JSC PASHA Bank Georgia

Interim condensed financial statements

30 June 2023 together with Report on Review of Interim Financial Information

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Report on Review of Interim Financial Information

To the Shareholders and Supervisory Board of JSC PASHA Bank Georgia

Introduction

We have reviewed the accompanying interim condensed financial statements of JSC PASHA Bank Georgia which comprise the interim statement of financial position as at 30 June 2023 and the related interim statement of comprehensive income, changes in equity and cash flows for the six-month period then ended and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Emphasis of matter

We draw attention to Note 19 to the interim condensed financial statements, which describes a significant concentration of the Bank's transactions with related parties. Our conclusion is not modified in respect of this matter.

Ana Kusrashvili

On behalf of EY LLC

15 August 2023

Tbilisi, Georgia

Interim statement of financial position

As at 30 June 2023

(Figures in tables are in thousands of Georgian lari)

	Notes	30 June 2023 (unaudited)	31 December 2022
Assets			
Cash and cash equivalents	3	62,111	62,542
Amounts due from credit institutions	4	42,568	46,927
Loans to customers	5	322,547	350,885
Investment securities	6	61,191	43,861
Property and equipment	7	2,050	2,420
Right of use assets	8	2,755	3,766
Intangible assets	9	5,435	5,255
Other assets	10	7,108	2,854
Total assets		**505,765**	**518,510**
Liabilities			
Amounts due to credit institutions	11	92,508	106,687
Amounts due to customers	12	277,250	272,031
Provisions	16	450	356
Lease liabilities	8	2,696	3,772
Subordinated debt	13	26,781	26,559
Other liabilities	10	5,734	6,290
Total liabilities		**405,419**	**415,695**
Equity			
Share capital	15	129,000	129,000
Additional paid-in capital	13	1,155	1,155
Accumulated deficit		(29,809)	(27,340)
Total equity		**100,346**	**102,815**
Total equity and liabilities		**505,765**	**518,510**

Signed and authorised for release on behalf of the Board of Directors of the Bank:

Nikoloz Shurgaia — Chairman of the Board of Directors

Selim Berent — Chief Financial Officer, Member of the Board of Directors

15 August 2023

The accompanying notes on pages 5 to 22 are an integral part of these interim condensed financial statements.

Interim statement of comprehensive income

For the six months ended 30 June 2023

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2023 (unaudited)*	*For the six months ended 30 June 2022 (unaudited)*
Interest income calculated using effective interest rate			
Loans to customers		20,864	16,456
Investment securities		3,388	2,372
Amounts due from credit institutions		2,391	746
		26,643	**19,574**
Interest expense			
Amounts due to customers		(6,603)	(4,130)
Amounts due to credit institutions		(2,494)	(3,215)
Subordinated debt		(652)	(768)
Lease liabilities		(74)	(131)
		(9,823)	**(8,244)**
Net interest income		**16,820**	**11,330**
Credit loss on interest bearing assets	3, 4, 5, 6, 16	(4,899)	(4,449)
Net interest income after impairment losses		**11,921**	**6,881**
Net gains from foreign currencies			
- Dealing		2,568	6,403
- Translation differences		1,977	(3,453)
Fee and commission income, net:	17	746	322
- fee and commission income		2,009	1,125
- fee and commission expense		(1,263)	(803)
Net gain on modification of financial assets measured at amortised cost	5	–	213
Other operating income		115	41
Non−interest income		**5,406**	**3,526**
Personnel expenses	18	(11,445)	(8,922)
General and administrative expenses	18	(4,848)	(5,106)
Depreciation and amortisation	7, 8, 9	(2,527)	(2,754)
Modification (loss)/gain	13	(955)	–
Provisions		1	(23)
Other operating expenses		(22)	(76)
Non−interest expenses		**(19,796)**	**(16,881)**
Loss before income tax expense		**(2,469)**	**(6,474)**
Income tax expense	14	–	–
Net loss for the period		**(2,469)**	**(6,474)**
Other comprehensive income		–	–
Total comprehensive loss for the period		**(2,469)**	**(6,474)**

The accompanying notes on pages 5 to 22 are an integral part of these interim condensed financial statements.

Interim statement of changes in equity

For the six months ended 30 June 2023

(Figures in tables are in thousands of Georgian lari)

	Share capital	*Additional paid−in capital*	*Accumulated deficit*	*Total equity*
As at 1 January 2022	**103,000**	**1,155**	**(25,077)**	**79,078**
Total comprehensive loss for the six months ended 30 June 2022 (unaudited)	–	–	(6,474)	**(6,474)**
Issue of share capital	26,000	–	–	**26,000**
At 30 June 2022 (unaudited)	**129,000**	**1,155**	**(31,551)**	**98,604**
As at 1 January 2023	**129,000**	**1,155**	**(27,340)**	**102,815**
Total comprehensive loss for the six months ended 30 June 2023 (unaudited)	–	–	(2,469)	**(2,469)**
At 30 June 2023 (unaudited)	**129,000**	**1,155**	**(29,809)**	**100,346**

The accompanying notes on pages 5 to 22 are an integral part of these interim condensed financial statements.

