

JSC PASHA Bank Georgia

Interim condensed financial statements

*30 June 2019 together with report on
Review of Interim Condensed Financial Statements*

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Report on Review of Interim Condensed Financial Statements

To the Shareholders and Board of Directors of JSC PASHA Bank Georgia

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 2019 and the related interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements 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 condensed financial statements 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 condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Ruslan Khoroshvili

On behalf of EY LLC

14 August 2019

Tbilisi, Georgia

Interim statement of financial position**As at 30 June 2019***(Figures in tables are in thousands of Georgian lari)*

	Notes	30 June 2019 (unaudited)	31 December 2018
Assets			
Cash and cash equivalents	3	54,718	46,503
Amounts due from credit institutions	4	81,567	63,105
Loans to customers	5	234,098	188,834
Investment securities	6	26,324	20,226
Property and equipment	7	11,482	2,136
Intangible assets	8	2,914	2,513
Income tax asset		91	-
Deferred income tax assets	12	416	148
Other assets	9	2,900	3,592
Total assets		414,510	327,057
Liabilities			
Amounts due to credit institutions	10	145,829	110,262
Amounts due to customers	11	152,384	104,539
Provisions for guarantees and letters of credit	14	116	74
Lease liabilities		6,998	-
Other liabilities	9	2,590	1,940
Total liabilities		307,917	216,815
Equity			
Share capital	13	103,000	103,000
Retained earnings		3,593	7,242
Total equity		106,593	110,242
Total equity and liabilities		414,510	327,057

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

Arda Yusuf Arkun



Chairman of the Board of Directors

Chingiz Abdullayev


Chief Financial Officer,
Member of the Board of Directors

14 August 2019

The accompanying notes on pages 5 to 21 are an integral part of these interim condensed financial statements.

Interim statement of comprehensive income**For the six months ended 30 June 2019***(Figures in tables are in thousands of Georgian lari)*

		For the six months ended 30 June 2019 (unaudited)	For the six months ended 30 June 2018 (unaudited)
	Notes		
Interest income calculated using effective interest rate			
Loans to customers		9,828	6,236
Amounts due from credit institutions		1,753	1,283
Investment securities		1,149	2,373
		12,730	9,892
Interest expense			
Amounts due to credit institutions		(2,430)	(1,819)
Amounts due to customers		(1,548)	(468)
Lease liabilities		(174)	-
		(4,152)	(2,287)
Net interest income		8,578	7,605
Credit loss expense on interest bearing assets	4,5,6,14	(1,691)	(543)
Net interest income after impairment losses		6,887	7,060
Net gains/(losses) from foreign currencies			
- dealing		1,012	2,087
- translation differences		685	(988)
Net fee and commission income	15	346	183
Other operating income		-	28
		2,043	1,310
Non-interest income			
Personnel expenses	16	(7,285)	(3,593)
General and administrative expenses	16	(3,030)	(1,987)
Depreciation and amortisation	7,8	(1,525)	(460)
Other operating expenses		(641)	-
Provision for impairment losses on guarantees	14	-	(2)
		(12,481)	(6,042)
Non-interest expenses		(3,551)	2,330
(Loss)/income before income tax expense			
Income tax (expense)/benefit	12	(98)	241
Net (loss)/income for the period		(3,649)	2,571
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(3,649)	2,571

The accompanying notes on pages 5 to 21 are an integral part of these interim condensed financial statements.

Interim statement of changes in equity**For the six months ended 30 June 2019***(Figures in tables are in thousands of Georgian lari)*

	Share capital	Retained earnings	Total equity
1 January 2018	103,000	3,807	106,807
Impact of adopting IFRS 9	–	246	246
Restated opening balance under IFRS 9	103,000	4,053	107,053
Net income for the six months ended 30 June 2018 (unaudited)	–	2,571	2,571
Total comprehensive income for the six months ended 30 June 2018 (unaudited)	–	2,571	2,571
At 30 June 2018 (unaudited)	103,000	6,624	109,624
As at 1 January 2019	103,000	7,242	110,242
Net loss for the six months ended 30 June 2019 (unaudited)	–	(3,649)	(3,649)
Total comprehensive loss for the six months ended 30 June 2019 (unaudited)	–	(3,649)	(3,649)
At 30 June 2019 (unaudited)	103,000	3,593	106,593

