცხელია**
  რისკების დირექტორი

უახლესი მოვლენები ბანკის ისტორიაში

- 2019 წელს ცნობილმა სარეიტინგო სააგენტომ Standard & Poor’s-მა დაადასტურა სს „ბანკი ქართუ“-ს მოქმედი საერთაშორისო რეიტინგი (B), სტაბილური განვითარების პერსპექტივით;
- ბანკი ქართუმ დაიწყო აქტივობა ფასიანი ქაღადლდების ბაზარზე, შეიძინა 2 კომპანიის ობლიგაციები 5 მილიონი აშშ დოლარისა და 3 მილიონი ლარის ოდენობით;
- ბანკმა 2019 წელს გამოუშვა ახალი პროდუქტები - საპროცენტო და დისკონტური სადეპოზიტო სერტიფიკატები ლარში, აშშ დოლარსა და ევროში. დენომინირებული სერტიფიკატების შემთხვევაში ლარში ვადიანობები მერყეობს 3 თვიდან 3 წლამდე, უცხოურ ვალუტაში კი 3 თვიდან 5 წლამდე;
- 2019 წელს აქტიურად დაიწყო პრემიალური საბარათო პროდუქტების - ვიზა ინფინიტ (Visa Infinite) და მასტერქარდ ვორდ ელიტ (Mastercard World Elite) პლასტიკური ბარათების პრომოცია და გაყიდვა;
- მოქმედ პარტნიორებთან არსებული ურთიერთობების შემდგომი განვითარება და ახალ საბანკო ინსტიტუტებთან თანამშრომლობის ჩამოყალიბება. კერძოდ, ამ წელს განხორციელდა რუსეთის რეზიდენტ ბანკებში - Alfa Bank-სა და Sber Bank-ში ნოსტრო საკორესპონდენტო ანგარიშების გახსნა აშშ დოლარში, ევროსა და რუსულ რუბლში, ხოლო თურქულ Nurol Bank-ში კი - აშშ დოლარში, ევროსა და თურქულ ლირაში;
- დაინერგა XBRL და აღრიცხვისა და ანგარიშგების ახალი სტანდარტი;
- ფულის გათეთრების და ტერორიზმის დაფინანსების აღკვეთის დეპარტამენტის თანამშრომლებმა კვალიფიკაციის ამაღლების მიზნით მონაწილეობა მიიღეს საერთაშორისო კომპეტენტური ორგანიზაციების, კერძოდ, ACAMS-ის და ATTF Luxemburg-ის მიერ ორგანიზებულ ტრენინგებში, სადაც განხილული იქნა ფულის გათეთრებისა და ტერორიზმის დაფინანსების აღკვეთის თანამედროვე მეთოდები და ღონისძიებები, მ.შ. ფინანსური თაღლითობისა და ფინანსურ დანაშაულობათა გამოძიების აქტუალური საკითხები.

STRUCTURE OF THE BANK

Supervisory Board:

- **Mr. Nikoloz Chkhetiani**
  Chairperson of the Supervisory Board
- **Mr. Besik Demetrashvili**
  Member of the Supervisory Board
- **Mr. Temur Kobakhidze**
  Independent member of the Supervisory Board
- **Ms. Tea Jokhadze**
  Member of the Supervisory Board
- **Mr. Zaza Verdzeuli**
  Independent member of the Supervisory Board

Executive Management:

- **Ms. Nato Khaindrava**
  CEO
- **Mr. Givi Lebanidze**
  Chief Financial Officer
- **Mr. David Galuashvili**
  Chief Operations Officer
- **Mr. Zurab Gogua**
  Chief Commercial Officer
- **Mr. Beka Kvaratskhelia**
  Chief Risks Officer

RECENT HIGHLIGHTS

- In 2019, a broadly known Standard & Poor’s rating company confirmed Cartu Bank’s current international “rating: (B) stable development prospects;
- Cartu Bank started operating at the securities market, acquired bonds of 2 companies worth 5 M USD and 3 M GEL.
- In 2019, the Bank issued new products: the interest-bearing and discount deposit certificates in GEL, USD and Euro. In case of the denominated certificates, the terms for GEL range between 3 months and 3 years and for the foreign currency between 3 months and 5 years;
- In 2019, we started promotion and sale of the premium Visa Infinite and Mastercard World Elite plastic cards;
- The Bank strengthened relations with its partners and forged ties with some new banking institutions. Last year, nostro correspondent accounts in USD, Euro and Russian ruble were opened with Russia’s resident Alfa Bank and Sber Bank and those in USD, Euro and the Turkish lira with the Turkish Nurol Bank;
- A new XBRL accounting and reporting standard was introduced;
- For the purpose of professional advancement, the Bank’s AML and CTF Department staff attended trainings staged by ACAMS (Association of Certified Anti-Money Laundering Specialists) and ATTF Luxemburg (Anti-Terrorism Task Force), where contemporary methods of money laundering and terrorism financing prevention along with the issues concerning investigation of financial fraud etc. offenses were discussed.

წლიური 2019 ანგარიში
ANNUAL REPORT

ბანკი ქართუ
CARTU BANK

მოკლე ფინანსური ანგარიში

ბანკი ქართუს ბოლო 3 წლის ძირითადი ფინანსური მონაცემები არის შემდეგი:

ათას ლარებში	2017	2018	2019
▶ მთლიანი აქტივები	1,302,141	1,213,494	1,336,887
▶ წმინდა სესხები	794,886	821,895	879,329
▶ მთლიანი ვალდებულებები	960,435	867,377	1,013,456
▶ სადეპოზიტო პორტფელი	690,657	641,862	778,274
▶ სააქციო კაპიტალი	341,706	346,117	322,767
▶ სულ შემოსავლები	116,059	102,662	108,083
▶ სულ ხარჯები	66,341	76,458	85,769
▶ წმინდა მოგება/ზარალი	49,718	26,204	22,314
▶ საშუალო წლიური კაპიტალი	309,950	343,912	334,774
▶ საშუალო წლიური აქტივები	1,361,252	1,257,818	1,275,191
▶ თანამშრომელთა რაოდენობა	331	325	333

BRIEF FINANCIAL REPORT

The table below sets out Cartu Bank's key financial data for the last 3 years:

In GEL '000	2017	2018	2019
▶ Total Assets	1,302,141	1,213,494	1,336,887
▶ Net Loans	794,886	821,895	879,329
▶ Total Liabilities	960,435	867,377	1,013,456
▶ Deposit Portfolio	690,657	641,862	778,274
▶ Share Capital	341,706	346,117	322,767
▶ Total Incomes	116,059	102,662	108,083
▶ Total Costs	66,341	76,458	85,769
▶ Net Profit/Loss	49,718	26,204	22,314
▶ Average Annual Capital	309,950	343,912	334,774
▶ Average Annual Assets	1,361,252	1,257,818	1,275,191
▶ Number of Staff	331	325	333

საკრედიტო მაჩვენებლები

2019 წელი ასევე წარმატებული იყო საკრედიტო დეპარტამენტისთვისაც. გასული წლების განმავლობაში სახეზე გვაქვს საკრედიტო პორტფელის მოცულობის სტაბილური ზრდა:

- 2019 წელი - 992.9 მლნ ლარი
- 2018 წელი - 914.7 მლნ ლარი
- 2017 წელი - 820 მლნ ლარი

ბანკი ქართუ წლებია არის საქართველოში არსებული ბევრი საშუალო და მსხვილი კომპანიის სტაბილური, გრძელვადიანი პარტნიორი. ბანკისთვის მნიშვნელოვანია ქვეყნისთვის სტრატეგიული მნიშვნელობის მქონე დარგების განვითარებაზე ზრუნვა, შესაბამისად გადანაწილებულია ბანკის საკრედიტო პორტფელიც. კერძოდ, ყველაზე დიდი წილი უჭირავს ვაჭრობასა და მომსახურებას - 38.4%, წარმოებას - 30%, მე-3 ადგილზეა მშენებლობა - 19.6%. სოფლის მეურნეობაზე გაცემული სესხები შეადგენს მთლიანი პორტფელის 5.1%-ს, დანარჩენი წილი კი გადანაწილდა სხვა დარგებზე.

2019 წელსაც ბანკი სტანდარტულად სთავაზობს მომხმარებლებს საკრედიტო პროგრამებს:

- იმპორტშემცვლელი წარმოების დაკრედიტების პროგრამა;
- ქსელური ბიზნესის განვითრების პროგრამა;
- მცირე და საშუალო ბიზნესის დაკრედიტების პროგრამა;
- ექსპორტ-იმპორტის სავაჭრო ოპერაციების ხელშეწყობის პროგრამა.

გარდა ამისა, ბანკი ქართუ 2013 წლიდან აქტიურად არის ჩაბმული სახელმწიფოს მიერ ინიცირებულ პროექტებში:

- **„შეღავათიანი აგროკრედიტის“** პროგრამის მიზანია ფერმერების, აგრარული კომპანიებისა და სოფლის მეურნეობაში ჩართული ფიზიკური პირების ხელშეწყობა იაფი, გრძელვადიანი და ხელმისაწვდომი ფულადი სახსრებით უზრუნველყოფის გზით.

პროექტის ძირითადი მონაცემებია:

- ▶ პროექტის დასაწყისი - 20 მარტი, 2013 წელი;
- ▶ ბანკი ქართუს მიერ პროექტის ფარგლებში 2019 წელს დაფინანსებულია 8 კლიენტი, მათზე გაცემულია 3.6 მლნ ლარის ოდენობის სესხები;
- ▶ პროექტის ჯამური პორტფელი 31.12.2019 წლის მდგომარეობით 10.8 მლნ ლარს შეადგენს.

- დაკრედიტების პროგრამა **„აწარმოე საქართველოში“** არის 3 მიმართულება:

1. **ინდუსტრიული ნაწილი** - ხელს უწყობს საქართველოში წარმოებაზე ორიენტირებული ინდუსტრიების განვითარებას, ახალი საწარმოების შექმნას/არსებული საწარმოების გაფართოება/გადაიარაღებას.
2. **სოფლის მეურნეობის ნაწილი** - საშუალებას აძლევს მსურველებს შექმნან ახალი ან განავითარონ საშუალო და მსხვილი საწარმოები სოფლის მეურნეობის დარგში.
3. **სასტუმრო ინდუსტრიის ნაწილი** - პროგრამას დაემატა 2016 წლიდან და ცნობილია სახელწოდებით **„უმასპინძლე საქართველოში“**. ამ ნაწილის მიზანია განავითაროს სასტურმოების ბიზნესი რეგიონში.

„აწარმოე საქართველოში“ პროექტის სამივე მიმართულების ჯამური მონაცემები არის შემდეგი:

- ▶ პროექტის დასაწყისი - 1 ივნისი, 2014 წელი;
- ▶ ბანკი ქართუს მიერ 2019 წელს 5.2 მლნ ლარის ოდენობის სესხით დაფინანსებულია 6 კლიენტი;
- ▶ პროექტის ჯამურმა პორტფელმა 31.12.2019 წლის მდგომარეობით 14.3 მლნ ლარი შეადგინა.

აღსანიშნავია, რომ 2019 წლის განმავლობაში ბანკმა დაიწყო აქტივობა ფასიანი ქაღადლდების ბაზარზე, კერძოდ, შეიძინა 2 კომპანიის ობლიგაციები 5 მილიონი აშშ დოლარისა და 3 მილიონი ლარის ოდენობით.

CREDIT INDICATORS

2019 was similarly successful to the Credit Department. Over the recent years, the Bank's credit portfolio has been growing steadily:

- 2019 - 992.9 M GEL
- 2018 - 914.7 M GEL
- 2017 - 820 M GEL

For years, Cartu Bank has been a stable and long-term partner of a number of medium size and large companies in Georgia. It cares for the development of the strategically important national industries and its credit portfolio is distributed accordingly. The trade and service hold the biggest 38.4% share followed by production - 30%, construction-19.6% ; the credits issued to the agricultural sector make up 5.1% of the total credit portfolio, with the rest distributed among the other industries.

As usual, in 2019, the Bank offered its customers the credit programs below:

- Import substitution production
- Chain business development;
- Small and medium-size businesses crediting;
- Import-export trade operations support.

Besides, since 2013, Cartu Bank has been closely involved in the State-initiated projects:

- **The Preferential Agro Credit program** aims at support of farmers,agricultural companies and the natural persons engaged in the agricultural sector by providing cheap, long-term and accessible financial resources.

The details of the program:

- ▶ Commencement date - 20 March 2013;
- ▶ With in the frameworks of the project, in 2019, Cartu Bank funded 8 clients with the loans amounting to 3.6 M GEL;
- ▶ As of 31.12.2019, the total portfolio of the project was 10.8 M GEL.

- There are three directions in the **"Produce in Georgia"** crediting program:

1. **Industry** - support to the industries focused on the local production, creation of new businesses/expansion/ reequipment of the ones in place;
2. **Agriculture** - supports setting up and develop medium size or large agricultural enterprises;
3. **Hospitality** - added to the program in 2016, it is referred to as **"Host in Georgia"** and aims at the development of the regional hotel business.

The overall data of three directions of the **"Produce in Georgia"** program:

- ▶ Commencement date: - 1 June, 2014;
- ▶ Cartu Bank funded 6 clients with the loans amounting to 5.2 M GEL;
- ▶ As of 31.12.2019, the total portfolio of the project was 14.3M GEL.

In 2019, the Bank started operating at the securities market and acquired bonds of 2 companies worth 5 M USD and 3 M GEL.

რისკების მართვა RISK MANAGEMENT

სს „ბანკი ქართუს“ ბიზნეს მოდელი შემუშავებულია ისე, რომ ბანკმა მუდმივად შეინარჩუნოს კაპიტალიზაციის საშუალოზე მაღალი დონე და რესურსები გადანაწილებული ქონდეს ისეთ აქტივებსა და სექტორებზე, რომლითაც მიაღწევს მდგრად და დაბალანსებულ ზრდას.

ის ძირითადი რისკები, რომელსაც ბანკი ქართუ იღებს სტრატეგიული მიზნების განხორციელებისას დაჯგუფებულია შემდეგნაირად: საკრედიტო, ლიკვიდობის, საბაზრო, საოპერაციო და სხვა არაფინანსური რისკები.