Interim statement of cash flows

For the six months ended 30 June 2023

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2023 (unaudited)*	*For the six months ended 30 June 2022 (unaudited)*
Cash flows from operating activities			
Interest received		25,987	18,971
Interest paid		(8,426)	(13,687)
Fees and commissions received		2,002	1,121
Fees and commissions paid		(1,040)	(830)
Realised gains less losses from dealing in foreign currencies		2,568	6,403
Personnel expenses paid		(11,891)	(9,559)
General and administrative expenses paid		(5,785)	(4,362)
Other income received		98	–
Cash flows from / (used in) from operating activities before changes in operating assets and liabilities		**3,513**	**(1,943)**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		3,173	11,025
Loans to customers		17,303	(41,698)
Other assets		(267)	37
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(12,999)	6,017
Amounts due to customers		10,962	15,732
Other liabilities		(443)	(1,485)
Net cash flows from / (used in) operating activities before income tax		**21,242**	**(12,315)**
Income tax paid		–	–
Net cash flows from / (used in) operating activities after income tax		**21,242**	**(12,315)**
Cash flows from investing activities			
Purchase of investment securities	6	(31,517)	(3,907)
Proceeds from redemption of investment securities	6	14,000	2,700
Purchase of property and equipment		(418)	(200)
Proceeds from sale of property and equipment		33	–
Purchase of intangible assets		(932)	(820)
Net cash used in investing activities		**(18,834)**	**(2,227)**
Cash flows from financing activities			
Principal repayments of lease liability		(936)	(1,211)
Proceeds from issue of share capital	15	–	26,000
Net cash (used in) / from financing activities		**(936)**	**24,789**
Effect of exchange rates changes on cash and cash equivalents		(1,904)	(4,818)
Effect of expected credit losses on cash and cash equivalents		1	(28)
Net (decrease) / increase in cash and cash equivalents		**(431)**	**5,401**
Cash and cash equivalents, beginning	3	62,542	42,380
Cash and cash equivalents, ending	3	**62,111**	**47,781**

The accompanying notes on pages 5 to 22 are an integral part of these interim condensed financial statements.

(Figures in tables are in thousands of Georgian lari)

1. Principal activities

JSC PASHA Bank Georgia (the "Bank") was formed on 17 December 2012 as a joint stock company under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia (the "NBG") on 17 January 2013 (identification code: 404433671).

The Bank accepts deposits and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its commercial customers. The Bank continues its expansion into retail market under the Re|Bank brand name, based on strategic initiatives approved by the Bank's shareholders.

Starting from 2017, the Bank is a member of the deposit insurance system. The system operates under the Law of Georgia on Deposit Insurance System and insures all types of deposits of resident and non−resident individuals.

The Bank has four service offices in Georgia as of 30 June 2023. The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 30 June 2023 and 31 December 2023, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), domiciled in the Republic of Azerbaijan. As at 30 June 2023 and 31 December 2022, the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev, who exercise collective control over the Bank.

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

2. Basis of preparation

These interim condensed financial statements for the six months ended 30 June 2023, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2022.

These interim condensed financial statements are presented in thousands of Georgian lari ("GEL") unless otherwise indicated.

Estimation uncertainty

To the extent that information is available as at 30 June 2023, the Bank has reflected revised estimates of expected future cash flows in its ECL assessment (Notes 3, 4, 5, 6, 16). During 2023, the Bank slightly updated methodology of LGD calculation. The effect of change in estimate resulted in additional GEL 1,110 thousand ECL recognized in profit or loss for the six months ended 30 June 2023.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2022. The following amendments to standards were applied for the first time in the 2023 interim financial period, resulting in consequential changes to the accounting policies and other note disclosures:

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

In May 2017, the IASB issued IFRS 17, Insurance Contracts, which sets out the accounting requirements for contractual rights and obligations that arise from insurance contracts issued and reinsurance contracts held. Bank evaluated whether its contracts contain insurance risk, focusing on performance guarantees and credit cards and concluded that there are no material contracts in scope of IFRS 17 considering practical expedients available.

All other amendments effective since 1 January 2023 do not have an impact on the interim condensed financial statements of the Bank either.

The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(Figures in tables are in thousands of Georgian lari)

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2023 (unaudited)	*31 December 2022*
Cash on hand	4,899	4,328
Current accounts with the NBG	5,781	287
Current accounts with other credit institutions	22,369	30,793
Time deposits with credit institutions up to 90 days	29,066	27,139
Less: allowance for impairment	(4)	(5)
Cash and cash equivalents	**62,111**	**62,542**

As at 30 June 2023, current accounts and time deposit accounts with credit institutions denominated in USD, EUR and GEL represent 55.04%, 24.88% and 18.87% of total current and time deposit accounts, respectively (31 December 2022: USD 47.01%, EUR 4.86% and GEL 47.14%).

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

4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2023 (unaudited)	*31 December 2022*
Mandatory reserve with the NBG	42,568	43,455
Time deposits for more than 90 days	–	3,473
Less: allowance for impairment	–	(1)
Amounts due from credit institutions	**42,568**	**46,927**

As at 30 June 2023, amounts due from credit institutions comprise of mandatory reserves with the NBG. Credit institutions are required to maintain cash deposits (mandatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw these deposits is restricted by the regulation.

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the period ended 30 June 2023 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2023	**3,473**	**(1)**
New assets originated	10,082	(13)
Assets repaid	(13,719)	2
Foreign exchange and other movements	164	12
At 30 June 2023 (unaudited)	**–**	**–**

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the period ended 30 June 2022 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2022	**3,103**	**(4)**
New assets originated	2,867	(6)
Assets repaid	(3,224)	1
Foreign exchange and other movements	192	5
At 30 June 2022 (unaudited)	**2,938**	**(4)**

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

(Figures in tables are in thousands of Georgian lari)

5. Loans to customers

Loans to customers comprise:

	30 June 2023 (unaudited)	*31 December 2022*
Corporate	148,935	190,703
Commercial	132,801	122,383
Consumer	59,967	54,623
Loans to customers	**341,703**	**367,709**
Less: allowance for impairment	(19,156)	(16,824)
Loans to customers	**322,547**	**350,885**

Commercial loans include loans to medium sized companies.