Interim statement of cash flows**For the six months ended 30 June 2019***(Figures in tables are in thousands of Georgian lari)*

	<i>For the six months ended 30 June 2019 (unaudited)</i>	<i>For the six months ended 30 June 2018 (unaudited)</i>
Notes		
Cash flows from operating activities		
Interest received	12,644	10,421
Interest paid	(2,477)	(1,723)
Fees and commissions received	603	350
Fees and commissions paid	(293)	(189)
Realised gains less losses from dealing in foreign currencies	1,012	2,087
Personnel expenses paid	(6,772)	(3,868)
General and administrative expenses paid	(3,230)	(2,470)
Other income received	-	28
Cash flows from operating activities before changes in operating assets and liabilities	1,487	4,636
<i>Net (increase)/decrease in operating assets</i>		
Amounts due from credit institutions	(11,369)	(4,956)
Loans to customers	(36,273)	(35,614)
<i>Net increase/(decrease) in operating liabilities</i>		
Amounts due to credit institutions	24,046	14,236
Amounts due to customers	40,533	11,217
Net cash flows from/(used in) operating activities before income tax	18,424	(10,481)
Income tax paid	(457)	-
Net cash flows from/(used in) operating activities before income tax	17,967	(10,481)
Cash flows from investing activities		
Purchase of investment securities	(7,184)	(6,223)
Proceeds from redemption of investment securities	1,180	21,100
Purchase of property and equipment	(3,069)	(236)
Proceeds from sale of property and equipment	-	28
Purchase of intangible assets	(1,032)	(259)
Net cash (used in)/from investing activities	(10,105)	14,410
Effect of exchange rates changes on cash and cash equivalents	353	(837)
Net increase in cash and cash equivalents	8,215	3,092
Cash and cash equivalents, beginning	3 46,503	43,908
Cash and cash equivalents, ending	3 54,718	47,000

The accompanying notes on pages 5 to 21 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 shareholders of the Bank have approved a new strategy of the Bank for the next three year strategic period, based on which, several initiatives will be implemented by the Bank's management during 2019 and in the subsequent years to enter into retail markets.

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 up to GEL 5,000, with certain exceptions.

The Bank has one service office in Georgia as of 30 June 2019. The Bank's registered legal address is 2 Leonidze Str. / 1 G. Tabidze Str., 0105, Tbilisi, Georgia.

As at 30 June 2019 and 31 December 2018, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), domiciled in the Republic of Azerbaijan. The Bank is ultimately owned by Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva, who exercise joint 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 2019, have been prepared in – accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Georgian lari in accordance with International Financial Reporting Standards ("IFRS"). 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 2018.

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

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 2018, except for the adoption of new standards effective from 1 January 2019. The nature and the effect of these changes are disclosed below. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed financial statements of the Bank.

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.

*(Figures in tables are in thousands of Georgian lari)***2. Basis of preparation (continued)****Changes in accounting policies (continued)**

The Bank 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 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank 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 Bank 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 Bank 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 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 Bank did not recognize any transition effect on its retained earnings on 1 January 2019.

The effect of transition to IFRS 16 on the Bank's financial statements at 1 January 2019 was as follows:

	<i>Effect of transition to IFRS 16</i>
Right of use assets	6,463
Prepayments reclassified to right of use assets	(199)
	6,264
Lease liability	

The below table shows the reconciliation between the operating lease commitments disclosed by the Bank 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	6,264
Effect of discounting using incremental borrowing rate as at 1 January 2019	822
<i>Add:</i>	
Short-term leases	38
Commitments relating to terminated leases	7,822
Operating lease commitment at 31 December 2018 as disclosed in Bank's prior year financial statements	14,946

During six months ended 30 June 2019 the Bank recognised rent expense of GEL 650 thousand from short-term leases that were formed during this period.

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

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank 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 Bank; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. 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 Bank 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 Bank.

*(Figures in tables are in thousands of Georgian lari)***2. Basis of preparation (continued)****Changes in accounting policies (continued)**Leases previously accounted for as operating leases

The Bank 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.

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.

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2019 (unaudited)	31 December 2018
Cash on hand	2,507	1,225
Current accounts with the NBG	447	398
Current accounts with credit institutions	7,969	8,237
Time deposits with credit institutions up to 90 days	43,795	36,643
Cash and cash equivalents	54,718	46,503

As at 30 June 2019, current accounts and time deposit accounts with credit institutions denominated in GEL, USD and EUR represent 43.20%, 39.82% and 16.20% of total current and time deposit accounts, respectively (31 December 2018: GEL 43.75%, USD 26.34% and EUR 29.72%).