ბანკის რისკების მართვის მიზნებს წარმოადგენს:

- რისკის აპეტიტის განსაზღვრა, რომლითაც მოხდება რისკი/მომგებიანობის ოპტიმიზაცია, კაპიტალის მუდმივად ადეკვატურ დონეზე შენარჩუნებასთან ერთად;
- ლიკვიდობის ისეთ პრუდენციულ დონეზე შენარჩუნება და მართვა, რომლითაც ბანკი მოახდენს მოკლევადიანი ვალდებულებების შესრულებას სტრესული მდგომარეობის დროსაც;
- ადეკვატური და ეფექტური კონტროლის მექანიზმების ქონა;
- სრულ შესაბამისობაში ყოფნა იმ კანონებსა და რეგულაციებთან, რომლებიც უკავშირდება ბანკის ბიზნეს საქმიანობას.

ძირითადი პრინციპები, რომლებიც უზრუნველყოფენ ეფექტური რისკების მართვის სტრატეგიას არის:

- ბანკში დაცვის მძლავრი მეორე ხაზის (LOD 2) არსებობა;
- ბანკის ბიზნეს სტრატეგიით განსაზღვრული ძირითადი პრინციპების და იმ რისკის დონის შესაბამისობა, რომლის აღებაც ბანკს სურს და შეუძლია (რისკის აპეტიტი);
- იმის უზრუნველყოფა, რომ ბიზნეს საქმიანობის განვითარებასთან დაკავშირებული რისკები არის სწორად იდენტიფიცირებული, გაზომილი და დოკუმენტირებული;
- სათანადო კონტროლის მექანიზმების მუშაობის უზრუნველყოფა.

The Cartu Bank business model makes it possible to permanently keep up a higher than average capitalization level and allocate the resources to the assets and sectors ensuring a sustainable and a balanced growth.

The main risks that the Bank takes in pursuing its strategic goals are as follows: the credit, liquidity, market, operational etc. non-financial risks.

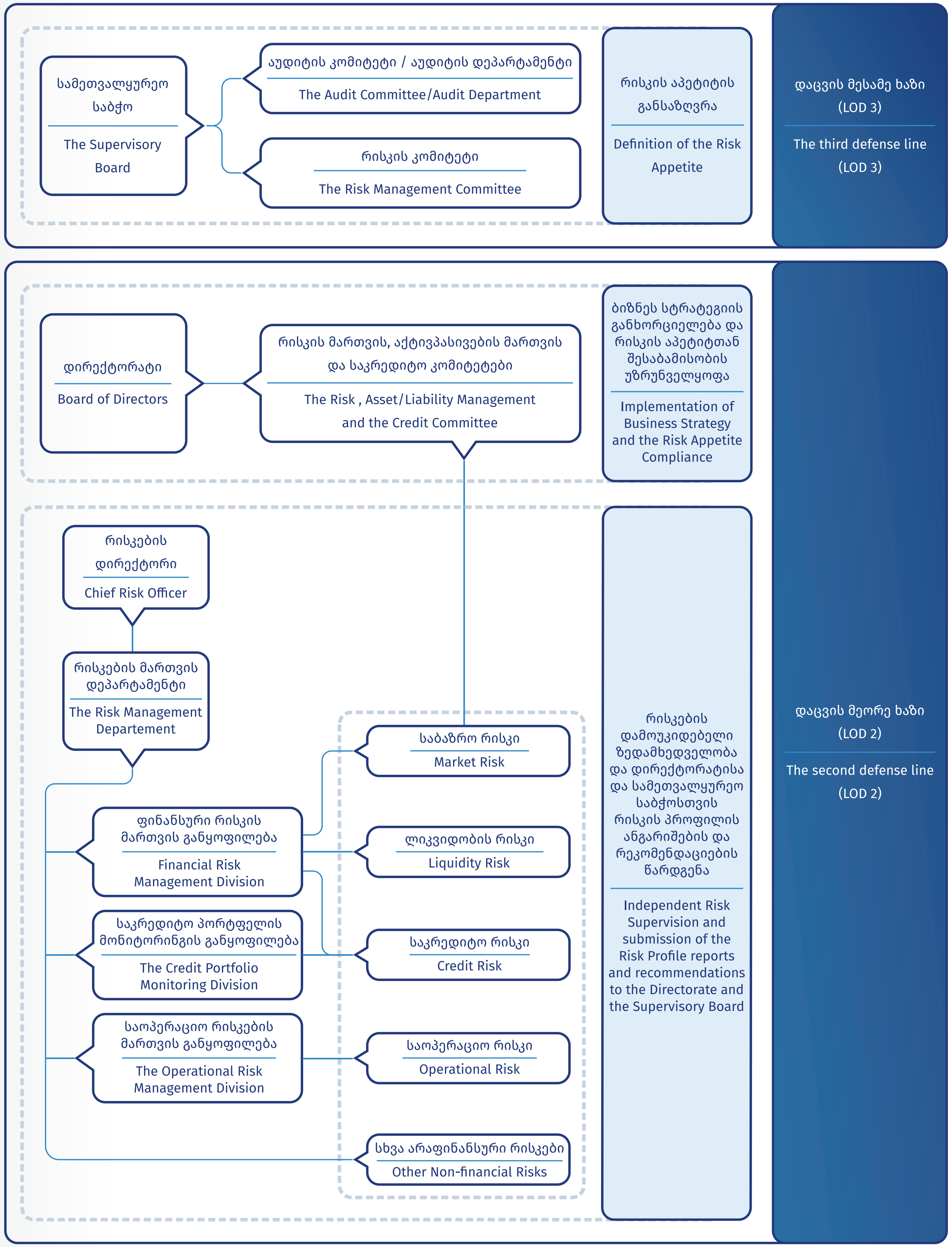
The risk management goals of the Bank:

- definition of the risk appetite for the purpose of the risk/profitability optimization and regular maintenance of the capital at the adequate level;
- maintenance and management of liquidity at the prudential level allowing the Bank to meet its short-term liabilities even during a stress;
- availability of the adequate and efficient means of control;
- compliance with the banking legislation and regulations.

The guidelines ensuring the efficient risk management strategy are as follows:

- availability of (LOD 2), an enhanced second-line protection;
- compliance with the guidelines and risk level defined by the Bank's business strategy, which it is willing and can take (the risk appetite);
- ensuring that the business development risks are duly identified, measured and documented;
- ensuring operation of the means of control.

შემდეგ დიაგრამაზე მოცემულია ბანკის რისკების მართვის სტრუქტურა:
The figure below sets out the risk management structure of the Bank:



რისკის აპეტიტი

სამეთვალყურეო საბჭო იხილავს და ამტკიცებს რისკის აპეტიტს, რომელიც ხელს უწყობს ბანკის გრძელვადიან, მდგრად ზრდას და აბალანსებს გრძელვადიან მომგებიანობას პრუდენციული რისკების მართვასთან. რისკის აპეტიტი გამოიხატება რაოდენობრივი მაჩვენებლებით. ბანკი რისკის აპეტიტს იყენებს იმ რისკის დონეების განსასაზღვრად, რომლებიც შეუძლია და სურს აიღოს ბიზნეს საქმიანობის განსახორციელებლად.

RISK APPETITE

The supervisory Board discusses and approves the risk appetite, which supports the sustainable growth of the Bank and balances the long-term profitability with the prudential management of the risks. The risk appetite is expressed in quantitative indicators. The Bank employs it in order to define the risk levels it is willing and can take in the course of its business.

კაპიტალის დაგეგმვა

სამეთვალყურეო საბჭო აფასებს კაპიტალის მოთხოვნებს, რომელიც აუცილებელია როგორც ბიზნეს გეგმის მხარდასაჭერად, ისე სტრესული გარემოებების დასაძლევად.

CAPITAL PLANNING

The supervisory Board assesses the capital requirements, relevant to the business plan and overcoming the stress.

ლიკვიდობის დაგეგმვა

დირექტორატი ზედმიწევნით აფასებს ლიკვიდობის იმ დონეს, რომელიც ბანკს სჭირდება როგორც ბიზნეს გეგმის მხარდასაჭერად, ისე სტრესული გარემოებების დასაძლევად. 1 თვემდე, 3-დან 6 თვემდე, და 6-დან 12 თვემდე ლიკვიდობის პროგნოზირება ხაზინისა და რისკების მართვის დეპარტამენტის მიერ ხდება ყოველთვიურად და წარედგინება დირექტორატს.

LIQUIDITY PLANNING

The Board thoroughly assesses the liquidity level, necessary to the Bank in terms of the business plan and overcoming the stress. On a monthly basis, the Treasury and Risk Management Department forecasts the up to 1, 3-6 and 6-12 month liquidity and submits it to the Directorate.

რისკის მართვის მოდელი ბანკის დონეზე

რისკების სამართავად ბანკი იყენებს მართვის 3 ხაზიან მოდელს. მოდელი გამოიყენება ვალდებულებების და პასუხისმგებლობების გასამიჯნად, რათა მიღწეული იყოს მთლიანი რისკების ეფექტური მართვა, რომელიც ხელს უწყობს ბანკის შიდა კონტროლის ჩარჩოს გაძლიერებას.

დაცვის სამ ხაზიანი მიდგომა აცალკევებს მფლობელობა/რისკის მართვას იმ ფუნქციებისგან, რომლებიც ახდენენ რისკების ზედამხედველობას და ასევე იმ ფუნქციებისგან, რომელიც ახდენენ დამოუკიდებელ აუდიტს.

ბანკი, ბიზნესის წარმოებისას, დგება გარკვეული რისკების წინაშე. ბანკის ძირითადი რისკის კატეგორიები მოცემულია ქვემოთ:

- საკრედიტო რისკი
- საბაზრო რისკი
- საოპერაციო რისკი
- ლიკვიდობის რისკი
- სხვა არაფინანსური რისკები

THE RISK MANAGEMENT MODEL OF THE BANK

For the purpose of the risk management, the Bank uses the 3-line model. It is employed for delimitation of the liabilities and responsibilities required for efficient management of all the risks relevant to enhancement of the Bank's inner control framework.

The 3-line protection separates the ownerships/risk management from the risk supervision and also those of the independent audit.

In the course of business, the Bank faces certain risks, the main categories of which are given below:

- the credit risk
- the market risk
- the operational risk
- the liquidity risk
- other non-financial risks

საკრედიტო რისკების მართვა

საკრედიტო რისკის მართვა იწყება ბანკის უმაღლესი მენეჯმენტიდან.

საკრედიტო რისკის მართვასთან დაკავშირებით ბანკის რისკის მართვის კომიტეტს აქვს შემდეგი პასუხისმგებლობები:

- განსაზღვროს ბანკის რისკის ტოლერანტობა საკრედიტო რისკთან მიმართებაში;
- უზრუნველყოს ბანკში საკრედიტო რისკის იდენტიფიცირების, გაზომვის, მონიტორინგისა და კონტროლის ფუნდამენტური პრინციპების დანერგვა;
- დაადგინოს ბანკის ლიმიტები საკრედიტო პოზიციებსა და კონცენტრაციებზე;
- პერიოდულად განიხილოს ბანკის საკრედიტო პორტფელი და მისი რისკიანობა;
- პერიოდულად წარუდგინოს ბანკის დირექტორატს და სამეთვალყურეო საბჭოს ანგარიში ბანკში საკრედიტო რისკის მართვასთან დაკავშირებით;
- უზრუნველყოს საკრედიტო რისკის ამღები მმართველი განყოფილებები, საკრედიტო დეპარტამენტი და ფინანსური რისკების მართვის განყოფილება, შესაბამისი კვალიფიციური საკადრო და ტექნიკური რესურსით.

საკრედიტო რისკის პოლიტიკის პირველი ელემენტი არის რისკის იმ დონის განსაზღვრა, რომელიც ბანკს შეუძლია აიღოს. საკრედიტო რისკის ტოლერანტობა უნდა იქნას განსაზღვრული ბანკის კაპიტალის ოდენობის და ზოგადი რისკის აპეტიტის გათვალისწინებით.

THE CREDIT RISK MANAGEMENT

The credit risk management is top down.

Regarding the credit risk management, the Bank's Risk Management Committee bears the following responsibilities:

- to define the banks tolerance to the credit risk;
- to ensure introduction of the credit risk identification, measurement, monitoring and control principles at the Bank;
- to define the Bank limits on the credit positions and concentrations;
- from time to time to discuss the Bank's credit portfolio and its risks;
- from time to time to submit to the Directorate and the Supervisory Board the credit risk management report;
- to ensure availability of the qualified staff and equipment to the credit risk taking divisions, the Credit Department and Financial Risk Management division.

The first component of the credit risk policy is definition of the risk level that the Bank can take. The credit risk tolerance is to be defined with due regard to the Bank capital and its overall risk appetite.

საპროცენტო რისკის მართვა

საპროცენტო რისკის მართვა იწყება ბანკის უმაღლესი მენეჯმენტიდან.

საპროცენტო რისკის მართვასთან დაკავშირებით ბანკის რისკის მართვის კომიტეტს აქვს შემდეგი პასუხისმგებლობები:

- განსაზღვროს ბანკის რისკის ტოლერანტობა საპროცენტო რისკთან მიმართებაში;
- უზრუნველყოს ბანკში საპროცენტო რისკის იდენტიფიცირების, გაზომვის, მონიტორინგის და კონტროლის ფუნდამენტური პრინციპების დანერგვა;
- დაადგინოს სხვადასხვა ოპერაციების მიხედვით ბანკის ლიმიტები;
- პერიოდულად განიხილოს ბანკის ფიქსირებული შემოსავლის მქონე საინვესტიციო და სავაჭრო პორტფელის შედეგები და განიხილოს საბაზრო რისკის სტრატეგია;
- პერიოდულად წარუდგინოს ბანკის სამეთვალყურეო საბჭოს ანგარიში ბანკში საპროცენტო რისკის მართვასთან დაკავშირებით;
- უზრუნველყოს საპროცენტო რისკის ამღები და მმართველი სტრუქტურული ერთეულები შესაბამისი კვალიფიციური საკადრო და ტექნიკური რესურსით.