An analysis of changes in the gross carrying value and changes in ECL in relation to loans to customers during the six months ended 30 June 2023 is as follows:

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2023	**183,805**	**6,736**	**162**	**190,703**
New assets originated	66,338	–	–	66,338
Assets repaid	(104,096)	(698)	(203)	(104,997)
Transfers to Stage 2	(6,518)	6,518	–	**–**
Transfers to Stage 3	–	(779)	779	**–**
Foreign exchange and net other movements	(3,159)	49	1	**(3,109)**
At 30 June 2023 (unaudited)	**136,370**	**11,826**	**739**	**148,935**

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**(1,735)**	**(38)**	**(162)**	**(1,935)**
New assets originated	(518)	–	–	**(518)**
Assets repaid	393	3	135	**531**
Transfers to Stage 2	16	(16)	–	**–**
Transfers to Stage 3	–	8	(8)	**–**
Net remeasurement of ECL	45	(19)	(435)	**(409)**
At 30 June 2023 (unaudited)	**(1,799)**	**(62)**	**(470)**	**(2,331)**

Commercial loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2023	**71,952**	**20,510**	**29,921**	**–**	**122,383**
New assets originated	36,743	–	–	889	**37,632**
Assets repaid	(12,665)	(10,159)	(5,027)	(50)	**(27,901)**
Transfers to Stage 1	2,676	(2,676)	–	–	**–**
Transfers to Stage 2	(3,238)	3,407	(169)	–	**–**
Transfers to Stage 3	–	(5,403)	5,403	–	**–**
Unwinding of discount	–	–	386	–	**386**
Foreign exchange and net other movements	(93)	(591)	939	46	**301**
At 30 June 2023 (unaudited)	**95,375**	**5,088**	**31,453**	**885**	**132,801**

(Figures in tables are in thousands of Georgian lari)

5. Loans to customers (continued)

Commercial loans at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2023	**(492)**	**(706)**	**(8,229)**	**–**	**(9,427)**
New assets originated	(352)	–	–	–	**(352)**
Assets repaid	52	308	698	–	**1,058**
Transfers to Stage 1	(9)	9	–	–	**–**
Transfers to Stage 2	75	(75)	–	–	**–**
Transfers to Stage 3	–	84	(84)	–	**–**
Unwinding of discount	–	–	386	–	**386**
Net remeasurement of ECL	(56)	354	(1,192)	–	**(894)**
At 30 June 2023 (unaudited)	**(782)**	**(26)**	**(8,421)**	–	**(9,229)**

Consumer loans at amortized cost, gross	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**50,762**	**1,151**	**2,710**	**54,623**
New assets originated	61,008	1,061	–	**62,069**
Assets repaid	(53,063)	(1,158)	(158)	**(54,379)**
Transfers to Stage 1	5,255	(5,128)	(127)	**–**
Transfers to Stage 2	(12,540)	12,646	(106)	**–**
Transfers to Stage 3	(55)	(4,075)	4,130	**–**
Amounts written off	–	–	(2,358)	**(2,358)**
Foreign exchange and net other movements	168	(163)	7	**12**
At 30 June 2023 (unaudited)	**51,535**	**4,334**	**4,098**	**59,967**

Consumer loans at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(2,564)**	**(188)**	**(2,710)**	**(5,462)**
New assets originated	(3,293)	(193)	–	**(3,486)**
Assets repaid	1,726	183	158	**2,067**
Transfers to Stage 1	(442)	429	13	**–**
Transfers to Stage 2	1,480	(1,505)	25	**–**
Transfers to Stage 3	7	709	(716)	**–**
Amounts written off	–	–	2,358	**2,358**
Recoveries	–	–	(72)	**(72)**
Net remeasurement of ECL	401	(248)	(3,154)	**(3,001)**
At 30 June 2023 (unaudited)	**(2,685)**	**(813)**	**(4,098)**	**(7,596)**

An analysis of changes in the gross carrying value in relation to loans to customers during the six months ended 30 June 2022 is as follows.

Corporate loans at amortized cost, gross	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**114,192**	**40,245**	**–**	**154,437**
New assets originated	133,058	–	–	**133,058**
Assets repaid	(96,151)	(2,587)	–	**(98,738)**
Transfers to Stage 1	23,140	(23,140)	–	**–**
Transfers to Stage 2	(6,236)	6,236	–	**–**
Transfers to Stage 3	–	(189)	189	**–**
Foreign exchange and net other movements	(3,505)	(3,064)	(14)	**(6,583)**
At 30 June 2022 (unaudited)	**164,498**	**17,501**	**175**	**182,174**

(Figures in tables are in thousands of Georgian lari)

5. Loans to customers (continued)

Corporate loans at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(1,376)**	**(823)**	**–**	**(2,199)**
New assets originated	(1,868)	–	–	**(1,868)**
Assets repaid	743	23	–	**766**
Transfers to Stage 1	(81)	81	–	**–**
Transfers to Stage 2	170	(170)	–	**–**
Transfers to Stage 3	–	3	(3)	**–**
Net remeasurement of ECL	473	565	(173)	**865**
At 30 June 2022 (unaudited)	**(1,939)**	**(321)**	**(176)**	**(2,436)**

Commercial loans at amortized cost, gross	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**67,770**	**45,516**	**15,632**	**128,918**
New assets originated	21,361	–	–	**21,361**
Assets repaid	(19,843)	(4,458)	–	**(24,301)**
Transfers to Stage 1	4,346	(4,346)	–	**–**
Transfers to Stage 2	(810)	810	–	**–**
Transfers to Stage 3	–	(16,002)	16,002	**–**
Foreign exchange and net other movements	(4,042)	(2,214)	(1,325)	**(7,581)**
At 30 June 2022 (unaudited)	**68,782**	**19,306**	**30,309**	**118,397**