All balances of cash equivalents are allocated to Stage 1. The ECL relating to cash equivalents of the Bank equals nil.

4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2019 (unaudited)	31 December 2018
Mandatory reserve with the NBG	74,054	43,001
Time deposits for more than 90 days	7,516	20,395
Amounts due from credit institutions	81,570	63,396
Less – allowance for impairment	(3)	(291)
Amounts due from credit institutions	81,567	63,105

Credit institutions are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% and 30% of the average of funds attracted from customers and non-resident financial institutions by a credit institution for the appropriate two-week period in GEL and foreign currencies, respectively.

(Figures in tables are in thousands of Georgian lari)

4. Amounts due from credit institutions (continued)

Time deposits comprise of deposit in USD placed with one resident commercial bank with maturity in July 2019 (31 December 2018: deposits in USD and GEL placed with resident commercial banks with maturities ranging from May 2019 to July 2019).

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the six months ended 30 June 2019 is as follows:

	Gross carrying value	ECL
As at 1 January 2019	20,395	(291)
New assets originated	575	(2)
Assets repaid	(13,541)	289
Foreign exchange and other movements	87	1
At 30 June 2019	7,516	(3)

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

	ECL
As at 1 January 2018	(49)
New assets originated	(682)
Assets repaid	41
Foreign exchange and other movements	(148)
At 30 June 2018	(838)

5. Loans to customers

Loans to customers comprise:

	30 June 2019 (unaudited)	31 December 2018
Corporate	143,124	163,285
Commercial	94,851	27,121
Consumer	303	841
Loans to customers	238,278	191,247
Less – allowance for impairment	(4,180)	(2,413)
Loans to customers	234,098	188,834

Commercial loans include loans to medium sized companies with annual revenue ranging from GEL 1,500 thousands to GEL 10,000 thousands. The Bank initiated issuance of commercial loans in 2018.

An analysis of changes in the gross carrying value in relation to loans to customers during the six months ended 30 June 2019 is as follows:

	Corporate	Commercial	Consumer	Total
Gross carrying value as at 1 January 2019	163,285	27,121	841	191,247
New assets originated	98,518	80,717	–	179,235
Assets repaid	(124,350)	(18,046)	(467)	(142,863)
Amounts written off	–	–	(70)	(70)
Foreign exchange and other movements	5,671	5,059	(1)	10,729
At 30 June 2019	143,124	94,851	303	238,278

All balances of loans to customers are allocated to stage 1.

*(Figures in tables are in thousands of Georgian lari)***5. Loans to customers (continued)**

An analysis of changes in the ECL allowances during the six months ended 30 June 2019 is as follows:

	Corporate	Commercial	Consumer	Total
ECL as at 1 January 2019	(1,891)	(437)	(85)	(2,413)
New assets originated	(1,006)	(1,641)	(4)	(2,651)
Assets repaid	647	167	13	827
Amounts written off	-	-	70	70
Foreign exchange and other movements	77	(90)	-	(13)
At 30 June 2019	(2,173)	(2,001)	(6)	(4,180)

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

	Corporate	Commercial	Consumer	Total
ECL as at 1 January 2018	(2,221)	-	(81)	(2,302)
New assets originated	(706)	-	(11)	(717)
Assets repaid	77	-	8	85
Foreign exchange and other movements	147	-	-	147
At 30 June 2018	(2,703)	-	(84)	(2,787)

As at 30 June 2019, the Bank had a concentration of loans due from three major groups of borrowers with the total exposure of GEL 63,015 thousand that represented 26.45% of the total gross loan portfolio (31 December 2018: GEL 82,188 thousand that represented 42.97% of the total gross loan portfolio). An ECL of GEL 524 thousand (31 December 2018: GEL 639 thousand) was recognized against these loans.

Loans are made in the following industry sectors:

	30 June 2019 (unaudited)	31 December 2018
Trade and services	122,493	81,456
Non-banking credit organizations	48,134	59,158
Real estate management	44,248	21,986
Construction	15,187	5,208
Energy	6,180	6,343
Mining	1,023	775
Individuals	303	841
Transportation and telecommunication	-	14,765
Other	710	715
	238,278	191,247

The Bank takes collateral and other credit enhancements for the loans issued. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are charges over real estate properties and guarantees from the Parent. The Bank also obtains guarantees from parent companies for loans to their subsidiaries. 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.