საპროცენტო რისკის პოლიტიკის პირველი ელემენტი არის რისკის იმ დონის განსაზღვრა, რომელიც ბანკს შეუძლია აიღოს. საპროცენტო რისკის ტოლერანტობა და აპეტიტი განისაზღვრება ბანკის კაპიტალის ოდენობის, და ზოგადად რისკის აპეტიტის გათვალისწინებით.

საპროცენტო რისკის ერთერთი მთავარი მხარეა საპროცენტო შემოსავლის მომტანი აქტივების და საპროცენტო ხარჯის მქონე ვალდებულებების სხვადასხვა ვადიანობის გამო საპროცენტო განაკვეთის ცვლილებით წარმოქმნილი რისკი. აღნიშნული რისკის გასაზომად ბანკი იყენებს "გადაფასების გეპის" მეთოდს, რომელიც ერთნაირ ვადიანი აქტივებს და ვალდებულებებს ადარებს ერთმანეთს თანხების მიხედვით. დანაკარგის მიღების შესაძლებელობა არის იმ შემთხვევაში, თუ ბანკს აქვს თანხობრივი გეპი ერთნაირი ვადის მქონე საპოცენტო შემოსავლის მომტან აქტივებსა და საპროცენტო ხარჯის მქონე ვალდებულებებს შორის და ბაზარზე იცვლება განაკვეთი.

INTEREST RISK MANAGEMENT

The interest risk management is top down.

Regarding the interest risk management, the Bank's Risk Management Committee bears the following responsibilities:

- to define the Bank's tolerance to the interest risk;
- to ensure introduction of the interest risk identification, measurement, monitoring and control principles at the Bank;
- to define the Bank's limits by for various operations;
- periodically consider Bank's fixed income investment and trading portfolio results and the market risk strategy;
- from time to time to submit to the Supervisory Board the interest risk management report;
- to ensure availability of the qualified staff and equipment to the interest risk taking and managing structural units.

The first component of the interest risk policy is definition of the risk level that the Bank can take. The interest risk tolerance is to be defined with due regard to the Bank capital and its overall risk appetite.

An important aspect of the interest risk is the risk created by the interest rate fluctuations caused by various term interest income assets and interest cost liabilities. To measure the risk, the Bank employs the „revaluation gap" method, which makes it possible to compare the similar term assets and liabilities in terms of the sums. The Bank may suffer loss if there is a gap between the similar term interest bearing assets and interest cost liabilities and the interest rate at the market changes.

სავალუტო რისკის მართვა

CURRENCY RISK MANAGEMENT

სავალუტო რისკი არის უცხოური ვალუტის გაცვლითი კურსის ცვლილებით გამოწვეული ბანკის უცხოურ ვალუტაში ფორმირებული წმინდა აქტივების გაუფასურების რისკი, რომელიც ამცირებს ბანკის კაპიტალს.

სავალუტო რისკის მართვა იწყება ბანკის უმაღლესი მენეჯმენტიდან.

სავალუტო რისკის მართვასთან დაკავშირებით ბანკის რისკის მართვის კომიტეტს აქვს შემდეგი პასუხისმგებლობები:

- განსაზღვროს ბანკის რისკის ტოლერანტობა სავალუტო რისკთან მიმართებაში;
- უზრუნველყოს ბანკში სავალუტო რისკის იდენტიფიცირების, გაზომვის, მონიტორინგისა და კონტროლის ფუნდამენტური პრინციპების დანერგვა;
- დაადგინოს ბანკის ლიმიტები ღია სავალუტო პოზიციაზე სხვადასხვა ვალუტების მიხედვით;
- პერიოდულად განიხილოს ბანკის სავალუტო პოზიციები როგორც ლიკვიდურ სახსრებში, ასევე გრძელვადიან საკრედიტო დაბანდებებში;
- პერიოდულად წარუდგინოს ბანკის სამეთვალყურეო საბჭოს ანგარიში ბანკში სავალუტო რისკის მართვასთან დაკავშირებით.

სავალუტო რისკების სამართავად ბანკში წესდება შემდეგი ლიმიტი: ყველა უცხოური ვალუტის მიხედვით ბანკის საერთო ღია სავალუტო პოზიციის ლიმიტი, როგორც საბალანსო და გარესაბალანსო ისე კრებსითი სავალუტო პოზიციების მიხედვით, არ უნდა აღემატებოდეს ბანკის საზედამხედველო კაპიტალის 20%-ს.

The currency risk is the risk of devaluation of the Bank's net assets formed in the foreign currency caused by change of the exchange rate, which reduces the Bank capital.

The currency risk management is top down.

Regarding the currency risk management, the Bank's Risk Management Committee bears the following responsibilities:

- to define the Bank's risk tolerance to the currency risk;
- to ensure introduction of the currency risk identification, measurement, monitoring and control principles at the Bank;
- to define the Bank limits for the open currency position by various currencies;
- from time to time to discuss the Bank's currency positions both for the liquid funds and the long-term credit investments;
- from time to time to submit to the Supervisory Board the currency risk management report.

For the purpose of the currency risk management, the Bank introduces the following limit: by all the currencies, the overall open currency position limit for the balance and off-balance consolidated currency risk positions is not to exceed 20% of the Bank's regulatory capital.

საოპერაციო რისკის მართვა

OPERATIONAL RISK MANAGEMENT

საოპერაციო რისკი წარმოადგენს დანაკარგის რისკს, რომელიც გამოწვეულია გაუმართავი ან ჩავარდნილი შიდა პროცესებით, ადამიანური რესურსებით და სისტემებით, ან გარე ფაქტორებით.

საოპერაციო რისკი ჩნდება ბანკის ყოველდღიური საქმიანობიდან გამომდინარე და დაკავშირებულია ბიზნესის ნებისმიერ მიმართულებასთან.

ბანკი ქართუ იდენტიფიცირებას უკეთებს, აფასებს და მართავს საოპერაციო რისკებს შემდეგი პროცესების და ინსტრუმენტების მეშვეობით:

- საოპერაციო რისკის მოვლენების ანგარიშგება
- სცენარების ანალიზი (RCA)
- რისკისა და კონტროლის თვითშეფასება (RCSA)
- რისკის მიღება

ზემოაღნიშნული პროცესების შედეგების ანალიზი სრულდება იმ მიზნით, რომ წარმოდგენა შეიქმნას ბანკში არსებული საოპერაციო რისკების პროფილის შესახებ ბანკის რისკ აპეტიტთან მიმართებაში. ანალიზის შედეგად ხორცილდება საოპერაციო რისკების მიტიგაცია ან მიღება (საჭიროების შემთხვევაში) რათა შემდგომში გათვალისწინებულ იქნას ბანკის ბიზნეს საქმიანობაში და სტრატეგიაში.

საოპერაციო რისკის მართვის ჩარჩოს ფარგლები მუდმივად ფართოვდება და ახლდება.

The operational risk is the risk of loss caused by inappropriate or failed inner procedures, human recourses and systems or outside factors.

The operational risk emerges in the day-to-day activities of the Bank and it is related to any aspect of the business.

Cartu Bank identifies, assesses and manages the operational risks by means of the processes and tools below:

- the operational risk event report
- scenario analysis (RCA)
- risk and control self-assessment (RCSA)
- risk acceptance

The analysis of the above processes aims at portraying the Bank's risk profile to its risk appetite. The analysis allows mitigation or, if required, acceptance of the risks to be later taken into account in its business activities and strategy.

The operational risk management scope is regularly expanded and updated.

ლიკვიდობის რისკის მართვა

LIQUIDITY RISK MANAGEMENT

ლიკვიდობის რისკი არის ბანკის რისკი, რომ ვერ მოახდინოს ვალდებულებების გასტუმრება დათქმულ ვადაში ან გაისტუმროს აქტივების მნიშვნელოვანი დისკონტირების გზით.

ლიკვიდობის რისკის პოლიტიკის პირველი ელემენტი არის რისკის იმ დონის განსაზღვრა, რომელიც ბანკს შეუძლია აიღოს. ლიკვიდობის რისკის ტოლერანტობა და აპეტიტი განისაზღვრება ბანკის კაპიტალის ოდენობის, და ზოგადი რისკის მიმართ ტოლერანტობის გათვალისწინებით.

ლიკვიდობის რისკის სტრატეგიის შემუშავებისას რისკების მართვის დეპარტამენტის ფინანსური რისკების მართვის და ხაზინის დეპარტამენტის აქტივ-პასივების მართვის განყოფილება ითვალისწინებს ზოგად ეკონომიკურ და საბაზრო მდგომარეობას და მათი შესაძლო ეფექტი ბანკის მიერ აღებულ ლიკვიდობის პოზიციებზე, დაფინანსების სხვადასხვა წყაროების და მათ შესახებ ხელმისაწვდომი ინფორმაციის შეფასების საფუძველზე.

სს „ბანკ ქართუში" ლიკვიდობის მართვა ძირითადად ხორციელდება მაკონტროლებელი ორგანოს მიერ დაწესებული ლიმიტებით. ბანკში სისტემატიურად ხორციელდება ფულადი ნაკადების დინების პროგნოზი ვალდებულებების და ლიკვიდური სახსრების სტატისტიკურ ანალიზზე და სხვა ზემოქმედ ფაქტორებზე დაყრდნობით.

ასევე, აღსანიშნავია ცვლილებები, რომელიც განხორციელდა 2019 წელს, კერძოდ:

- IFRS 9-ის მიზნებიდან გამომდინარე მოხდა სესხების მოდიფიკაციით მიღებული ფინანსური შედეგის ალგორითმის შემუშავება;
- საკრედიტო პორტფელში შემავალ ყველა მსესხებელზე სატესტო რეჟიმში განისაზღვრა საკრედიტო რისკის ქულა;
- დაინერგა საოპერაციო რისკების ინციდენტების აღრიცხვის განახლებული მიდგომა, რომელიც ბანკის მიერ საოპერაციო რისკების მართვას მეტად თვალსაჩინოს ხდის. ცვლილების შედეგად აღირიცხება საოპერაციო რისკის ისეთი დანაკარგებიც, რომელიც ბანკის მიერ, რისკების მართვის ეფექტური პოლიტიკიდან გამომდინარე იქნა თავიდან არიდებული ან დროულად ანაზღაურებული.

The Bank's liquidity risk implies its inability to meet its liabilities within the relevant term or by way of significant discount of its assets.

The first component of Bank's liquidity risk policy is to define the risk level it can accept. The liquidity risk tolerance and appetite is to be defined with due regard to the Bank capital and its tolerance to the overall risk.

In the developing of the liquidity risk strategy, the Financial Risk Management Division of the Risk Management Department and the Treasury Department division of assets and liabilities takes into account and overall economic and market situation and its potential affect on the Bank's liquidity positions by way of assessment of the information on various sources of founding.

At "Cartu Bank" JSC the liquidity management is mainly carried out by due regard to the limits set by the regulatory authority. The Bank regularly forecasts the cash flow relying on the statistical analysis of the liabilities, liquid funds etc. influence factors.

Among the changes implemented in 2019, we should mention:

- for the purposes of IFRS 9, we developed the algorithm of the financial result derived from the credit modification;
- the credit risk score for all the credit portfolio borrowers was tentatively defined;
- a new approach to registration of the operational risk events highlighting their management by the Bank was put in place. As a result, we now register the operational risk losses, which the Bank prevented or duly compensated owing to its efficient risk management policy.

საერთაშორისო ურთიერთობები

INTERNATIONAL RELATIONS

2019 წლის განმავლობაში საერთაშორისო ურთიერთობების დეპარტამენტის პირდაპირი და არაპირდაპირი ჩართულობით გამოსარჩევია შემდეგი ღონისძიებები:

- მოქმედ პარტნიორებთან არსებული ურთიერთობების შემდგომი განვითარება და ახალ საბანკო ინსტიტუტებთან თანამშრომლობის ჩამოყალიბება. კერძოდ, ამ წელს განხორციელდა რუსეთის რეზიდენტ ბანკებში - Alfa Bank-სა და Sber Bank-ში ნოსტრო საკორესპონდენტო ანგარიშების გახსნა აშშ დოლარში, ევროსა და რუსულ რუბლში, ხოლო თურქულ Nurol Bank-ში - აშშ დოლარში, ევროსა და თურქულ ლირაში;
- სს „ბანკი ქართუს" წარმომადგენლები მონაწილეობდნენ EBRD-ის ყოველწლიური ბიზნეს ფორუმის მუშაობაში, რომელიც ჩატარდა 2019 წლის მაისში, სარაევოში, ბოსნია-ჰერცეგოვინაში, აგრეთვე სვიფტის მიერ ორგანიზებულ ყოველწლიურ შეკრებაზე (SIBOS) ლონდონში.

Among the events taking place in 2019 through direct or indirect involvement of the International Relations Department we can single out the following:

- Furthering the relationships with the partners and launching collaborations with the new banking institutions. Namely, in 2019, nostro correspondent accounts in USD, Euro and Russian ruble were opened with Russia's resident Alfa Bank and Sber Bank and those in USD, Euro and the Turkish lira with the Turkish Nurol Bank;
- In May 2019, Cartu Bank' delegation attended the annual EBRD forum in Sarajevo, Bosnia-Herzegovina and also a SWIFT organized annual conference (SIBOS) in London.

საბარათე ბიზნესი

CARD BUSINESS

2019 წელს ბანკმა დაიწყო პრემიალური საბარათე პროდუქტების - ვიზა ინფინიტ (Visa Infinite) და მასტერქარდ ვორლდ ელიტ (Mastercard World Elite) პლასტიკური ბარათების პრომოცია და გაყიდვა.

ძალაში შევიდა და კლიენტებს წარედგინა პრემიალური პროდუქტების ყველა დამატებითი სერვისი - კონსიერჟ სერვისი, მსოფლიო ინტერნეტზე უფასო წვდომა, დიდი ფასდაკლებები მანქანების გაქირავებისას და მრავალი სხვა სერვისი:

- 2019 წელს ბანკის დირექტორატის გადაწყვეტილებით დაიწყო ინტენსიური მუშაობა ჩინეთის საერთაშორისო საგადახდო სისტემაში - UnionPay - ძირითადი წევრის სტატუსის მიღებაზე.
- მიმდინარეობს საერთაშორისო სისტემასთან ინტეგრაციის პროცედურები და 2020 წელს ბანკის პოს ტერმინალები და ბანკომატები შეძლებენ ჩინური ბარათების მომსახურებას.