Commercial loans at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(1,075)**	**(3,295)**	**(5,373)**	**(9,743)**
New assets originated	(348)	–	–	**(348)**
Assets repaid	216	585	–	**801**
Transfers to Stage 1	(32)	32	–	**–**
Transfers to Stage 2	7	(7)	–	**–**
Transfers to Stage 3	–	2,057	(2,057)	**–**
Net remeasurement of ECL	339	(716)	(3,008)	**(3,385)**
At 30 June 2022 (unaudited)	**(893)**	**(1,344)**	**(10,438)**	**(12,675)**

Consumer loans at amortized cost, gross	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**24,425**	**319**	**738**	**25,482**
New assets originated	32,406	–	–	**32,406**
Assets repaid	(21,825)	(6)	(8)	**(21,839)**
Transfers to Stage 1	332	(271)	(61)	**–**
Transfers to Stage 2	(1,663)	1,664	(1)	**–**
Transfers to Stage 3	–	(988)	988	**–**
Amounts written off	–	–	(408)	**(408)**
Foreign exchange and net other movements	(84)	77	60	**53**
At 30 June 2022 (unaudited)	**33,591**	**795**	**1,308**	**35,694**

Consumer loans at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(1,136)**	**(48)**	**(738)**	**(1,922)**
New assets originated	(1,316)	–	–	**(1,316)**
Assets repaid	820	3	8	**831**
Transfers to Stage 1	(21)	20	1	**–**
Transfers to Stage 2	119	(119)	–	**–**
Transfers to Stage 3	–	141	(141)	**–**
Amounts written off	–	–	408	**408**
Recoveries	–	–	(50)	**(50)**
Net remeasurement of ECL	112	(95)	(796)	**(779)**
At 30 June 2022 (unaudited)	**(1,422)**	**(98)**	**(1,308)**	**(2,828)**

(Figures in tables are in thousands of Georgian lari)

5. Loans to customers (continued)

Modified and restructured loans

The Bank derecognizes 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 recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. During the six months of 2023, the Bank recognized one new loan in the amount of GEL 889 thousand as 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, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

During six months period ended 30 June 2023, the Bank has modified the terms and conditions of certain commercial loans. The Bank considered these modifications to be non−substantial.

Concentration of loans to customers

As at 30 June 2023, the Bank had a concentration of loans due from three major groups of borrowers with the total exposure of GEL 55,071thousand that represented 16.12% of the total gross loan portfolio (31 December 2022: GEL 54,677 thousand that represented 14.87% of the total gross loan portfolio). An ECL of GEL 792 thousand (31 December 2022: GEL 445 thousand) was recognized against these loans.

Loans are made in the following industry sectors:

	30 June 2023 (unaudited)	*31 December 2022*
Trade and services	106,330	114,150
Individuals	59,967	54,623
Non-banking credit organization	58,849	75,422
Real estate management	50,946	49,314
Energy	40,712	44,194
Construction	15,723	19,546
Agro	9,102	10,370
Other	74	90
	341,703	**367,709**

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, including the Parent.

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.

6. Investment securities

As at 30 June 2023, investment securities mainly comprised of treasury bonds of the Ministry of Finance of Georgia and debt securities of financial institutions and other companies registered in Georgia.

	30 June 2023 (unaudited)	*31 December 2022*
Debt securities at amortised cost		
Bonds of financial institutions	32,886	17,779
Corporate bonds	23,362	20,951
Treasury bonds of the Ministry of Finance of Georgia	5,469	5,469
	61,717	**44,199**
Less: allowance for impairment	(526)	(338)
Total debt securities	**61,191**	**43,861**

(Figures in tables are in thousands of Georgian lari)

6. Investment securities (continued)

An analysis of changes in the gross carrying value in relation to investment securities during six months ended 30 June 2023 is as follows:

	Bonds of financial institutions	*Corporate bonds*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2023	**17,779**	**20,951**	**5,469**	**44,199**
New assets originated	29,000	2,517	–	**31,517**
Assets repaid	(14,000)	–	–	**(14,000)**
Foreign exchange and other movements	107	(106)	–	**1**
At 30 June 2023 (unaudited)	**32,886**	**23,362**	**5,469**	**61,717**

An analysis of changes in the ECL allowances during the six months ended 30 June 2023 is as follows:

	Bonds of financial institutions	*Corporate bonds*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2023	**(68)**	**(270)**	**–**	**(338)**
New assets originated	(281)	(37)	–	**(318)**
Assets repaid	1	–	–	**1**
Foreign exchange and other movements	165	(36)	–	**129**
At 30 June 2023 (unaudited)	**(183)**	**(343)**	**–**	**(526)**

All balances of investment securities are allocated to stage 1.

An analysis of changes in the gross carrying value in relation to investment securities during six months ended 30 June 2022 is as follows:

	Bonds of financial institutions	*Corporate bonds*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2022	**14,057**	**22,875**	**5,469**	**42,401**
New assets originated	–	3,907	–	**3,907**
Assets repaid	–	(2,700)	–	**(2,700)**
Foreign exchange and other movements	(3)	(763)	–	**(766)**
At 30 June 2022 (unaudited)	**14,054**	**23,319**	**5,469**	**42,842**

An analysis of changes in the ECL allowances during the six months ended 30 June 2022 is as follows:

	Bonds of financial institutions	*Corporate bonds*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2022	**(88)**	**(254)**	**–**	**(342)**
New assets originated	–	(61)	–	**(61)**
Assets repaid	–	1	–	**1**
Foreign exchange and other movements	26	33	–	**59**
At 30 June 2022 (unaudited)	**(62)**	**(281)**	**–**	**(343)**

(Figures in tables are in thousands of Georgian lari)

7. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Computers and equipment*	*Motor vehicles*	*Other equipment*	*Leasehold improve-ments*	*Total*
Cost						
1 January 2022	**2,166**	**4,732**	**346**	**535**	**3,605**	**11,384**
Additions	−	200	−	−	−	**200**
Disposals and write−offs	−	−	−	−	(281)	**(281)**
30 June 2022 (unaudited)	**2,166**	**4,932**	**346**	**535**	**3,324**	**11,303**
1 January 2023	**2,096**	**4,940**	**526**	**516**	**3,338**	**11,416**
Additions	38	177	4	4	195	**418**
Disposals and write−offs	−	(50)	(3)	(2)	(108)	**(163)**
30 June 2023 (unaudited)	**2,134**	**5,067**	**527**	**518**	**3,425**	**11,671**
Accumulated depreciation						
1 January 2022	**(1,562)**	**(3,590)**	**(312)**	**(359)**	**(1,734)**	**(7,557)**
Depreciation charge	(179)	(320)	(25)	(32)	(368)	**(924)**
Disposals and write−offs	−	−	−	−	204	**204**
30 June 2022 (unaudited)	**(1,741)**	**(3,910)**	**(337)**	**(391)**	**(1,898)**	**(8,277)**
1 January 2023	**(1,846)**	**(4,153)**	**(347)**	**(408)**	**(2,242)**	**(8,996)**
Depreciation charge	(137)	(220)	(24)	(30)	(353)	**(764)**
Disposals and write−offs	−	44	3	1	91	**139**
30 June 2023 (unaudited)	**(1,983)**	**(4,329)**	**(368)**	**(437)**	**(2,504)**	**(9,621)**
Net book value						
30 June 2022 (unaudited)	**425**	**1,022**	**9**	**144**	**1,426**	**3,026**
31 December 2022	**250**	**787**	**179**	**108**	**1,096**	**2,420**
30 June 2023 (unaudited)	**151**	**738**	**159**	**81**	**921**	**2,050**

As of 30 June 2023, fully depreciated items amounted GEL 5,196 thousand (31 December 2022: GEL 4,100 thousand).

8. Leases

The movement in right−of−use assets and lease liabilities during the six months ended 30 June 2023 were as follows:

	Right−of−use assets	
	Buildings (unaudited)	*Lease liabilities (unaudited)*
As at 1 January 2023	**3,766**	**3,772**
Depreciation expense	(1,011)	−
Interest expense	−	74
Payments	−	(1,013)
Rent concessions	−	(16)
Foreign currency translation difference	−	(121)
As at 30 June 2023 (unaudited)	**2,755**	**2,696**

The Bank recognized rent expense from short−term leases of GEL 330 thousand for the period ended 30 June 2023.

(Figures in tables are in thousands of Georgian lari)

8. Leases (continued)

The movement in right−of−use assets and lease liabilities during the period ended 30 June 2022 were as follows:

	Right−of−use assets	
	Buildings (unaudited)	***Lease liabilities (unaudited)***
As at 1 January 2022	**5,412**	**6,147**
Depreciation expense	(1,019)	**−**
Interest expense	−	131
Payments	−	(1,211)
Rent concessions	−	(18)
Foreign currency translation difference	−	(283)
As at 30 June 2022 (unaudited)	**4,393**	**4,766**

The Bank recognized rent expense from short−term leases of GEL 362 thousand for the period ended 30 June 2022.

9. Intangible assets

The movements in intangible assets were as follows:

	Licenses	***Computer software***	***Total***
Cost			
1 January 2022	**204**	**7,410**	**7,614**
Additions	−	820	**820**
Write−off	−	(582)	**(582)**
30 June 2022 (unaudited)	**204**	**7,648**	**7,852**
1 January 2023	**204**	**8,554**	**8,758**
Additions	−	932	**932**
Write−off	−	(569)	**(569)**
30 June 2023 (unaudited)	**204**	**8,917**	**9,121**
Accumulated amortization			
1 January 2022	**(125)**	**(2,626)**	**(2,751)**
Amortization charge	(10)	(801)	**(811)**
Write−off	−	582	**582**
30 June 2022 (unaudited)	**(135)**	**(2,845)**	**(2,980)**
1 January 2023	**(145)**	**(3,358)**	**(3,503)**
Amortization charge	(10)	(742)	**(752)**
Write−off	−	569	**569**
30 June 2023 (unaudited)	**(155)**	**(3,531)**	**(3,686)**
Net book value			
30 June 2022 (unaudited)	**69**	**4,803**	**4,872**
31 December 2022	**59**	**5,196**	**5,255**
30 June 2023 (unaudited)	**49**	**5,386**	**5,435**

(Figures in tables are in thousands of Georgian lari)

10. Other assets and liabilities

Other assets comprise:

	30 June 2023 (unaudited)	*31 December 2022*
Other non-financial assets		
Repossessed collateral	3,638	604
Prepaid expenses	747	543
Prepaid taxes other than income tax	623	109
Inventory	557	291
Prepayments for acquisition of property and equipment and intangible assets	176	22
Other prepayments	78	104
Prepayments for short-term lease	20	19
	5,839	**1,692**
Other financial assets		
Derivative financial assets	642	390
Funds in settlement	297	363
Accrued commission receivable on guarantees and letters of credit	76	65
Other	254	344
	1,269	**1,162**
Total other assets	**7,108**	**2,854**

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

	30 June 2023 (unaudited)			*31 December 2022*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Forwards/Swaps – domestic	135,501	642	818	163,943	390	935
Total derivative assets/liabilities		**642**	**818**		**390**	**935**

Foreign and domestic in the table above stand for counterparties where foreign means non−Georgian entities and domestic means Georgian entities.