(Figures in tables are in thousands of Georgian lari)

6. Investment securities

As at 30 June 2019, investment securities mainly comprised of debt securities of financial institutions and other companies registered in Georgia.

	30 June 2019 (unaudited)	31 December 2018
Debt securities at amortised cost		
Corporate bonds	20,198	18,566
Bonds of financial institutions	6,464	1,902
	26,662	20,468
Less: allowance for impairment	(338)	(242)
Total debt securities	26,324	20,226

An analysis of changes in the gross carrying value in relation to investment securities during six months ended 30 June 2019 is as follows:

	Corporate bonds	Bonds of financial institutions	Total
Gross carrying value as at 1 January 2019	18,566	1,902	20,468
New assets originated	2,700	4,484	7,184
Assets repaid	(1,190)	-	(1,190)
Foreign exchange and other movements	122	78	200
At 30 June 2019	20,198	6,464	26,662

An analysis of changes in the ECL allowances during the six months ended 30 June 2019 is as follows:

	Corporate bonds	Bonds of financial institutions	Total
ECL as at 1 January 2019	(203)	(39)	(242)
New assets originated	(25)	(99)	(124)
Assets repaid	19	-	19
Foreign exchange and other movements	9	-	9
At 30 June 2019	(200)	(138)	(338)

All balances of investment securities are allocated to stage 1.

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

	Corporate bonds	Bonds of financial institutions	Certificates of deposit of financial institutions	Total
ECL as at 1 January 2018	(27)	(793)	(45)	(865)
New assets originated	(24)	-	-	(24)
Assets repaid	-	773	-	773
Foreign exchange and other movements	-	-	3	3
At 30 June 2018	(51)	(20)	(42)	(113)

(Figures in tables are in thousands of Georgian lari)

7. Property and equipment

The movements in property and equipment were as follows:

	<i>Furniture and fixtures</i>	<i>Computers and equipment</i>	<i>Motor vehicles</i>	<i>Other equipment</i>	<i>Leasehold improve- ments</i>	<i>Right of use assets</i>	<i>Total</i>
Cost							
31 December 2017	1,852	3,013	380	497	1,916	-	7,658
Additions (unaudited)	13	72	151	-	-	-	236
Disposals and write-offs (unaudited)	-	(6)	(48)	(3)	-	-	(57)
30 June 2018 (unaudited)	1,865	3,079	483	494	1,916	-	7,837
31 December 2018	2,130	3,918	525	579	2,070	-	9,222
IFRS 16 transition effect	-	-	-	-	-	6,264	6,264
1 January 2019	2,130	3,918	525	579	2,070	6,264	15,486
Additions (unaudited)	873	616	-	92	1,506	1,131	4,218
Disposals and write-offs (unaudited)	(982)	(293)	-	(264)	(1,921)	-	(3,460)
30 June 2019 (unaudited)	2,021	4,241	525	407	1,655	7,395	16,244
Accumulated depreciation							
31 December 2017	(1,827)	(2,399)	(189)	(425)	(1,912)	-	(6,752)
Depreciation charge (unaudited)	(9)	(101)	(43)	(38)	-	-	(191)
Disposals and write-offs (unaudited)	-	6	48	-	-	-	54
30 June 2018 (unaudited)	(1,836)	(2,494)	(184)	(463)	(1,912)	-	(6,889)
31 December 2018 and 1 January 2019	(1,846)	(2,609)	(247)	(467)	(1,917)	-	(7,086)
Depreciation charge (unaudited)	(55)	(213)	(52)	(14)	(71)	(721)	(1,126)
Disposals and write-offs (unaudited)	978	292	-	261	1,919	-	3,450
30 June 2019 (unaudited)	(923)	(2,530)	(299)	(220)	(69)	(721)	(4,762)
Net book value							
30 June 2018 (unaudited)	29	585	299	31	4	-	948
31 December 2018	284	1,309	278	112	153	-	2,136
30 June 2019 (unaudited)	1,098	1,711	226	187	1,586	6,674	11,482

Right of use assets as at 30 June 2019 comprise mostly of buildings at cost of GEL 6,952 and net book value of GEL 6,275. Remaining balance is attributable to Motor vehicles.

8. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
Cost			
31 December 2017	989	1,993	2,982
Internal transfer(unaudited)	(838)	838	-
Additions (unaudited)	-	259	259
Write-off (unaudited)	-	(164)	(164)
30 June 2018 (unaudited)	151	2,926	3,077
31 December 2018	151	3,615	3,766
Additions (unaudited)	-	1,432	1,432
Write-off (unaudited)	-	(1,258)	(1,258)
30 June 2019 (unaudited)	151	3,789	3,940
Accumulated amortization			
31 December 2017	(320)	(540)	(860)
Internal transfer of accumulated amortization (unaudited)	260	(260)	-
Amortization charge (unaudited)	(9)	(260)	(269)
Write-off (unaudited)	-	164	164
30 June 2018 (unaudited)	(69)	(896)	(965)
31 December 2018	(77)	(1,176)	(1,253)
Amortization charge (unaudited)	(7)	(392)	(399)
Write-off (unaudited)	-	626	626
30 June 2019 (unaudited)	(84)	(942)	(1,026)
Net book value			
30 June 2018 (unaudited)	82	2,030	2,112
31 December 2018	74	2,439	2,513
30 June 2019 (unaudited)	67	2,847	2,914

(Figures in tables are in thousands of Georgian lari)

9. Other assets and liabilities

Other assets comprise:

	30 June 2019 (unaudited)	31 December 2018
Other non-financial assets		
Prepayments for lease	971	1,270
Prepayments for acquisition of property plant and equipment and intangible assets	737	1,144
Prepaid expenses	571	614
Inventory	207	107
Prepaid taxes other than income tax	10	3
Other	51	39
	2,547	3,177
Other financial assets		
Derivative financial assets	353	415
	353	415
Total other assets	2,900	3,592

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 2019 (unaudited)			31 December 2018		
	Notional amount	Fair values		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Forwards – foreign	45,067	8	–	12,499	–	23
Forwards – domestic	23,717	345	290	26,212	415	46
Total derivative assets/liabilities		353	290		415	69

Other liabilities comprise:

	30 June 2019 (unaudited)	31 December 2018
Other financial liabilities		
Other financial liabilities	239	320
Derivative financial liabilities	290	69
	529	389
Other non-financial liabilities		
Payable to employees	2,037	1,524
Deferred income	24	23
Taxes other than income tax	–	4
	2,061	1,551
Other liabilities	2,590	1,940

*(Figures in tables are in thousands of Georgian lari)***10. Amounts due to credit institutions**

Amounts due to credit institutions comprise:

	30 June 2019 (unaudited)	31 December 2018
Time deposits of non-resident commercial banks	109,374	95,168
Time deposits of the Parent	21,081	7,766
Overdraft from the Parent	7,867	202
Time deposits of resident commercial bank	7,503	7,009
Current accounts of the Parent	4	117
Amounts due to credit institutions	145,829	110,262

As at 30 June 2019 time deposits of non-resident commercial banks are comprised of USD and TRY denominated deposits of an entities under common control and other non-resident banks (2018: USD denominated deposits of an entity under common control and other non-resident banks).

As at 30 June 2019 time deposit placed by a single resident commercial bank was denominated in GEL and matured in July 2019 (2018: time deposits placed by a single resident commercial bank, were denominated in GEL and matured in January 2019).

Time deposits placed by the Parent are denominated in USD with maturities ranging from 2019 to 2022.

11. Amounts due to customers

The amounts due to customers include the following:

	30 June 2019 (unaudited)	31 December 2018
Current and demand accounts	75,861	60,249
Time deposits	76,523	44,290
Amounts due to customers	152,384	104,539
Held as security against guarantees (Note 14)	14,588	8,896

As at 30 June 2019, amounts due to customers included balances with three major customers of GEL 58,431 thousands that constituted 38.34% of the total of customer accounts (31 December 2018: GEL 37,101 thousands that constituted 35.49% of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

	30 June 2019 (unaudited)	31 December 2018
Trade and service	56,766	61,013
Insurance	39,465	6,638
Individuals	31,460	20,328
Non-banking credit organizations	12,442	2,738
Construction	10,024	6,686
Energy	1,176	6,431
Real estate management	128	319
Other	923	386
Amounts due to customers	152,384	104,539