In 2019, the Bank launched promotion and sale of the premium Visa Infinite and Mastercard World Elite cards.

All the additional services, such as the concierge service, free Internet worldwide access, big car rent discounts etc. are now available to the customers:

- By the Directorate resolution, we started working on acquiring the main member status of the Chinese UnionPay international payment system.
- The relevant intergrational procedures are being implemented and in 2020 the Bank terminals and ATM-s will be able to service the Chinese cards.

კორესპონდენტი ბანკები
CORRESPONDENT BANKS

Curr	Correspondent Bank	SWIFT/BIC	Account No
CHF	JSC Bank of Georgia Tbilisi GE	BAGAGE22	GE92BG0000000755204100
CHF	JSC Transcapitalbank Moscow, Russia	TJSCRUMM	30111756500000000134
CAD	JSC Bank of Georgia Tbilisi GE	BAGAGE22	GE92BG0000000755204100
EUR	JSC Alfabank Moscow, Russia	ALFARUMM	30111978000000000069
EUR	Yinzhou Bank Ningbo, China	YZBKCN2N	81011638304012640
EUR	LANDESBANK BADEN-WUERTTEMBERG STUTTGART, GE	SOLADEST	2807940
EUR	JSC Bank of Georgia Tbilisi GE	BAGAGE22	GE92BG0000000755204100
EUR	JSC Transcapitalbank Moscow, Russia	TJSCRUMM	30111978100000000134
EUR	PAO Sberbank Moscow, Russia	SABRRUMM	30111978100000001601
EUR	JSC Unistreambank Moscow, Russia	UMTNRUMM	30111978600000000297
EUR	Nurol Investment Bank INC Istanbul, Turkey	NUROTRIS	TR830014100000044116900002
GBP	JSC Transcapitalbank Moscow, Russia	TJSCRUMM	30111826100000000134
GBP	JSC Alfabank Moscow, Russia	ALFARUMM	30111826700000000039
GBP	JSC Bank of Georgia Tbilisi GE	BAGAGE22	GE92BG0000000755204100
RUB	Ardshinbank CJSC Yerevan, AM	ASHBAM22	2470053460740020
RUB	JSC Alfabank Moscow, Russia	ALFARUMM	30111810700000000317

(31.12.2019)

კორესპონდენტი ბანკები
CORRESPONDENT BANKS

Curr	Correspondent Bank	SWIFT/BIC	Account No
RUB	ZAO Raiffeisenbank Moscow, Russia	RZBMRUMM	30111810200000000002
RUB	PAO Sberbank Moscow, Russia	SABRRUMM	30111810200000001601
RUB	JSC Transcapitalbank Moscow, Russia	TJSCRUMM	30111810200000000134
USD	JSC Alfabank Moscow, Russia	ALFARUMM	30111840900000000093
USD	Ardshinbank CJSC Yerevan, AM	ASHBAM22	2470053460740010
USD	JSC Bank of Georgia Tbilisi GE	BAGAGE22	GE92BG0000000755204100
USD	JSC Transcapitalbank Moscow, Russia	TJSCRUMM	30111840500000000134
USD	Yinzhou Bank Ningbo, China	YZBKCN2N	81011614304014763
USD	PAO Sberbank Moscow, Russia	SABRRUMM	30111840500000001601
USD	JSC Unistreambank Moscow, Russia	UMTNRUMM	30111840000000000297
USD	Nurol Investment Bank INC Istanbul, Turkey	NUROTRIS	TR560014100000044116900003
AMD	Ardshinbank CJSC Yerevan, AM	ASHBAM22	2470053460740000
NOK	JSC Bank of Georgia Tbilisi, GE	BAGAGE22	GE92BG0000000755204100
RMB	Yinzhou Bank Ningbo, China	YZBKCN2N	81011601304010267
TRY	Nurol Investment Bank INC Istanbul, Turkey	NUROTRIS	TR130014100000044116900001
JPY	JSC Bank of Georgia Tbilisi, GE	BAGAGE22	GE92BG0000000755204100

(31.12.2019)

ბანკის ოფისები 2019

BANK OFFICES 2019

თბილისი / Tbilisi

ცენტრალური სერვისცენტრი
Central Service Center

ი. ჭავჭავაძის გამზ., N39ა
39a I. Chavchavadze Ave.

ვაკის სერვისცენტრი
Vake Service Center

ი. აბაშიძის ქ., N24
24 I. Abashidze Str.

საბურთალოს სერვისცენტრი
Saburtalo Service Center

პეკინის ქ., N14ბ
14b Pekini Str.

მთაწმინდის სერვისცენტრი
Mtatsminda Service Center

ვ. ვეკუას ქ., N1
#1 V. Vekua Str.

ისნის სერვისცენტრი
Isani Service Center

ქეთევან დედოფლის გამზ./ბოჭორმის ქ. N50/18
50/18 Queen Ketevan Ave./Bochorma Str.

რეგიონები / Regions

ბათუმის სერვისცენტრი
Batumi Service Center

ა. გრიბოედოვის ქ., N2
2 A. Griboedov Str.

ბათუმის სერვისცენტრის შეკვეთილის განყოფილება
Batumi Service Center

Shekvetili Section
Paragraph resort & spa Shekvetili, Autograph Collection Hotels

ქუთაისის სერვისცენტრი
Kutaisi Service Center

ზ. ფალიაშვილის ქ., N4
4 Z. Paliashvili Str.

გორის სერვისცენტრი
Gori Service Center

სტალინის გამზ., N10
10 Stalini Ave.

თელავის სერვისცენტრი
Telavi Service Center

ი. ჭავჭავაძის მოედანი
I. Chavchavadze Sq.

JSC Cartu Bank and Subsidiaries

Consolidated financial statements

Year ended 31 December 2019
together with independent auditor's report

Contents

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Independent auditor's report

To the Shareholders and the Board of Directors of JSC Cartu Bank

Opinion

We have audited the consolidated financial statements of JSC Cartu Bank and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 a summary of significant accounting policies.

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 2019 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' *Code of Ethics for Professional Accountants (including International Independence Standards)* (*IESBA Code*), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 13 May 2019.

Other information included in the Group's 2019 Annual report

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

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working world

- 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

For and on behalf of EY LLC

Tbilisi, Georgia

16 June 2020

Consolidated statement of financial position

As at 31 December 2019

(thousands of Georgian lari)

	Notes	*2019*	*2018*
Assets			
Cash and cash equivalents	5	147,598	124,535
Amounts due from credit institutions	6	168,905	150,535
Loans to customers	7	879,329	821,895
Investment securities	8	42,526	19,352
Property and equipment	9	13,020	12,583
Right of use assets	10	5,436	–
Intangible assets	11	4,395	5,222
Income tax asset		2,311	7,225
Deferred income tax asset	16	333	–
Other assets	12	73,034	72,147
Total assets		**1,336,887**	**1,213,494**
Liabilities			
Amounts due to credit institutions	13	13	15,106
Amounts due to customers	14	778,274	641,862
Provisions	18	3,188	3,797
Current income tax liability		1,650	–
Deferred income tax liability	16	7,787	8,637
Lease liabilities	10	5,680	–
Other liabilities	12	10,364	7,380
Subordinated debt	15	206,500	190,595
Total liabilities		**1,013,456**	**867,377**
Equity			
Share capital	17	114,430	114,430
Additional paid–in capital	17	12,667	12,667
Retained earnings		195,670	218,946
Total equity attributable to shareholders of the Bank		**322,767**	**346,043**
Non–controlling interests		664	74
Total equity		**323,431**	**346,117**
Total equity and liabilities		**1,336,887**	**1,213,494**

Signed and authorized for release on behalf of the Board of Directors of the Bank on 16 June 2020:

Nato Khaindrava — General Director

Givi Lebanidze — Chief Financial Officer

The accompanying selected explanatory notes on pages 8 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

(thousands of Georgian lari)

	Notes	*2019*	*2018*
Interest revenue calculated using effective interest rate			
Loans to customers		86,504	83,696
Investment securities		2,543	1,818
Amounts due from credit institutions		5,518	6,172
Other interest income		53	–
		94,618	**91,686**
Interest expense			
Amounts due to credit institutions		(372)	(1,275)
Amounts due to customers		(18,069)	(18,254)
Subordinated debt		(11,956)	(11,162)
Lease liabilities		(602)	–
		(30,999)	**(30,691)**
Net interest income		**63,619**	**60,995**
Credit loss expense on interest bearing assets	19	(15,275)	(3,026)
Net interest income after credit loss expense		**48,344**	**57,969**
Fee and commission income	20	6,930	6,803
Fee and commission expense	20	(6,652)	(6,362)
Net gains/(losses) from foreign currencies		8,412	(3,959)
- *dealing*		5,584	6,360
- *translation differences*		2,828	(10,319)
Other income, net	21	4,775	8,085
Non–interest income		**13,465**	**4,567**
Personnel expenses	22	(14,432)	(11,940)
Other operating expenses	22	(13,432)	(13,655)
Depreciation and amortisation	9, 10, 11	(4,081)	(2,640)
Other impairment and provisions	19	(3,711)	(1,783)
Non–interest expenses		**(35,656)**	**(30,018)**
Profit before income tax		**26,153**	**32,518**
Income tax expense	16	(3,839)	(6,314)
Net profit for the period		**22,314**	**26,204**
Other comprehensive income		–	–
Total comprehensive income for the year		**22,314**	**26,204**
Attributable to:			
– shareholders of the Bank		21,724	26,200
– non–controlling interests		590	4
		22,314	**26,204**

The accompanying selected explanatory notes on pages 8 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2019

(thousands of Georgian lari)

	Attributable to shareholders of the Bank					
	Share capital	*Additional paid–in capital*	*Retained earnings*	*Total*	*Non–controlling interests*	*Total equity*
1 January 2018	**114,430**	**13,795**	**213,496**	**341,721**	**(15)**	**341,706**
IFRS 9 Transition	**–**	**–**	**(2,515)**	**(2,515)**	**–**	**(2,515)**
Profit for the year	–	–	26,200	**26,200**	4	**26,204**
Other comprehensive income for the year	–	–	–	**–**	–	**–**
Total comprehensive income for the year	**–**	**–**	**26,200**	**26,200**	**4**	**26,204**
Decrease in NCI from acquisition of additional interest in JSC Insurance Company Cartu	–	–	(85)	**(85)**	85	**–**
Dividends declared and disbursed (Note 17)	–	–	(20,000)	**(20,000)**	–	**(20,000)**
Transferred to retained earnings	–	(1,572)	1,572	**–**	–	**–**
Additional paid–in capital (Note 15)	–	522	–	**522**	–	**522**
Income tax on additional paid–in capital (Note 15)	–	(78)	278	**200**	–	**200**
31 December 2018	**114,430**	**12,667**	**218,946**	**346,043**	**74**	**346,117**
Profit for the year	–	–	21,724	**21,724**	590	**22,314**
Other comprehensive income for the year	–	–	–	**–**	–	**–**
Total comprehensive income for the year	**–**	**–**	**21,724**	**21,724**	**590**	**22,314**
Dividends declared and disbursed (Note 17)	–	–	(45,000)	**(45,000)**	–	**(45,000)**
31 December 2019	**114,430**	**12,667**	**195,670**	**322,767**	**664**	**323,431**

The accompanying selected explanatory notes on pages 8 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of Cash Flows

For the year ended 31 December 2019

(thousands of Georgian lari)

	Notes	*2019*	*2018*
Cash flows from operating activities:			
Profit before income tax		**26,153**	**32,518**
Adjustments for non–cash Items:			
Provision for impairment losses on interest bearing assets		15,275	3,026
Provision for impairment losses on non interest bearing assets		823	(47)
Provision on other operations		2,888	1,830
Modification (loss)/gain		891	(848)
Net gain on disposal of property and equipment		(62)	(5,700)
Net gain on disposal of repossessed assets		(542)	-
Depreciation and amortization expense		4,081	2,640
Change in interest accruals, net		(2,067)	(15,364)
(Gain)/loss on foreign exchange operations		(2,828)	10,319
Cash inflow from operating activities before changes in operating assets and liabilities		**44,612**	**28,374**
Changes in operating assets and liabilities			
Amounts due from credit institutions		(4,576)	(4,397)
Loans to customers		(26,229)	19,108
Other assets		(145)	(6,621)
Amounts due to credit institutions		(15,518)	(4,346)
Amounts due to customers		102,705	(78,488)
Other liabilities		38	(723)
Cash inflow/(outflow) from operating activities before taxation		**100,887**	**(47,093)**
Income tax paid		(1,419)	(9,060)
Net cash inflow/(outflow) from operating activities		**99,468**	**(56,153)**
Cash flows from investing activities:			
Purchase of property and equipment		(2,450)	(75)
Purchase of intangible assets		(323)	(144)
Proceeds from sale of property and equipment		560	–
Proceeds from sale of repossessed assets		3,056	15,142
Proceeds from investments securities at amortised cost		33,460	27,692
Acquisition of investments securities at amortised cost		(55,817)	(19,023)
Net cash (outflow)/inflow from investing activities		**(21,514)**	**23,592**
Cash flows from financing activities:			
Payment of dividends		(45,000)	(20,000)
Purchase of share		–	(85)
Proceeds from subordinated debt		–	4,303
Repayment of subordinated debt		–	(29,987)
Repayment of other borrowed funds		–	(24,953)
Payment of lease liabilities		(1,173)	–
Net cash outflow from financing activities		**(46,173)**	**(70,722)**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(8,718)	3,174
Net increase/(decrease) in cash and cash equivalents		**23,063**	**(100,109)**
Cash and cash equivalents, beginning	5	124,535	224,644
Cash and cash equivalents, ending	5	**147,598**	**124,535**

The accompanying selected explanatory notes on pages 8 to 50 are an integral part of these consolidated financial statements.

(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, trading with securities, foreign currencies and taking deposits.

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

As at 31 December 2019 and 2018, the Bank had five service centers 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 consolidated in the financial statements:

		Ownership interest (%)		
Name	***Country of operation***	***2019***	***2018***	***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 2019 and 2018 JSC the Cartu Group ("Parent" or "Shareholder") owned 100% of the Bank's shares. The Group is ultimately owned 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 Bank. 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"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases − Incentives* and SIC–27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on–balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short–term leases'), and lease contracts for which the underlying asset is of low value ('low–value assets').