Other liabilities comprise:

	30 June 2023 (unaudited)	*31 December 2022*
Other financial liabilities		
Funds in settlement	1,148	1,169
Derivative financial liabilities	818	935
Payables and accrued expenses	414	384
	2,380	**2,488**
Other non-financial liabilities		
Payable to employees	3,292	3,738
Deferred income	33	28
Taxes other than income tax	29	36
	3,354	**3,802**
Total other liabilities	**5,734**	**6,290**

(Figures in tables are in thousands of Georgian lari)

10. Other assets and liabilities (continued)

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 — 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

Derivatives valued using a valuation technique with market observable inputs are mainly forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates. Derivative financial assets and liabilities are Level 2 of the fair value hierarchy.

11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	Note	*30 June 2023 (unaudited)*	*31 December 2022*
Time deposits and loans from non-resident commercial banks		71,242	67,265
Time deposits from resident commercial banks		7,571	4,326
Overdraft from the Parent	19	7,528	7,379
Deposits from the Ministry of Finance		5,481	11,505
Current accounts of the Parent	19	672	168
Current accounts of the non-resident commercial banks		14	–
Loan from the National Bank of Georgia		–	16,044
Amounts due to credit institutions		**92,508**	**106,687**

As at 30 June 2023 time deposits and loans from non−resident commercial banks are comprised of USD denominated loans and deposits of entity under common control and other non−resident bank (2022: USD denominated deposits and loans of entity under common control and other non-resident bank).

As at 30 June 2023 time deposits placed by two resident commercial banks were denominated in GEL and mature in July 2023 and September 2023 (2022: time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in GEL and matures in September 2023).

Loans from the National Bank of Georgia represent short−term GEL refinancing facility used by the Bank to uphold its liquidity needs in GEL. In June 2023 the Bank repaid the loan to NBG in full. Deposits from the Ministry of Finance represent GEL 5,481 thousand of the long−term deposit placed by the Ministry as the liquidity support measure in return for the similar term treasury bonds purchased by the Bank.

12. Amounts due to customers

The amounts due to customers include the following:

	30 June 2023 (unaudited)	*31 December 2022*
Current and demand accounts	97,511	100,570
Time deposits (including certificates of deposit)	179,739	171,461
Amounts due to customers	**277,250**	**272,031**
Held as security against guarantees issued (Note 16)	8,132	3,471

As at 30 June 2023, amounts due to customers included balances with three major customers of GEL 99,419 thousand that constituted 35.86% of the total of customer accounts (31 December 2022: GEL 105,564 thousand that constituted 38.81%of the total of customer accounts).

(Figures in tables are in thousands of Georgian lari)

12. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	30 June 2023 (unaudited)	*31 December 2022*
Insurance	100,528	85,101
Trade and service	69,239	79,575
Individuals	50,458	42,739
Construction	19,422	20,200
Energy	19,400	13,365
Non-banking credit organizations	15,483	26,802
Government agencies	681	1,330
Real estate management	452	584
Agro	204	376
Transportation and telecommunication	82	128
Mining	11	10
Other	1,290	1,821
Amounts due to customers	**277,250**	**272,031**

13. Subordinated debt

Subordinated loans consisted of the following:

	30 June 2023 (unaudited)	*31 December 2022*
Subordinated loan from the Parent (Note 19)	13,868	13,280
Subordinated loans from entities under common control (Note 19)	12,913	13,279
Subordinated loans	**26,781**	**26,559**

On 19 December 2019 the Bank obtained a USD denominated subordinated loans with the interest rate of 5% p.a. maturing in December 2025 from the Parent and entities under common control. Management considered that interest rate on the loan is better than market rate for the similar instruments, therefore loan was recognized at fair value using market interest rate. The difference of GEL 1,155 thousand between fair value and nominal amount of the loan is recognized as additional paid−in capital. Annual effective interest rate equals 5.88%. The loan is not redeemable before the maturity.

In May 2023 subordinated loan from the Parent was prolonged and matures in December 2030 with the interest rate of 8% p.a. after December 2025. The Bank recognized modification loss of GEL 955 thousand.

The amortized value of the subordinated loan qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was GEL 18,328 thousand (31 December 2022: GEL 10,817).

14. Taxation

On 16 December 2022 amendments to the Georgian tax law in respect of corporate income tax for finance sector became enacted. The amendments became effective from 1 January 2023 and under the new regulation, corporate income tax will be 20% for banks, credit unions, microfinance organizations and lending entities.

The corporate income tax expense for the six months ended 30 June 2023 and 2022 equalled nil.

(Figures in tables are in thousands of Georgian lari)

14. Taxation (continued)

The income tax rate applicable to the Bank's income is 20% (30 June 2022: 15%). The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense on statutory rates with actual is as follows:

	Six months ended 30 June 2023 (unaudited)	*Six months ended 30 June 2022 (unaudited)*
Loss before income tax	**(2,469)**	**(6,474)**
Statutory tax rate	20%	15%
Theoretical income tax benefit at the statutory rate	**494**	**971**
Tax exempt income	76	46
Non−deductible expenses	(11)	(23)
Unrecognized tax losses carried forward	(559)	(994)
Income tax expense	**–**	**–**

As the amendments were enacted the existing corporate tax rate for banks increased from 15% to 20% from 2023 going forward. In addition, from 2023, taxable Interest Income and deductible expected credit losses on loans to customers (ECL) were defined per IFRS.

The Bank's accumulated tax losses at 30 June 2023 equals GEL 28,715 (31 December 2022: GEL 27,641 thousand) thousand on which the Bank recognized gross deferred tax asset of GEL 4,361 thousand (31 December 2022: GEL 4,146 thousand) and respective allowance of GEL 4,017 thousand (31 December 2022: GEL 3,708 thousand).