*(Figures in tables are in thousands of Georgian lari)***12. Taxation**

The corporate income tax (expense)/benefit for the six months ended 30 June 2019 and 2018 comprised:

	<i>Six months ended 30 June 2019 (unaudited)</i>	<i>Six months ended 30 June 2018 (unaudited)</i>
Correction of prior year income tax declaration	(366)	-
Deferred tax credit	268	241
Income tax expense	(98)	241

The income tax rate applicable to the Bank's income is 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:

	<i>Six months ended 30 June 2019 (unaudited)</i>	<i>Six months ended 30 June 2018 (unaudited)</i>
(Loss)/income before income tax	(3,551)	2,330
Statutory tax rate	15%	15%
Theoretical income tax benefit/(charge) at the statutory rate	533	(350)
Tax exempt income	38	43
Non-deductible expenses	(110)	(43)
Correction of prior year income tax declaration	(366)	-
Expired tax losses carried forward	(193)	(517)
Effect from change in tax legislation	-	1,108
Income tax (expense)/benefit	(98)	241

Deferred tax assets and liabilities as at 30 June 2019 and 31 December 2018 and their movements for the respective period of six months comprise:

	<i>31 December 2018</i>	<i>Through statement of profit and loss (unaudited)</i>	<i>30 June 2019 (unaudited)</i>
Tax effect of deductible temporary differences			
Tax losses carried forward	193	227	420
Property, plant and equipment	176	(56)	120
Amounts due from credit institutions	44	(44)	-
Other liabilities	110	53	163
Deferred tax asset	523	180	703
Tax effect of taxable temporary differences			
Investment securities	(58)	(3)	(61)
Intangible assets	(69)	(6)	(75)
Loans to customers	(248)	97	(151)
Deferred tax liability	(375)	88	(287)
Deferred tax asset	148	268	416

(Figures in tables are in thousands of Georgian lari)

12. Taxation (continued)

	31 December 2017	Through statement of profit and loss (unaudited)	30 June 2018 (unaudited)
Tax effect of deductible temporary differences			
Tax losses carried forward	–	316	316
Property and equipment	–	194	194
Amounts due from financial institutions	–	126	126
Property and equipment	–	39	39
Other liabilities	–	155	155
Deferred tax asset	–	830	830
Tax effect of taxable temporary differences			
Loans to customers	–	(325)	(325)
Intangible assets	–	(66)	(66)
Investment securities	–	(77)	(77)
Other liabilities	–	(121)	(121)
Deferred tax liability	–	(589)	(589)
Deferred tax asset	–	241	241

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. 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.

Following the enactment of the latest amendment, the Bank recalculated its deferred tax assets at 1 January 2018 and 2019, 30 June 2019 and 2018 and made the relevant recognition of deferred tax benefit in the profit and loss statement for the 6 months ended 30 June 2019 and 2018. As IAS 12 *Income Taxes* requires, the Bank used 0% tax rate applicable for undistributed profits in respect of assets and liabilities expected to be realized or settled in the periods when the new regulation becomes effective starting from 1 January 2023.

The amendments to the Georgian tax law described above also provide for charging corporate income tax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non-market prices, non-business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 *Income Taxes* and will be accounted similar to operating taxes starting from 1 January 2023. Tax law amendments related to such deemed profit distribution did not have any effect on the Bank's condensed financial statements for the period ended 30 June 2019. The Bank's accumulated tax losses as of 30 June 2019 equal GEL 2,800 thousand which expires in 2022 if not utilized.

13. 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 2019 (2018: nil).

As at 30 June 2019 and 31 December 2018, the Bank's authorized, issued and fully paid capital amounted to GEL 103,000 thousands comprising of 103,000,000 common shares with nominal value of GEL 1.00. Each common share entitles one vote to the shareholder.

In accordance with Georgian legislation, dividends may only be declared by the Bank's Parent from the net income as shown in the Bank's financial statements prepared in compliance with the NBG requirements. The Bank is obliged to officially inform the NBG of any dividends declared and the NBG reserves the right to suspend or restrict the disbursement of dividends should the Bank be in breach of the NBG regulations.