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rates as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9.5%.

Right–of–use asset was measured on transition at an amount equal to the lease liability, adjusted by the amount of any prepaid amounts recognized immediately before the date of initial application. As a result, the Group did not recognize any transition effect on its retained earnings on 1 January 2019.

The effect of transition to IFRS 16 on the Group's financial statements at 1 January 2019 was as follows (nil effect on equity):

Assets	
Right of use assets	6,853
Total assets	**6,853**
Liabilities	
Lease liabilities	6,853
Total liabilities	**6,853**
Total adjustment on equity	**–**

The below table shows the reconciliation between the operating lease commitments disclosed by the Group as at 31 December 2018 and the Lease liabilities recognized under the new standard as at 1 January 2019:

Lease liabilities recognized as at 1 January 2019	**6,853**
Effect of discounting using incremental borrowing rate as at 1 January 2019	1,771
Add:	
Commitments related to short–term leases	480
Other (VAT expense)	823
Operating lease commitment at 31 December 2018	**9,927**

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight–line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short–term leases and leases of low–value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Leases previously accounted for as operating leases

The Group recognised right–of–use assets and lease liabilities for those leases previously classified as operating leases, except for short–term leases and leases of low–value assets. The right–of–use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right–of–use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short–term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right–of–use asset at the date of initial application;

Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Group as a lessee

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

Right–of–use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in–substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

Short–term leases 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.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

The Bank determines the lease term as the non–cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- ► Whether an entity considers uncertain tax treatments separately;
- ► The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- ► How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- ► How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

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. Specifically, the Group controls an investee if, and only if, the Group has:

- ► Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ► Exposure, or rights, to variable returns from its involvement with the investee;
- ► The ability to use its power over the investee to affect its returns.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra–group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non–controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non–controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss

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 Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. 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 the 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 the 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 accounting policies (continued)

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

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

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

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below:

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument–by–instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Letters of credit and undrawn loan commitments

The Group issues letters of credit and loan commitments. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre–specified terms to the customer.

Performance guarantees

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

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2019.

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 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 Bank 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. Asset that has been classified as credit–impaired as the result of modification, can be recorded as Stage 2 or Stage 3 if certain criteria are met according to the Group’s approved methodology.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Write–off

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

Financial liabilities

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

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

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 Bank'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.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set–off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Taxation

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

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.

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. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

Depreciation of an asset begins when it is available for use. 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%

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

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

Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic lives of 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.

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.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

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.

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

When a financial asset becomes credit–impaired, the 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.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate.

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 separate performance obligation.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as 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.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in 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. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies − translation differences. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official GEL exchange rates at 31 December 2019 and 2018 were 2.8677 GEL and 2.6766 GEL to 1 USD, respectively, 3.2095 GEL and 3.0701 GEL to 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 financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark–based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark–based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk–free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier.
The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non–life, direct insurance and re–insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short–duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group will continue to assess the potential effect of IFRS 17 on its consolidated financial statements.

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 the 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 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.

The amount of allowance for loans to customers, investment securities and credit related commitments recognized in the consolidated statement of financial position at 31 December 2019 was GEL 113,568 (2018: GEL 92,841), GEL 409 (2018: GEL 14) and GEL 1,350 (2018: GEL 1,669) respectively. Refer to Note 7, Note 8 and Note 18.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded 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.

(thousands of Georgian lari)

4. Significant accounting judgments and estimates (continued)

Valuation of repossessed assets

Repossessed assets are initially recognized at cost (net book value of the loan) and subsequently measured at the lower of carrying amount and fair value less costs to sell.

The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. The values of most of the assets have been estimated using the market approach. Additional details are provided in Note 12.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2019	***2018***
Cash on hand	16,965	18,226
Current accounts with the NBG	3,380	2,130
Current accounts with other credit institutions	108,236	16,140
Time deposits with credit institutions up to 90 days	19,037	88,085
Less − allowance for impairment	(20)	(46)
Cash and cash equivalents	**147,598**	**124,535**

As at 31 December 2019, current accounts and time deposit accounts with credit institutions denominated in USD, GEL and EUR represent 65%, 9% and 25% of total current and time deposit accounts respectively (31 December 2018: USD 52%, 41GEL %, EUR 3%).

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

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2019	***2018***
Mandatory reserve with the NBG	164,100	138,191
Time deposits for more than 90 days	4,848	12,392
Less − allowance for impairment	(43)	(48)
Amounts due from credit institutions	**168,905**	**150,535**

In 2019 the credit institutions are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% and 25% (2018: 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.

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 2019 is as follows:

	Gross carrying value	***ECL***
As at 1 January 2019	**150,583**	**48**
New assets originated	22,025	54
Assets repaid	(13,325)	(61)
Foreign exchange and other movements	9,665	2
At 31 December 2019	**168,948**	**43**

(thousands of Georgian lari)

6. 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 during the year ended 31 December 2018 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2018	**138,825**	**5**
New assets originated	21,992	48
Assets repaid	(14,083)	(5)
Foreign exchange and other movements	3,849	–
At 31 December 2018	**150,583**	**48**

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

7. Loans to customers

Loans to customers comprise:

	2019	*2018*
Corporate loans	960,744	870,454
Loans to individuals	32,153	44,282
Gross loans to customers at amortized cost	**992,897**	**914,736**
Less − allowance for impairment	(113,568)	(92,841)
Loans to customers at amortized cost	**879,329**	**821,895**

An analysis of changes in the gross carrying value in relation to corporate lending during the year ended 31 December 2019 is as follows:

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2019	**412,446**	**107,288**	**350,720**	**–**	**870,454**
New assets originated or purchased	503,428	4,213	75,443	116,857	**699,941**
Assets repaid or derecognised	(393,242)	(27,050)	(230,006)	(285)	**(650,583)**
Transfers to Stage 1	19,916	(6,840)	(13,076)	–	**–**
Transfers to Stage 2	(25,989)	34,946	(8,957)	–	**–**
Transfers to Stage 3	(2,868)	(68,324)	71,192	–	**–**
Unwinding of discount	–	–	4,728	–	**4,728**
Changes to contractual cash flows due to modifications not resulting in derecognition	(858)	–	6	–	**(852)**
Recoveries	–	–	18,929	–	**18,929**
Amounts written off	–	–	(17,906)	–	**(17,906)**
Foreign exchange and other movements	8,107	1,830	27,202	(1,106)	**36,033**
At 31 December 2019	**520,940**	**46,063**	**278,275**	**115,466**	**960,744**

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2019	**4,855**	**7,117**	**78,478**	**–**	**90,450**
New assets originated or purchased	4,685	20	16,197	29,685	**50,587**
Assets repaid or derecognised	(5,846)	(311)	(54,279)	(1)	**(60,437)**
Transfers to Stage 1	3,405	(155)	(3,250)	−	**–**
Transfers to Stage 2	(523)	2,025	(1,502)	−	**–**
Transfers to Stage 3	(256)	(8,834)	9,090	−	**–**
Impact on period end ECL of exposures transferred between stages during the period	(3,241)	79	2,567	−	**(595)**
Unwinding of discount (recognised in interest revenue)	−	−	4,728	−	**4,728**
Changes due to modifications not resulting in derecognition	(7)	−	−	−	**(7)**
Recoveries	−	−	18,929	−	**18,929**
Amounts written off	−	−	(17,906)	−	**(17,906)**
Foreign exchange and other movements	50	751	25,328	(62)	**26,067**
At 31 December 2019	**3,122**	**692**	**78,380**	**29,622**	**111,816**

(thousands of Georgian lari)

7. 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 2019 is as follows:

Loans to individuals at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**35,925**	**1,683**	**6,674**	**44,282**
New assets originated	19,224	1,131	548	**20,903**
Assets repaid or derecognised	(29,399)	(3,450)	(1,590)	**(34,439)**
Transfers to Stage 1	5	–	(5)	**–**
Transfers to Stage 2	(1,589)	1,609	(20)	**–**
Transfers to Stage 3	(19)	(446)	465	**–**
Unwinding of discount	–	–	65	**65**
Changes to contractual cash flows due to modifications not resulting in derecognition	(39)	–	–	**(39)**
Foreign exchange and other movements	1,274	206	(99)	**1,381**
At 31 December 2019	**25,382**	**733**	**6,038**	**32,153**

Loans to individuals at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**100**	**141**	**2,150**	**2,391**
New assets originated	39	42	22	**103**
Assets repaid or derecognised	(27)	(44)	(316)	**(387)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(3)	3	–	**–**
Transfers to Stage 3	–	(85)	85	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	7	2	**9**
Unwinding of discount (recognised in interest revenue)	–	–	65	**65**
Foreign exchange and other movements	(23)	(22)	(384)	**(429)**
At 31 December 2019	**86**	**42**	**1,624**	**1,752**

An analysis of changes in the gross carrying value in relation to corporate lending during the year ended 31 December 2018 is as follows:

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**452,650**	**86,615**	**317,570**	**856,835**
New assets originated	271,964	8,248	54,478	**334,690**
Assets repaid or derecognised	(236,017)	(27,748)	(85,832)	**(349,597)**
Transfers to Stage 1	6,476	(6,476)	–	**–**
Transfers to Stage 2	(95,918)	100,080	(4,162)	**–**
Transfers to Stage 3	–	(57,243)	57,243	**–**
Unwinding of discount	–	–	2,173	**2,173**
Recoveries	–	–	178	**178**
Amounts written off	–	–	(2,660)	**(2,660)**
Foreign exchange and other movements	13,291	3,812	11,732	**28,835**
At 31 December 2018	**412,446**	**107,288**	**350,720**	**870,454**

(thousands of Georgian lari)

7. Loans to customers (continued)

Corporate loans at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**5,020**	**2,938**	**80,327**	**88,285**
New assets originated	16,094	974	24,941	**42,009**
Assets repaid or derecognised	(2,563)	(10,543)	(32,359)	**(45,465)**
Transfers to Stage 1	3	(3)	–	**–**
Transfers to Stage 2	(13,114)	13,116	(2)	**–**
Transfers to Stage 3	–	(5,597)	5,597	**–**
Impact on period end ECL of exposures transferred between stages during the period	(864)	8,754	4,436	**12,326**
Unwinding of discount (recognised in interest revenue)	–	–	2,173	**2,173**
Recoveries	–	–	178	**178**
Amounts written off	–	–	(2,660)	**(2,660)**
Foreign exchange and other movements	279	(2,522)	(4,153)	**(6,396)**
At 31 December 2018	**4,855**	**7,117**	**78,478**	**90,450**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2018 is as follows:

Loans to individuals at amortized cost, gross	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**35,779**	**821**	**7,002**	**43,602**
New assets originated	13,847	74	1,422	**15,343**
Assets repaid or derecognised	(12,600)	(281)	(1,302)	**(14,183)**
Transfers to Stage 1	57	(57)	–	**–**
Transfers to Stage 2	(1,681)	1,681	–	**–**
Transfers to Stage 3	–	(603)	603	**–**
Foreign exchange and other movements	523	48	(1,051)	**(480)**
At 31 December 2018	**35,925**	**1,683**	**6,674**	**44,282**

Loans to individuals at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**141**	**38**	**1,646**	**1,825**
New assets originated	151	4	502	**657**
Assets repaid or derecognised	(82)	(6)	(36)	**(124)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(9)	9	–	**–**
Transfers to Stage 3	–	(4)	4	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	99	104	**203**
Foreign exchange and other movements	(101)	1	(70)	**(170)**
At 31 December 2018	**100**	**141**	**2,150**	**2,391**

(thousands of Georgian lari)

7. Loans to customers (continued)

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 loss suffered by the Group.

	2019	*2018*
Loans modified during the period		
Amortised cost before modification	36,236	–
Net modification loss	(891)	–
Loans modified since initial recognition		
Gross carrying amount at 1 January of loans for which loss allowance has changed to 12–month measurement during the period	5,576	–

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 2019***	***ECL as at 31 December 2019***	***Net carrying amount as at 31 December 2019***
Loans collateralized by pledge of real estate	797,186	(78,689)	718,497
Loans collateralized by pledge of cash	12,715	(9)	12,706
Loans collateralized by pledge of equipment	39,500	(8,382)	31,118
Loans collateralized by pledge of Inventory	80,323	(1,589)	78,734
Other collateral	3,374	(2,393)	981
Unsecured loans	59,799	(22,506)	37,293
Total	**992,897**	**(113,568)**	**879,329**

Type of collateral	***Gross carrying amount at 31 December 2018***	***ECL as at 31 December 2018***	***Net carrying amount as at 31 December 2018***
Loans collateralized by pledge of real estate	764,348	(48,369)	715,978
Loans collateralized by pledge of cash	11,363	(551)	10,811
Loans collateralized by pledge of equipment	64,107	(16,340)	47,768
Loans collateralized by pledge of Inventory	20,323	(1,030)	19,293
Other collateral	14,074	(1,628)	12,447
Unsecured loans	40,521	(24,923)	15,598
Total	**914,736**	**(92,841)**	**821,895**

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(thousands of Georgian lari)

7. Loans to customers (continued)

Collateral and other credit enhancements (continued)

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. The fair value of collaterals are reassessed as at 31 December 2019 and 2018.

Concentration of loans to customers

As at 31 December 2019, the Bank had a concentration of loans due from 6 major groups of borrowers in the total exposure of GEL 308,703 that represented 31.2% of the total gross loan portfolio (31 December 2018: GEL 281,882 with 30.9% of the gross loan portfolio). An allowance of GEL 31,491 (31 December 2018: an allowance of GEL 38,562) was recognised against these loans.