15. Equity

The share capital of the Bank was contributed by the shareholders in GEL and is entitled to dividends and any capital distribution in GEL. No dividends were declared or paid during the six months ended 30 June 2023 and 30 June 2022.

As at 30 June 2023 the Bank's authorized, issued and fully paid capital amounted to GEL 129,000 thousands comprising of 129,000,000 common shares with nominal value of GEL 1.00 (2022: 129,000 thousand comprising of 129,000,000 common shares). Each common share entitles one vote to the shareholder.

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.

16. Commitments and contingencies

Operating environment

The economic policies of Georgia in the last decade have been mostly consistent and effective in terms of investment and increasing short−term economic growth rates. Nevertheless, these policies failed for the most part in laying the foundations for increasing the competitiveness of the Georgian economy and ensuring long−term economic growth. Moreover, the rates of economic growth have not been sufficient to reach significant part of Georgian population and failed to have an impact on reducing unemployment and poverty levels. According to Georgia's socio−economic development strategy, the economic policy of Georgia is based on the principles of fast and efficient economic growth driven by development of the real sector of economy, implementation of economic policies that would facilitate inclusive economic growth and rational use of natural resources, ensuring environmental safety and sustainability. Georgia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In line with the overall developments in the Georgian banking sector, the Bank has also suffered from the effects of the economic downturn caused by COVID 19 which resulted in the deterioration of the performance and credit risk of the borrowers operating in the vulnerable sectors. This has resulted in the number of restructured loans and significant increase in the ECL rates across all portfolio segments, compared to the average rates existing in the pre−pandemic periods.

(Figures in tables are in thousands of Georgian lari)

16. Commitments and contingencies (continued)

Operating environment (continued)

The subsequent release of practically all restrictions imposed during COVID 19 had a positive overall impact on the economy. Per recent assessments by the reputable rating agency, Georgian banking system is assessed as stable, with declining dollarization, and economic growth prospects are expected to remain favourable despite geopolitical situation.

According to the preliminary estimates published by the National Statistics Office of Georgia, as of June 2023 growth of GDP amounted 7.7%, resulting in six−month average growth of 7.6%. Major contributing factors to the growth have been construction, information and communication, trade, transportation and storage, financial and insurance activities. Declines were observed in manufacturing and real estate activities. Based on the preliminary findings of IMF staff mission to Georgia, the projected real GDP growth is 4% for 2023. After reaching a peak of 13.9%, headline inflation in Georgia has significantly decreased and approached the 3% target level.

According to the current macroeconomic forecast, the annual inflation rate is expected to fall below the target in the short term and then to stabilize at around 3% in the medium term. After a prolonged period of high inflation, below-target inflation in the short run will help a further normalization of long-term inflation expectations, which is a prerequisite for price stability. The National Bank of Georgia has begun a gradual exit from its tight monetary policy and has reduced the policy rate to 10.25% as of issuance date.

Despite the negative effect of the pandemic and war the management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis. The Bank is working to decrease NPLs to reasonable levels using timely restructuring actions, continued support from the Parent and diligent collection actions.

The Bank has applied the latest available macroeconomic forecasts for the ECL measurement purposes. The Bank continues to assess the war and pandemic effect and changing micro− and macroeconomic conditions on its activities, financial position and financial results.

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 Bank 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. 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 30 June 2023 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Legal

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

Commitments and contingencies

As at 30 June 2023, the Bank's commitments and contingencies comprised the following:

	30 June 2023 (unaudited)	***31 December 2022***
Credit related commitments		
Unused credit lines	75,495	62,154
Letters of credit	−	260
	75,495	**62,414**
Performance guarantees issued		
Performance guarantees issued	75,262	61,119
	75,262	**61,119**
Less: ECL for credit related commitments	(450)	(356)
Commitments and contingencies (before deducting collateral)	**150,307**	**123,177**
Less: deposits held as security against guarantees issued (Note 12)	(8,132)	(3,471)
Commitments and contingencies	**142,175**	**119,706**

(Figures in tables are in thousands of Georgian lari)

16. Commitments and contingencies (continued)

Legal (continued)

An analysis of changes in the ECL allowances during the six months ended 30 June 2023 is as follows:

	Unused credit lines
ECL as at 1 January 2023	**(356)**
New exposures	(262)
Matured exposures	181
Foreign exchange and other movements	(13)
At 30 June 2023 (unaudited)	**(450)**

An analysis of changes in the ECL allowances during the six months ended 30 June 2022 is, as follows:

	Unused credit lines
ECL as at 1 January 2022	**(195)**
New exposures	(232)
Matured exposures	224
Foreign exchange and other movements	21
At 30 June 2022 (unaudited)	**(182)**

17. Net fee and commission income

Net fee and commission income comprise:

	Six months ended 30 June 2023 (unaudited)	*Six months ended 30 June 2022 (unaudited)*
Plastic card operations	1,001	453
Guarantees and letters of credits issued	651	369
Settlement operations	320	280
Cash operations	37	23
Fee and commission income	**2,009**	**1,125**
Plastic card operations	(621)	(393)
Settlement operations	(509)	(373)
Cash operations	(3)	(2)
Guarantees and letters of credits issued	–	(35)
Other	(130)	–
Fee and commission expense	**(1,263)**	**(803)**
Net fee and commission income	**746**	**322**

(Figures in tables are in thousands of Georgian lari)

18. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	Six months ended 30 June 2023 (unaudited)	*Six months ended 30 June 2022 (unaudited)*
Salaries	8,855	7,219
Bonuses and other employee benefits	2,590	1,703
Personnel expenses	**11,445**	**8,922**
Professional services	2,184	1,935
Advertising costs	1,096	1,983
Short-term leases	330	362
Personnel training	258	34
Communication	212	176
Office supplies	182	119
Utilities	96	71
Insurance	74	93
Membership fees	68	64
Transportation and business trip expenses	59	17
Corporate hospitality and entertainment	50	45
Maintenance and exploitation	46	34
Charity costs	31	51
Taxes other than income tax	30	30
Deposit insurance fee	29	18
Recruitment costs	25	19
Security expenses	11	13
Other	67	42
General and administrative expenses	**4,848**	**5,106**

19. 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 affected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

	30 June 2023 (unaudited)				*31 December 2022*			
	The Parent	*Key management personnel*	*Entities under common control*	*Other*	*The Parent*	*Key management personnel*	*Entities under common control*	*Other*
Cash and cash equivalents	781	–	1,343	–	227	–	1,694	–
Amounts due from credit institutions	–	–	–	–	–	–	3,472	–
Loans to customers	–	246	–	3	–	252	–	3
Other assets	–	–	14	–	–	–	1	–
Amounts due to credit institutions	(8,199)	–	(18,640)	–	(7,547)	–	(13,982)	–
Amounts due to customers	–	(5,010)	(91,794)	–	–	(4,727)	(88,425)	–
Other liabilities	–	–	(1)	–	–	–	(17)	–
Subordinated debt	(13,868)	–	(12,913)	–	(13,280)	–	(13,279)	–

(Figures in tables are in thousands of Georgian lari)

19. Related party disclosures (continued)

The Bank's liabilities towards related parties amount to 31% of its total liabilities as at 30 June 2023 (31 December 2022: 34%), which represents a significant concentration.

In May 2023 subordinated loan from the Parent was prolonged and matures in December 2030 with the interest rate of 8% p.a. after December 2025. The Bank recognized modification loss of GEL 955 thousand (Note 13).

Income and expense arising from related party transactions are as follows:

	For the six months ended	
	30 June 2023 (unaudited)	***30 June 2022 (unaudited)***
Interest income	34	20
Fee and commission income	20	4
Fee and commission expense	(1)	(1)
Interest expense	(2,611)	(2,854)
Professional fees	(13)	(33)
Charity costs	−	(12)

Compensation of key management personnel was comprised of the following:

	For the six months ended	
	30 June 2023 (unaudited)	***30 June 2022 (unaudited)***
Salaries and other short−term benefits	1,128	1,057

Key management personnel as at 30 June 2023 comprised of 5 members of the Supervisory Board and 3 members of the Board of Directors of the Bank (31 December 2022: 5 members of the Supervisory Board and 3 members of the Board of Directors of the Bank).

20. Capital adequacy

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

The primary objectives of the Bank's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by the NBG and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant or Chief Financial Officer and subsequently submitted to the NBG.

During the six months ended 30 June 2023, the Bank followed externally imposed capital requirements.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

NBG capital adequacy ratio

Under the capital framework, capital requirements are divided into Pillar 1 Requirements for Common Equity Tier 1, Tier 1 and Regulatory Capital and additional buffers under Pillar 1 and Pillar 2.

Pillar 1

- The capital conservation buffer (which was incorporated in minimum capital requirements) is separated and set at 2.5%;
- A countercyclical capital buffer is currently set at 0%;
- A systemic risk buffer will be introduced for systematically important banks over the 4 years period.

(Figures in tables are in thousands of Georgian lari)

20. Capital adequacy (continued)

NBG capital adequacy ratio (continued)

Pillar 2

- A currency induced credit risk (CICR) buffer replaced conservative weighting for un-hedged FX loans denominated in foreign currencies;
- Concentration buffer for sectoral and single borrower exposure will be introduced;
- A net stress buffer will be introduced based on stress testing results provided by the Bank;
- A General Risk-assessment Programme (GRAPE) buffer defined by the regulator, based on the Bank's specific risks.

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 19.67%, Tier 1 Capital ratio of 15.65% and Core Tier 1 Capital ratio of 12.61% of risk−weighted assets, computed based on Basel III requirements. As at 30 June 2023 the Bank's capital adequacy ratio on this basis, as reported to NBG, was as follows:

	Notes	*30 June 2023Per the NBG (unaudited)*	*31 December 2022 Per the NBG**
Share capital	15	129,000	129,000
Retained earnings		(27,341)	(33,136)
Less: intangible assets, net	9	(5,113)	(5,255)
Current period loss		(1,269)	(2,131)
Core tier 1 capital		**95,277**	**88,478**
Tier 1 capital		**95,277**	**88,478**
Tier 2 capital		18,328	10,817
Supplementary capital		−	6,223
Total regulatory capital		**113,605**	**105,518**
Risk weighted assets		**539,187**	**556,153**
Capital adequacy ratio		21.07%	18.97%
Core Tier 1 capital / Tier 1 capital adequacy ratio		17.67%	15.91%

* *December 2022 figures are not comparable due to NBG to IFRS transition during 2023.*

The National Bank of Georgia developed the concept and changes for the transition to IFRS. The Regulation on Identifying Risk Categories of Financial Instruments and Expected Credit Losses was approved, and changes were made to the relevant decrees, to come into force on January 1, 2023. The capital adequacy framework has been amended for this purpose. A credit risk adjustment (CRA) buffer and an updated procedure for its calculation were added to the Regulation on Determining Capital Buffers for Commercial Banks within Pillar 2. The purpose of establishing a credit risk adjustment buffer is to reduce the credit risk caused by insufficient expected credit losses set up for assets, and to determine an adequate capital buffer.

21. Events after the reporting period

On 7 July 2023 the Bank's ownership structure changed and PASHA Bank Georgia has two shareholders OJSC PASHA Bank and PASHA Holding LLC with the shares of 90.2019% and 9.7981% respectively.