*(Figures in tables are in thousands of Georgian lari)***14. 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 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 2019 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

As at 30 June 2019, the Bank's commitments and contingencies comprised the following:

	30 June 2019 (unaudited)	31 December 2018
Credit related commitments		
Unused credit lines	15,657	25,703
Letters of credit	1,618	3,846
	17,275	29,549
Operating lease commitments		
Not later than 1 year	190	2,097
More than 1 year but less than 5 years	-	12,849
	190	14,946
Performance guarantees issued		
Performance guarantees issued	36,261	31,802
	36,261	31,802
Less: ECL for credit related commitments	(116)	(70)
Commitments and contingencies (before deducting collateral)	53,610	76,227
Less: deposits held as security against guarantees issued	(14,588)	(8,896)
Commitments and contingencies	39,022	67,331

An analysis of changes in the ECL allowances during the six months ended 30 June 2019 is, as follows:

	Letters of credit	Unused credit lines	Total
ECL as at 1 January 2019	(2)	(68)	(70)
New exposures	(4)	(159)	(163)
Matured exposures	-	295	295
Foreign exchange and other movements	-	(178)	(178)
At 30 June 2019	(6)	(110)	(116)

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is, as follows:

	Letters of credit	Guarantees	Unused credit lines	Total
ECL as at 1 January 2018	(1)	(12)	(4)	(17)
New exposures	(1)	(2)	(50)	(53)
Matured exposures	-	-	25	25
Foreign exchange and other movements	-	-	5	5
At 30 June 2018	(2)	(14)	(24)	(40)

All balances of guarantees issued and letters of credit are allocated to stage 1.

*(Figures in tables are in thousands of Georgian lari)***15. Net fee and commission income**

Net fee and commission income comprise:

	<i>Six months ended 30 June 2019 (unaudited)</i>	<i>Six months ended 30 June 2018 (unaudited)</i>
Guarantees and letters of credit issued	447	218
Settlement operations	130	76
Cash operations	50	54
Plastic card operations	10	3
Brokerage operations	-	20
Fee and commission income	637	371
Settlement operations	(153)	(107)
Guarantees and letters of credit issued	(50)	(41)
Plastic card operations	(87)	(39)
Cash operations	(1)	(1)
Fee and commission expense	(291)	(188)
Net fee and commission income	346	183

16. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	<i>Six months ended 30 June 2019 (unaudited)</i>	<i>Six months ended 30 June 2018 (unaudited)</i>
Salaries	5,176	2,503
Bonuses and other employee benefits	2,109	1,090
Personnel expenses	7,285	3,593
Professional services	1,390	566
Operating leases	631	873
Advertising costs	192	95
Office supplies	149	31
Utilities	130	61
Maintenance and exploitation	118	29
Transportation and business trip expenses	105	39
Personnel trainings	66	73
Corporate hospitality and entertainment	57	60
Insurance	43	32
Membership fees	29	7
Recruitment costs	17	49
Security expenses	13	31
Taxes other than income tax	8	5
Charity costs	4	18
Deposit insurance fee	2	1
Other	76	17
General and administrative expenses	3,030	1,987

17. Fair values of financial instruments

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.

*(Figures in tables are in thousands of Georgian lari)***17. Fair values of financial instruments (continued)**

The following table shows an analysis of financial instruments for which fair value are disclosed by level of the fair value hierarchy:

At 30 June 2019	Fair value measurement using			Total (unaudited)
	Level 1 (unaudited)	Level 2 (unaudited)	Level 3 (unaudited)	
Assets for which fair values are disclosed				
Cash and cash equivalents	54,718	-	-	54,718
Amounts due from credit institutions	-	-	81,567	81,567
Loans to customers	-	-	234,098	234,098
Investment securities	-	-	27,644	27,644
Assets measured at fair value				
Other assets – derivative financial assets	-	353	-	353

At 30 June 2019	Fair value measurement using			Total (unaudited)
	Level 1 (unaudited)	Level 2 (unaudited)	Level 3 (unaudited)	
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	-	-	145,829	145,829
Amounts due to customers	-	-	152,384	152,384
Liabilities measured at fair value				
Other liabilities – derivative financial assets	-	290	-	290

At 31 December 2018	Fair value measurement using			Total
	Level 1	Level 2	Level 3	
Assets for which fair values are disclosed				
Cash and cash equivalents	46,503	-	-	46,503
Amounts due from credit institutions	-	-	63,105	63,105
Loans to customers	-	-	188,834	188,834
Investment securities	-	-	21,183	21,183
Assets measured at fair value				
Other assets – derivative financial assets	-	415	-	415

At 31 December 2018	Fair value measurement using			Total
	Level 1	Level 2	Level 3	
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	-	-	110,262	110,262
Amounts due to customers	-	-	104,539	104,539
Liabilities measured at fair value				
Other liabilities – derivative financial assets	-	69	-	69

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 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. All of the Bank's financial assets excluding loans to customers (i.e. cash and cash equivalents and amounts due from credit institutions) and financial liabilities excluding amounts due to customers are either liquid or are maturing within 3 months from the reporting date.