Loans are made within Georgia in the following industry sectors:

	2019	*2018*
Trade and services	381,108	337,815
Manufacturing	298,013	242,285
Construction	194,394	197,366
Agriculture	51,060	50,822
Individuals	32,153	44,282
Energy	14,572	2,735
Transport and communication	194	27,064
Other	21,403	12,367
	992,897	**914,736**

8. Investment securities

Investment securities comprise:

	2019	*2018*
Debt securities at amortised cost		
Treasury bills of the Ministry of Finance of Georgia	13,471	13,724
Certificates of deposit of the National Bank of Georgia	7,916	5,585
Treasury notes of the Ministry of Finance of Georgia	3,688	–
Debt securities of non–financial corporations	17,803	–
	42,878	**19,309**
Less − allowance for impairment	(409)	(14)
Total debt securities	**42,469**	**19,295**

Equity securities at FVOCI	***% of ownership***		
Investment in OJSC United Clearing Center	6.25%	54	54
Investment in JSC GSCD	0.27%	3	3
Investment in JSC United finance corporation	0.47%	–	–
Equity securities at FVOCI		**57**	**57**

As at 31 December 2019 and 2018, management estimated fair value of investment equity instruments and concluded that fair value approximates to its cost.

(thousands of Georgian lari)

8. Investment securities (continued)

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

	Treasury bills of the Ministry of Finance of Georgia	*Certificates of deposit of the National Bank of Georgia*	*Treasury notes of the Ministry of Finance of Georgia*	*Debt securities of non–financial corporations*	*Total*
Gross carrying value as at 1 January 2019	**13,724**	**5,585**	**–**	**–**	**19,309**
New assets originated	17,500	18,276	3,575	16,466	**55,817**
Assets repaid	(17,563)	(15,897)	–	–	**(33,460)**
Foreign exchange and other movements	(190)	(48)	113	1,337	**1,212**
At 31 December 2019	**13,471**	**7,916**	**3,688**	**17,803**	**42,878**

	Treasury bills of the Ministry of Finance of Georgia	*Certificates of deposit of the National Bank of Georgia*	*Treasury notes of the Ministry of Finance of Georgia*	*Debt securities of non–financial corporations*	*Total*
ECL as at 1 January 2019	**14**	**–**	**–**	**–**	**14**
New assets originated	42	–	33	343	**418**
Assets repaid	(4)	–	–	–	**(4)**
Foreign exchange and other movements	(30)	–	(13)	24	**(19)**
At 31 December 2019	**22**	**–**	**20**	**367**	**409**

	Treasury bills of the Ministry of Finance of Georgia	*Certificates of deposit of the National Bank of Georgia*	*Total*
Gross carrying value as at 1 January 2018	**21,005**	**6,946**	**27,951**
New assets originated	8,685	10,338	**19,023**
Assets repaid	(14,362)	(13,330)	**(27,692)**
Other movements	(1,604)	1,631	**27**
At 31 December 2018	**13,724**	**5,585**	**19,309**

	Treasury bills of the Ministry of Finance of Georgia	*Certificates of deposit of the National Bank of Georgia*	*Total*
ECL as at 1 January 2018	**27**	**–**	**27**
New assets originated	14	–	**14**
Assets repaid	(27)	–	**(27)**
Other movements	–	–	**–**
At 31 December 2018	**14**	**–**	**14**

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

(thousands of Georgian lari)

9. 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 2018	**10,360**	**6,869**	**7,171**	**2,220**	**202**	**26,822**
Additions	–	41	–	–	34	**75**
Transfers	–	–	194	–	(194)	**–**
Disposals	–	(134)	–	–	–	**(134)**
31 December 2018	**10,360**	**6,776**	**7,365**	**2,220**	**42**	**26,763**
Additions	–	19	395	1,337	698	**2,449**
Disposals and write–offs	–	(14)	(1,062)	(1,821)	(473)	**(3,370)**
31 December 2019	**10,360**	**6,781**	**6,698**	**1,736**	**267**	**25,842**
Accumulated depreciation						
1 January 2018	**1,900**	**5,103**	**4,269**	**1,488**	**–**	**12,760**
Depreciation charge	249	403	815	87	–	**1,554**
Disposals and write–offs	–	(134)	–	–	–	**(134)**
31 December 2018	**2,149**	**5,372**	**5,084**	**1,575**	**–**	**14,180**
Depreciation charge	249	50	831	383	–	**1,513**
Disposals and write–offs	–	(14)	(1,057)	(1,800)	–	**(2,871)**
31 December 2019	**2,398**	**5,408**	**4,858**	**158**	**–**	**12,822**
Net book value						
1 January 2018	**8,460**	**1,766**	**2,902**	**732**	**202**	**14,062**
31 December 2018	**8,211**	**1,404**	**2,281**	**645**	**42**	**12,583**
31 December 2019	**7,962**	**1,373**	**1,840**	**1,578**	**267**	**13,020**

As at 31 December 2019 fully depreciated items amounted GEL 5,162 (2018: GEL 7,219).

10. Right of use assets

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

	Right of use assets – Buildings	*Lease liabilities*
As at 1 January 2019	**6,853**	**6,853**
Depreciation expense	(1,417)	
Interest expense	–	602
Payments	–	(1,775)
As at 31 December 2019	**5,436**	**5,680**

The Group recognised rent expense of GEL 258 from short–term and other operating leases for the period ended 31 December 2019.

(thousands of Georgian lari)

11. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
1 January 2018	**7,494**	**2,106**	**9,600**
Additions	35	109	**144**
Disposals and write offs	(292)	(38)	**(330)**
31 December 2018	**7,237**	**2,177**	**9,414**
Additions	218	106	**324**
Disposals and write offs	(730)	(73)	**(803)**
31 December 2019	**6,725**	**2,210**	**8,935**
Accumulated amortization			
1 January 2018	**2,278**	**1,158**	**3,436**
Amortisation charge	960	126	**1,086**
Disposals and write offs	(292)	(38)	**(330)**
31 December 2018	**2,946**	**1,246**	**4,192**
Amortisation charge	931	220	**1,151**
Disposals and write offs	(730)	(73)	**(803)**
31 December 2019	**3,147**	**1,393**	**4,540**
Net book value			
1 January 2018	**5,216**	**948**	**6,164**
31 December 2018	**4,291**	**931**	**5,222**
31 December 2019	**3,578**	**817**	**4,395**

12. Other assets and liabilities

Other assets comprise:

	2019	*2018*
Other non–financial assets		
Repossessed assets	60,702	63,613
Reinsurance receivable	2,958	2,108
Prepaid taxes other than income tax	1,892	1,321
Advances paid	707	786
Inventory	126	111
Other	120	142
	66,505	**68,081**
Other financial assets		
Insurance premium receivable	4,431	2,863
Accounts receivable	1,576	1,463
Claims for guarantees paid	1,764	159
Less: allowance for impairment of other assets	(1,242)	(419)
Total other assets	**73,034**	**72,147**

An analysis of changes in the ECLs for stage 3 other financial assets for the year ended 31 December 2019 and 2018 is as follows:

	2019	*2018*
ECL at 1 January 2019	**419**	**466**
ECL charge/(reversal)	823	(47)
At 31 December 2019	**1,242**	**419**

Repossessed assets as at 31 December 2019 include land and buildings in the amount of GEL 60,702 (31 December 2018: GEL 63,613), which are measured at the lower of its carrying amount and fair value less cost to sell.

(thousands of Georgian lari)

12. Other assets and liabilities (continued)

Other liabilities comprise:

	2019	2018
Other financial liabilities		
Payables for reinsurance liabilities	3,413	2,538
Accounts payable	2,281	769
	5,694	**3,307**
Other non–financial liabilities		
Unearned premium	3,866	3,006
Provision for insurance reserves	529	710
Taxes other than income tax	–	14
Other	275	343
	4,670	**4,073**
Total other liabilities	**10,364**	**7,380**

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2019	*2018*
Current accounts from resident commercial banks	13	25
Short–term deposits from resident commercial banks	–	15,081
Amounts due to credit institutions	**13**	**15,106**

14. Amounts due to customers

The amounts due to customers include the following:

	2019	*2018*
Current and demand accounts	437,477	340,811
Time deposits (including certificates of deposit)	340,797	301,051
Amounts due to customers	**778,274**	**641,862**

As at 31 December 2019, amounts due to customers included balances with ten largest customers of GEL 441,014 that constituted 57% of the total of customer accounts (31 December 2018: GEL 304,351 that constituted 44% of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

	2019	*2018*
Trade and service	328,985	286,329
Individuals	255,825	185,632
Transport and communication	76,772	71,384
Construction	24,039	5,776
Manufacturing	11,159	4,396
Energy	2,947	33,874
Agriculture	2,073	2,400
Other	76,474	52,071
Amounts due to customers	**778,274**	**641,862**

As at 31 December 2019 deposits by customers included balances amounting to GEL 197,140 (31 December 2018: GEL 183,991), that were freezed on the basis of a court decision dated as of 11 September 2015.

(thousands of Georgian lari)

15. Subordinated debt

Subordinated loans consisted of the following:

Facility provider	***Commencement date***	***Maturity date***	***Interest rate***	***Currency***	***Original contractual value***	***Carrying value as at 31 December 2019***
Fin Service XXI	31–Mar–11	31–Mar–26	4.5%	USD	51,177	81,989
Fin Service XXI	13–Dec–11	31–Mar–26	4.5%	USD	16,561	27,340
Fin Service XXI	15–Feb–13	31–May–28	4.5%	USD	16,574	27,015
Cartu Group	24–Jun–19	Perpetual	5.5%	USD	17,144	20,092
Inter Consulting Plus	22–May–18	22–May–43	4.5%	USD	3,898	4,064
Inter Consulting Plus	17–Oct–05	17–Oct–25	4.5%	USD	12,642	19,197
Georgian Holding	21–Jun–04	21–Jun–29	4.5%	USD	19,200	26,803
						206,500

Facility provider	***Commencement date***	***Maturity date***	***Interest rate***	***Currency***	***Original contractual value***	***Carrying value as at 31 December 2018***
Fin Service XXI	31–Mar–11	31–Mar–26	4.5%	USD	51,177	76,030
Fin Service XXI	13–Dec–11	31–Mar–26	4.5%	USD	16,561	25,354
Fin Service XXI	15–Feb–13	31–May–28	4.5%	USD	16,574	25,068
Cartu Group	31–Oct–16	31–Oct–26	4.5%	USD	16,864	17,683
Inter Consulting Plus	22–May–18	22–May–43	4.5%	USD	3,898	3,783
Inter Consulting Plus	17–Oct–05	17–Oct–25	4.5%	USD	12,642	17,799
Georgian Holding	21–Jun–04	21–Jun–29	4.5%	USD	19,200	24,878
						190,595

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.

On 24 June 2019 the Group has agreed with JSC Cartu Group to make changes in the contractual maturity of its lending agreement by making the debt perpetual and also the interest rate increased from 4.5% to 5.5%. The Group considered the effect of change by applying 10% threshold test and concluded that modification of subordinated debt is not substantial. Consequently, the effect of the changes has been accounted for as a GEL 1,074 modification loss in 2019 profit and loss.

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 2019	***Financing cash inflows***	***Repayment***	***Modification loss***	***Interest accrual during 2019***	***Interest paid during 2019***	***Foreign exchange loss during 2019***	***31 December 2019***
Subordinated debt	**190,595**	–	–	1,074	10,882	(9,677)	13,626	**206,500**

On 31 May 2018 the Group agreed with LTD Fin service – XXI to make changes in the contractual maturity of lending agreement of USD 10,000 thousand. According to the amended agreements, the maturity date was extended from 31 March 2026 till 31 May 2028. The Group considered the effect of change by applying 10% threshold test and concluded that modification of subordinated debt is not substantial. Consequently, the effect of the changes has been accounted for as a GEL 848 modification gain in 2018 profit and loss.

On 22 May 2018 the Group took a new subordinated loan from Inter Consulting Plus in the amount of USD 1,600 at a below market interest rate. At the disbursement date the Group calculated the effect of below market interest rate and recorded it accordingly in paid in capital in amount of GEL 444 net of tax.

The table below details changes in the Group's subordinated debts arising from financing activities during 2018:

	1 January 2018	***Financing cash inflows***	***Repayment***	***Interest accrual during 2018***	***Interest paid during 2018***	***Foreign exchange loss during 2018***	***Recognition of additional paid in capital***	***31 December 2018***
Subordinated debt	**208,368**	4,303	(29,987)	11,162	(9,799)	7,070	(522)	**190,595**

The amortised value of the subordinated loan qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was GEL 196,724 corresponding to GEL 186,408 under IFRS 9 (31 December 2018: GEL 202,351 corresponding to GEL 190,595 under IFRS 9). The amortised value of the subordinated loan qualified for the inclusion in the additional Tier 1 capital under the NBG Basel III requirements, was GEL 20,074 corresponding to GEL 20,083 under IFRS 9 (31 December 2018: no such loan).

(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 new regulation, corporate income tax will 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 will be calculated as 15/85 of the amount of net distribution. The companies will 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 will not be subject to corporate income tax.

The corporate income tax expense for the years ended 31 December 2019 and 2018 comprised:

	2019	*2018*
Current tax expense	5,022	3,395
Deferred tax expense	(1,183)	2,919
Income tax expense	**3,839**	**6,314**

In 2019 and 2018 the income tax rate applicable to most of the Group's income is 15%. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax benefit/ expense on statutory rates with actual is as follows:

	2019	*2018*
Profit before income tax	**26,153**	**32,518**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**3,923**	**4,878**
Tax exempt income	(592)	(422)
Non–deductible expenses	197	36
Effect from change in tax legislation	–	1,822
Unrecognized deferred taxes pertaining to years after 2023	446	–
Other	(135)	
Income tax expense	**3,839**	**6,314**

Deferred tax liabilities and assets as at 31 December 2019 and 31 December 2018 and their movements for the respective period

	2017	*Through statement of profit and loss*	*Deferred tax effect of transition to IFRS 9*	*Through statement of equity*	*2018*	*Through statement of profit and loss*	*2019*
Tax effect of temporary differences							
Cash and cash equivalents	–	10	–	–	10	(10)	**–**
Right of use assets	–	–	–	–	–	(760)	**(760)**
Amounts due from credit institutions	–	5	–	–	5	42	**47**
Other assets	6	967	–	–	973	174	**1,147**
Other liabilities	14	14	–	–	28	(223)	**(195)**
Intangible assets	29	(117)	–	–	(88)	25	**(63)**
Tax losses carried forward	–	–	–	–	–	329	**329**
Investment securities	–	2	–	–	2	362	**364**
Amounts due to customers	–	–	–	–	–	352	**352**
Property plant and equipment	(490)	(79)	–	–	(569)	(130)	**(699)**
Loans to customers	(5,701)	(3,083)	444	–	(8,340)	(276)	**(8,616)**
Subordinated debt	(87)	(622)	–	200	(509)	(67)	**(576)**
Provisions	(133)	(15)	–	–	(148)	626	**478**
Amounts due to credit Institutions	–	(1)	–	–	(1)	(20)	**(21)**
Finance lease liabilities	–	–	–	–	–	759	**759**
Deferred tax (liability)/asset	**(6,362)**	**(2,919)**	**444**	**200**	**(8,637)**	**1,183**	**(7,454)**

(thousands of Georgian lari)

17. Equity

As at 31 December 2019 and 2018, 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 2019 the Group has declared and disbursed dividends in amount of GEL 45,000 (2018: GEL 20,000).

Additional paid–in capital represents the difference between a fair value and a nominal amount at initial recognition of the subordinated loans received from the Parent and entities under common control.

18. Commitments and contingencies

Taxation

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 2019 is appropriate and that the Group's tax, currency and customs positions will be sustained.

Commitments and contingencies

As at 31 December 2019 and 2018, the Group's commitments and contingencies comprised the following:

	2019	*2018*
Credit related commitments		
Unused credit lines	31,453	48,811
Guarantees issued	28,704	53,530
Letters of credit	–	7,863
	60,157	**110,204**
Operating lease commitments		
Not later than 1 year	124	2,023
More than 1 year but less than 5 years	355	7,904
	479	**9,927**
Less − ECL for credit related commitments	(1,350)	(1,669)
Commitments and contingencies	**59,286**	**118,462**

An analysis of changes in the ECL allowances during the year is as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2019	**302**	**5**	**48**	**355**
New exposures	1,587	17	967	**2,571**
Amounts paid	(526)	(41)	(861)	**(1,428)**
Expired exposures	–	–	–	**–**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(38)	38	–	**–**
Transfers to Stage 3		(6)	6	**–**
Impact on period end ECL of exposures transferred between stages during the period	(429)	(2)	5	**(426)**
Unwinding of discount	–	–	–	**–**
Changes to models and inputs used for ECL calculations	–	–	–	**–**
Foreign exchange adjustments	(751)	22	(58)	**(787)**
At 31 December 2019	**145**	**33**	**107**	**285**

(thousands of Georgian lari)

18. Commitments and contingencies (continued)

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2019	**776**	**20**	**518**	**1,314**
New exposures	2,871	541	2,180	**5,592**
Amounts paid	(1,211)	(589)	(3,314)	**(5,114)**
Expired exposures	–	–	–	**–**
Transfers to Stage 2	(1,429)	1,429	–	**–**
Transfers to Stage 3	(701)	(1,494)	2,195	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	–	–	**–**
Unwind of discount	–	35	362	**397**
Changes to models and inputs used for ECL calculations	–	–	–	**–**
Foreign exchange adjustments	(272)	58	(910)	**(1,124)**
At 31 December 2019	**34**	**–**	**1,031**	**1,065**

An analysis of changes in the ECLs during the year ended 31 December 2018 is as follows:

Undrawn loan commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2018	**32**	**13**	**591**	**636**
New exposures	276	5	27	**308**
Matured exposures	(68)	(13)	(538)	**(619)**
Expired exposures	–	–	–	**–**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	–	(1)	1	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	–	(32)	**(32)**
Foreign exchange adjustments	63	–	(1)	**62**
At 31 December 2018	**302**	**5**	**48**	**355**

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2018	**157**	**7**	**1,167**	**1,331**
New exposures	819	245	651	**1,715**
Amounts paid	(85)	8	(1,605)	**(1,682)**
Expired exposures	–	–	–	**–**
Transfers to Stage 2	(75)	75	–	**–**
Transfers to Stage 3	–	(279)	279	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	(13)	196	**183**
Foreign exchange adjustments	(40)	(23)	(170)	**(233)**
At 31 December 2018	**776**	**20**	**518**	**1,314**

ECL of letters of credit was nil during in 2018.

(thousands of Georgian lari)

19. Credit loss expense and other impairment and provisions

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 2019:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	5	(26)	–	–	–	**(26)**
Amounts due from credit institutions	6	(5)	–	–	–	**(5)**
Loans to customers	7	(1,747)	(6,523)	(6,440)	29,621	**14,911**
Debt securities measured at amortised cost	8	395	–	–	–	**395**
Credit loss expense on interest bearing assets		**(1,383)**	**(6,523)**	**(6,440)**	**29,621**	**15,275**
Other financial assets	12	–	–	823	–	**823**
Financial guarantees	18	(743)	(18)	512	–	**(249)**
Undrawn loan commitments	18	(157)	28	59	–	**(70)**
Other impairment and provisions excluding repossessed assets		**(900)**	**10**	**1,394**	**–**	**504**
Provision expense of repossessed assets						3,207
Other impairment and provisions						**3,711**

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 2018:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	5	4	–	–	–	**4**
Amounts due from credit institutions	6	(5)	–	–	–	**(5)**
Loans to customers	7	(206)	4,282	(1,036)	–	**3,040**
Debt securities measured at amortised cost	8	(13)	–	–	–	**(13)**
Credit loss expense on interest bearing assets		**(220)**	**4,282**	**(1,036)**	**–**	**3,026**
Other financial assets	12	–	–	(47)	–	**(47)**
Financial guarantees	18	619	12	(648)	–	**(17)**
Loan commitments	18	270	(8)	(543)	–	**(281)**
Other impairment and provisions excluding repossessed assets		**889**	**4**	**(1,238)**	**–**	**(345)**
Provision expense of repossessed assets						2,128
Other impairment and provisions						**1,783**

20. Net fee and commission income

Net fee and commission income comprise:

	2019	*2018*
Plastic card operations	3,033	2,847
Guarantees and letters of credits issued	1,417	2,080
Settlement operations	1,256	1,295
Cash operations	527	440
Documentary operations	26	25
Other	671	116
Fee and commission income	**6,930**	**6,803**
Plastic card operations	(4,411)	(3,715)
Settlement operations	(1,815)	(1,737)
Documentary operations	(158)	(161)
Guarantees and letters of credits issued	(14)	(14)
Other	(254)	(735)
Fee and commission expense	**(6,652)**	**(6,362)**
Net fee and commission income	**278**	**441**

(thousands of Georgian lari)

21. Other income, net

Other income/(expenses), net comprise:

	2019	2018
Net written premiums	8,661	9,712
Change in provisions for reported but not settled claims	1,007	742
Income from operating lease	845	1,122
Fines and penalties received	101	9
Gain on disposal of property and repossessed assets	62	5,700
Reinsurers' share of claims settled	(4,246)	(2,804)
Claims settled, net of reinsurance	(1,748)	(6,011)
Change in provisions for incurred but not reported claims	(811)	(600)
Other	904	215
Total other income, net	**4,775**	**8,085**

22. Personnel and other operating expenses

Personnel, general and administrative expenses comprise:

	2019	2018
Salaries	12,814	10,110
Bonuses and other employee benefits	1,618	1,830
Personnel expenses	**14,432**	**11,940**
Communication	3,821	2,727
Charity costs	3,793	2,502
Maintenance and exploitation	774	1,341
Security expenses	768	652
Transportation and business trip expenses	490	730
Taxes other than income tax	464	197
Utilities	461	477
Professional services	451	300
Office supplies	273	222
Operating leases	258	2,303
Deposit insurance fee	148	156
Personnel training	104	51
Advertising costs	100	67
Membership fees	74	52
Insurance	59	32
Other expenses	1,394	1,846
Other operating expenses	**13,432**	**13,655**

Remuneration of the Group’s auditor for the years ended 31 December 2019 and 2018 comprises (net of VAT):

	2019	2018
Fees for the audit of the Group’s annual financial statements for the year ended 31 December	331	188
Expenditures for other professional service	43	36
Total fees and expenditures	**374**	**224**

Fees and expenditures payable to other auditors and audit firms in respect of other professional services comprised GEL 43 (2018: GEL 36).

The average number of the Bank’s employees during 2019 was 328, including average 5 top management employees, average 22 middle management employees, average 301 other full–time employees.

(thousands of Georgian lari)

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 Bank 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.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. 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 Bank'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 Bank.

Internal Audit

Risk management processes throughout the Bank 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 Bank'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 Bank 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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank 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 management committee. The respective meetings are held once a month.

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.

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge 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.

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 Bank 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

From 1 January 2018, 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 Bank 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 classified as “non–performing” according to the NBG regulation on asset classification. 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 Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

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 the loan loss provision per the regulation of the NBG. 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 2019, 10% increase in average PD per each pool results in total ECL increase by 0.23% that represents GEL 261 and 10% decrease in average PD per each pool results in total ECL decrease by 2.20% that represents GEL 2,500 (31 December 2018: 10% increase in average PD per each pool results in total ECL increase by 0.39% that represents GEL 359 and 10% decrease in average PD per each pool results in total ECL decrease by 3.15% that represents GEL 2,928).

LGD model

Another component of impairment model is LGD (loss given default), that’s is an estimate of the loss arising on default. To measure it, defaulted exposures by segments is reduced by deposits pledged and the discounted liquidation value of properties pledged using 2.5 years of time to collect period and valuation haircut.

As at 31 December 2019, 10% increase in valuation haircut results in ECL increase by 1.4% that represents GEL 1,598 and 10% decrease in valuation haircut results in ECL decrease by 0.3% that represents GEL 348(31 December 2018: 10% increase in valuation haircut results in ECL increase by 5.31% that represents GEL 4,930 and 10% decrease in valuation haircut results in ECL decrease by 5.25% that represents GEL 4,876).

As at 31 December 2019, 10% increase in time to collect period results in ECL increase by 4.00% that represents GEL 4,576 and 10% decrease in time to collect period results in ECL decrease by 0.92% that represents GEL 1,047 (31 December 2018: 10% increase in time to collect period results in ECL increase by 6.51% that represents GEL 6,040 and 10% decrease in time to collect period results in ECL decrease by 4.42% that represents GEL 4,106).

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 Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (continued)

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 Bank assesses whether there has been a significant increase in credit risk since initial recognition.

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 Group's risk management department analyses publicly available information such as financial information and other external data, e.g., the external ratings supplied by international rating agencies. The Group's investment securities measured at amortized cost are limited to T–bills and CDs issued by the Ministry of Finance of Georgia, thus credit rating of the country is used in estimation of the PDs for these instruments.

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.

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:

- ► All exposures higher than 1% of the Bank's regulatory capital (threshold as at 31 December 2019 and 2018: GEL 427 and GEL 433, respectively)
- ► Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

All other asset classes where The Bank calculates ECL on a collective basis for all other asset classes except for those assessed individually.

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)

Forward–looking information and multiple economic scenarios

In its ECL models, the Bank 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, GeoStat, IMF, World and Regional Economic Outlooks, S&P Global Ratings and other. Experts of the Group's Risk Management Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long–term average and so are the same for each scenario as at 31 December 2019.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2020*	*2021*	*2022*	*Subsequent years*
GDP growth, %						
	Upside	25%	5.5%	6.0%	5.0%	5.0%
	Base case	50%	4.5%	5.0%	5.0%	5.0%
	Downside	25%	2.5%	3.5%	4.5%	4.5%
USD/GEL exchange rate						
	Upside	25%	2.72	2.59	2.59	2.59
	Base case	50%	2.87	2.87	2.87	2.87
	Downside	25%	3.15	3.31	3.48	3.58
Inflation rate, %						
	Upside	25%	4.5%	3.5%	3.0%	3.0%
	Base case	50%	4.5%	2.5%	3.0%	3.0%
	Downside	25%	7.0%	5.0%	3.0%	3.0%

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 5 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

Below table shows internal grades used in following tables:

	Internal grade	**NBG classification**
High grade	1 2 3	Standard
Standard grade	4	Standard
Sub–standard grade	5	Watch
Impaired	6	Substandard, Doubtful, Loss

(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 2019:

31 December 2019	*Note*		*High grade*	*Standard grade*	*Sub–standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	121,649	8,984	–	–	**130,633**
Amounts due from credit institutions	6	Stage 1	168,905	–	–	–	**168,905**
Loans to customers at amortised cost	7						
– Corporate lending		Stage 1	295,698	161,210	60,910	–	**517,818**
		Stage 2	230	13,368	31,773	–	**45,371**
		Stage 3	–	–	809	199,086	**199,895**
		POCI	–	–	–	85,844	**85,844**
– Loans to individuals		Stage 1	24,121	119	1,056	–	**25,296**
		Stage 2	–	–	691	–	**691**
		Stage 3	–	–	–	4,414	**4,414**
Debt investment securities	8						
– measured at amortised cost		Stage 1	25,036	17,433	–	–	**42,469**
Undrawn loan commitments	18	Stage 1	21,185	8,138	1,413	–	**30,736**
		Stage 2	–	–	244	–	**244**
		Stage 3	–	–	–	188	**188**
Financial guarantees	18	Stage 1	15,185	5,055	5,030	–	**25,270**
		Stage 2	239	–	–	–	**239**
		Stage 3	–	–	–	2,130	**2,130**
Total			**672,248**	**214,307**	**101,926**	**291,662**	**1,280,143**

The table below shows the credit quality by class of financial assets as at 31 December 2018:

31 December 2018	*Note*		*High grade*	*Standard grade*	*Sub–standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	99,312	6,997	–	–	**106,309**
Amounts due from credit institutions	6	Stage 1	150,535	–	–	–	**150,535**
Loans to customers at amortised cost	7						
– Corporate lending		Stage 1	255,407	85,129	36,453	30,602	**407,591**
		Stage 2	–	15,700	32,293	52,178	**100,171**
		Stage 3	–	–	17,776	254,466	**272,242**
– Loans to individuals		Stage 1	35,607	–	218	–	**35,825**
		Stage 2	–	–	1,542	–	**1,542**
		Stage 3	–	–	7	4,517	**4,524**
Debt investment securities	8						
– measured at amortised cost		Stage 1	19,295	–	–	–	**19,295**
Undrawn loan commitments	18	Stage 1	38,631	2,105	1,675	–	**42,411**
		Stage 2	–	768	178	–	**946**
		Stage 3	–	–	–	5,099	**5,099**
Letters of credit	18	Stage 1	7,203	660	–	–	**7,863**
Financial guarantees	18	Stage 1	33,991	7,297	5,889	–	**47,177**
		Stage 2	–	–	2,047	–	**2,047**
		Stage 3	–	–	–	2,992	**2,992**
Total			**639,981**	**118,656**	**98,078**	**349,854**	**1,206,569**

See Note 7 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:

	2019				*2018*			
	Georgia	*OECD*	*Other Non–OECD*	*Total*	*Georgia*	*OECD*	*Other Non–OECD*	*Total*
Assets								
Cash and cash equivalents	140,641	2,636	4,321	**147,598**	115,539	5,796	3,200	**124,535**
Amounts due from credit institutions	164,707	1,177	3,021	**168,905**	144,367	6,168	–	**150,535**
Loans to customers	873,482	1,887	3,960	**879,329**	817,917	895	3,083	**821,895**
Investment securities	42,526	–	–	**42,526**	19,352	–	–	**19,352**
Other financial assets	2,097	–	4,432	**6,529**	4,066	–	–	**4,066**
	1,223,453	**5,700**	**15,734**	**1,244,887**	**1,101,241**	**12,859**	**6,283**	**1,120,383**
Liabilities								
Amounts due to credit institutions	13	–	–	**13**	15,095	–	11	**15,106**
Amounts due to customers	747,718	9,140	21,416	**778,274**	619,013	3,208	19,641	**641,862**
Lease liabilities	5,680	–	–	**5,680**	–	–	–	**–**
Other financial liabilities	2,281	–	3,413	**5,694**	3,307	–	–	**3,307**
Subordinated debt	206,500	–	–	**206,500**	190,595	–	–	**190,595**
	962,192	**9,140**	**24,829**	**996,161**	**828,010**	**3,208**	**19,652**	**850,870**
Net assets/(liabilities)	**261,261**	**(3,440)**	**(9,095)**	**248,726**	**273,231**	**9,651**	**(13,369)**	**269,513**

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 Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBG. Minimum required liquidity ratio set by the NBG equals 30% in 2019 (2018: 30%). As at 31 December, these ratios were as follows:

	2019, %	*2018, %*
LK "Average Liquidity Ratio" (Average volume of liquid assets / Average volume of liabilities)	43.78%	41.96%

(thousands of Georgian lari)

23. Risk management (continued)

Credit risk (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.

As at 31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	13	–	–	–	**13**
Amounts due to customers	280,175	234,532	274,046	4,400	**793,153**
Lease liabilities	444	1,334	5,072	–	**6,850**
Other financial liabilities	2,059	3,635	–	–	**5,694**
Subordinated debt	2,485	7,498	39,851	263,881	**313,715**
Total undiscounted financial liabilities	**285,176**	**246,999**	**318,969**	**268,281**	**1,119,425**

As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	661	14,798	–	–	**15,459**
Amounts due to customers	386,127	239,754	27,849	892	**654,622**
Other financial liabilities	655	2,652	–	–	**3,307**
Subordinated debt	2,245	6,861	36,448	232,860	**278,414**
Total undiscounted financial liabilities	**389,688**	**264,065**	**64,297**	**233,752**	**951,802**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	Note	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2019	18	40,733	6,551	12,788	85	**60,157**
2018	18	63,874	29,229	17,016	85	**110,204**

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.

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.

(thousands of Georgian lari)

23. Risk management (continued)

Market risk (continued)

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 2019*	*Effect on profit before tax 2019*	*Change in currency rate 2018*	*Effect on profit before tax 2018*
USD	20%/(20%)	10,386/(10,386)	20%/(20%)	7,352/(7,352)
EUR	20%/(20%)	1,380/(1,380)	20%/(20%)	818/(818)

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 or later 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
2019	8,449
2018	8,238

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 Bank'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 2019*	*Sensitivity of net interest income 2019*
GEL	100/(100)	1,106/(1,106)
EUR	100/(100)	117/(117)
USD	100/(100)	170/(170)

Currency	*Increase/(decrease) in basis points 2018*	*Sensitivity of net interest income 2018*
GEL	100/(100)	1,053/(1,053)
USD	100/(100)	26/(26)

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.

(thousands of Georgian lari)

24. Fair value measurements

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: 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 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets for which fair values are disclosed				
Cash and cash equivalents	147,598	–	–	**147,598**
Amounts due from credit institutions	–		168,905	**168,905**
Loans to customers	–	–	955,857	**955,857**
Investment securities at amortized cost	16,500	27,949	–	**44,449**
Assets measured at fair value				
Investment securities at FVOCI	–	–	57	**57**

	Fair value measurement using			
At 31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	13	–	**13**
Amounts due to customers	–	–	790,269	**790,269**
Lease liabilities	–	–	5,680	**5,680**
Subordinated debt	–	–	206,500	**206,500**

	Fair value measurement using			
At 31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets for which fair values are disclosed				
Cash and cash equivalents	124,535	–	–	**124,535**
Amounts due from credit institutions	–	150,535	–	**150,535**
Loans to customers	–	–	861,862	**861,862**
Investment securities at amortized cost	–	19,295	–	**19,295**
Assets measured at fair value				
Investment securities at FVOCI	–	–	57	**57**

	Fair value measurement using			
At 31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	15,106	–	**15,106**
Amounts due to customers	–	–	646,966	**646,966**
Subordinated debt	–	–	190,595	**190,595**

The fair value of investment securities at FVOCI did not change during 2019 or 2018.

(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 2019	*Fair value 2019*	*Unrecognised gain/(loss) 2019*	*Carrying value 2018*	*Fair value 2018*	*Unrecognised gain/(loss) 2018*
Financial assets						
Cash and cash equivalents	147,598	147,598	–	124,535	124,535	–
Amounts due from credit institutions	168,905	168,905	–	150,535	150,535	–
Loans to customers	879,329	955,857	76,528	821,895	861,862	39,967
Investment securities	42,526	44,506	1,980	19,352	19,352	–
Other financial assets	6,529	6,529	–	4,066	4,066	–
Financial liabilities						
Amounts due to credit institutions	13	13	–	15,106	15,106	–
Amounts due to customers	778,274	790,269	(11,995)	641,862	646,966	(5,104)
Other financial liabilities	5,694	5,694	–	3,307	3,307	–
Lease liabilities	5,680	5,680	–	–	–	–
Subordinated debt	206,500	206,500	–	190,595	190,595	–
Total unrecognised change in fair value			**66,513**			**34,863**

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, 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.

	2019			*2018*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	147,598	–	**147,598**	124,535	–	**124,535**
Amounts due from credit institutions	164,707	4,198	**168,905**	146,692	3,843	**150,535**
Loans to customers	401,536	477,793	**879,329**	353,058	468,837	**821,895**
Investment securities	21,997	20,529	**42,526**	19,352	–	**19,352**
Property and equipment	–	13,020	**13,020**	–	12,583	**12,583**
Right of use assets	–	5,436	**5,436**	–	–	**–**
Intangible assets	–	4,395	**4,395**	–	5,222	**5,222**
Deferred tax asset	–	333	**333**	–	–	**–**
Income tax asset	2,311	–	**2,311**	7,225	–	**7,225**
Other assets	12,014	61,020	**73,034**	8,177	63,970	**72,147**
Total	**750,163**	**586,724**	**1,336,887**	**659,039**	**554,455**	**1,213,494**
Amounts due to credit institutions	13	–	**13**	15,106	–	**15,106**
Amounts due to customers	508,223	270,051	**778,274**	615,713	26,149	**641,862**
Provisions	1,329	1,859	**3,188**	1,447	2,350	**3,797**
Current income tax liability	1,650	–	**1,650**	–	–	–
Deferred income tax liability	–	7,787	**7,787**	–	8,637	**8,637**
Lease liabilities	1,286	4,394	**5,680**	–	–	**–**
Other liabilities	10,364	–	**10,364**	7,380	–	**7,380**
Subordinated debt	125	206,375	**206,500**	107	190,488	**190,595**
Total	**522,990**	**490,466**	**1,013,456**	**639,753**	**227,624**	**867,377**
Net	**227,173**	**96,258**	**323,431**	**19,286**	**326,831**	**346,117**

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.

The outstanding balances of related party transactions are as follows:

	2019			
	The Parent	***Entities under common control***	***Other related parties***	***Key management personnel***
Loans to customers, gross	8,183	–	62,793	546
(Allowance for expected credit losses)	(4)	–	(40)	(1)
Amounts due to credit institutions	–	–	–	–
Amounts due to customers	–	(12)	(63,716)	(452)
Insurance and reinsurance receivables	–	–	108	–
Other assets	–		(178)	
Subordinated debt	(20,092)	–	(186,408)	–
Commitments and guarantees issued	–	–	(2,649)	–

(thousands of Georgian lari)

26. Related party disclosures (continued)

	2018			
	The Parent	*Entities under common control*	*Other related parties*	*Key management personnel*
Loans to customers, gross	–	–	67,950	753
(Allowance for expected credit losses)	–	–	(30)	(3)
Amounts due to customers	(337)	(286)	(29,953)	(35)
Insurance and reinsurance receivables	–	–	–	–
Other liabilities	–	–	(176)	–
Subordinated debt	(17,683)	–	(172,912)	–
Commitments and guarantees issued	–	–	(25,299)	–

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

	2019				2018			
	The Parent	*Entities under common control*	*Other related parties*	*Key management personnel*	*The Parent*	*Entities under common control*	*Other related parties*	*Key managemen t personnel*
Interest income on loans to customers	376	–	6,483	46	710	–	5,201	94
Interest expense on amounts due to customers	–	–	(376)	(6)	–	–	(1,322)	(11)
Interest expense on subordinated debt	(2,122)	–	(9,834)	–	(2,068)	–	(9,095)	–
Charity and sponsorship	–	–	(3,585)	–	–	–	(2,502)	–
Gross written premiums on insurance contracts	–	–	(1,145)	–	–	–	–	–
Insurance claims and loss adjustment expenses	–	–	(261)	–	–	–	–	–
Fee and commission income	3	–	280	2	–	–	–	–
Other income	–	–	15	–	–	–	–	–
Other expenses	(2)	–	(234)	–	–	–	–	–

Compensation of key management personnel was comprised of the following:

	2019	*2018*
Salaries and other short–term benefits	1,556	1,043

Key management personnel as at 31 December 2019 and 2018 was 10 and includes members of the Bank'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 Bank.

During the year ended 31 December 2019, 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 Bank 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.

(thousands of Georgian lari)

27. Capital adequacy (continued)

NBG capital adequacy ratio

Regulatory capital consists of Tier 1 capital, which comprises common shares, reserve fund and retained earnings excluding current year profit or loss less amount of property revaluation reserve transferred to authorised capital, and intangible assets. The other component of regulatory capital is Tier 2 capital, which includes profit or loss of current year, general reserves (not more than 1.25% of risk weighted assets) and subordinated long-term debt.

Starting from 30 June 2014 the NBG requires that all banks comply with Basel II regulations in their capital adequacy assessment. 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.

As at 31 December 2019 the NBG requires the Bank to maintain a minimum total regulatory capital adequacy ratio, Tier 1 capital coefficient and common Tier 1 coefficient of 20.16%, 11.64% and 9.35%, respectively (December 2018: Minimum regulatory capital adequacy ratio, Tier 1 capital coefficient and common Tier 1 coefficient of 20.18%, 11.53% and 9.27%, respectively).

As at 31 December 2019 and 2018 capital adequacy ratios based on the Bank's reports prepared in accordance with the NBG accounting rules and capital adequacy framework were as follows:

	31 December 2019	*31 December 2018*
Common Equity Tier 1 Capital	**199,035**	**220,764**
Additional Tier 1 Capital	20,074	–
Tier 1 Capital	**219,109**	**220,764**
Convertible subordinated debt	196,724	202,351
Special purpose funds	600	600
General Loan Loss Provisions (up to 1.25% of Risk–Weighted Assets)	10,783	8,942
Total Regulatory Capital	**427,216**	**432,657**
Risk Weighted Assets	**1,439,273**	**1,381,509**
Common Equity Tier 1 Capital Adequacy Ratio	13.83%	15.98%
Tier 1 Capital Adequacy Ratio	15.22%	15.98%
Total Regulatory Capital Adequacy Ratio	29.68%	31.32%

During the years ended 31 December 2019 and 2018 the Bank complied in full with all of its externally imposed capital requirements.

28. Events after the reporting period

In March 2020 the World Health Organization confirmed the novel coronavirus ("COVID–19") as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy. First COVID–19 infection was confirmed by the Georgian Centre for Disease Control ("NCDC") in February 2020. The Government of Georgia has introduced number of measures aimed at containment of the spread of COVID–19, which have significant social and economic impact. The Group is monitoring impact of coronavirus (COVID–19) outbreak on its business, customers and employees and follows the official guidance introduced by the Government of Georgia to safeguard its people and to maintain business continuity.

During spring 2020 Georgian Lari has significantly depreciated against US dollar and Euro, which increased the Group's unhedged borrowers' currency induced credit risks. As a response to the pandemic situation, caused by COVID–19 the NBG took several actions, which have effect on Group's financials, including:

- softened regulatory requirements for commercial banks, including softening certain requirements for capital adequacy and liquidity ratios
- updated its macroeconomic forecast scenarios according to which all the macroeconomic variables are deteriorated compared to previous forecast used in 2019 ECL calculations.
- imposed general provisions for possible credit losses for each bank individually;

(thousands of Georgian lari)

28. Events after the reporting period (continued)

The further spread of COVID–19 in Georgia and globally, is expected to have a negative impact on the economy, however it is too early to fully understand the impact this may have on the Group's business. The Group considers coronavirus (COVID–19) outbreak to be a non–adjusting post balance sheet event.

On 24 April 2020 the Group amended subordinated loan agreements with Fin Service XXI, Inter Consulting Plus and Georgian Holding by which interest rates on these loans were increased to 5.5% from 4.5% and conversion in shares permission were removed from the loan agreements. Despite the changes in the subordinated loan agreements, they continue to satisfy the relevant terms and are included in Tier 2 regulatory capital.