*(Figures in tables are in thousands of Georgian lari)***17. Fair values of financial instruments (continued)****Assets for which fair value approximates carrying value (continued)**

The fair value of loans to customers is estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial assets. The majority of loans to customers outstanding as at 30 June were issued within 12 months period ended 30 June 2019 at market interest rates, while the contractual interest rates of those loans issued in 2018 approximate market interest rates as at 30 June 2019. Hence their carrying value approximates their fair value.

As at 30 June 2019 amounts due to customers represent fixed rate financial liabilities carried at amortized cost. The fair value for the amounts due to customers is derived by disclosing future cash flows using broad industry average rates for similar financial liabilities.

Forward foreign exchange contracts are derivatives valued using a valuation technique with market observable inputs. The applied valuation technique for such derivatives includes forward pricing models using present value calculations.

Investment securities

As at 30 June 2019 investment securities represent fixed rated financial assets carried at amortized cost. The fair value is derived by discounting the future cash flows using current market rates for newly issued similar financial assets.

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 Bank'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.

	30 June 2019 (unaudited)			31 December 2018		
	Carrying value	Fair value	Unrecog- nised gain	Carrying value	Fair value	Unrecog- nised gain
Financial assets						
Cash and cash equivalents	54,718	54,718	–	46,503	46,503	–
Amounts due from credit institutions	81,567	81,567	–	63,105	63,105	–
Loans to customers	234,098	234,098	–	188,834	188,834	–
Investments securities	26,324	27,644	1,320	20,226	21,183	957
Other financial assets	353	353	–	415	415	–
Financial liabilities						
Amounts due to credit institutions	145,829	145,829	–	110,262	110,262	–
Amounts due to customers	152,384	152,384	–	104,539	104,539	–
Other financial liabilities	290	290	–	389	389	–
Total unrecognized change in fair value			1,320			957

18. 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.

(Figures in tables are in thousands of Georgian lari)

18. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	30 June 2019 (unaudited)			31 December 2018		
	The Parent	Key management personnel	Entities under common control	The Parent	Key management personnel	Entities under common control
Cash and cash equivalents	940	-	1	1,307	-	25
Loans to customers	-	2	-	-	82	-
Amounts due to credit institutions	(28,952)	-	(46,597)	(8,085)	-	(36,220)
Amounts due to customers	-	(7,131)	(58,962)	-	(6,807)	(24,780)
Other liabilities	-	-	-	(2)	-	-

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

	For the six months ended	
	30 June 2019 (unaudited)	30 June 2018 (unaudited)
Interest income	25	49
Fee and commission income	1	-
Fee and commission expense	(78)	(47)
Interest expense	(1,547)	(1,003)
Professional fees	(67)	-

Compensation of key management personnel was comprised of the following:

	For the six months ended	
	30 June 2019 (unaudited)	30 June 2018 (unaudited)
Salaries and other short-term benefits	929	885

Key management personnel as at 30 June 2019 and 31 December 2018 comprised of 5 members of the Supervisory Board and 3 members of the Board of Directors of the Bank.

19. Capital adequacy

During six months ended 30 June 2019, the Bank complied in full with all its 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

In December 2017 the NBG has introduced amendments to the "Regulation on Capital Adequacy Requirements for Commercial Banks". Under the updated 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)

19. 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 19.1%, Tier 1 Capital ratio of 11.3% and Core Tier 1 Capital ratio of 9.1% of risk-weighted assets, computed based on Basel III requirements. As at 30 June 2019 the Bank's capital adequacy ratio on this basis was as follows:

	<i>Notes</i>	<i>30 June 2019 (unaudited)</i>	<i>Adjustments (unaudited)</i>	<i>30 June 2019 per the NBG (unaudited)</i>
Share capital	13	103,000	–	103,000
Retained earnings		7,242	(2,822)	4,420
Less: intangible assets, net	8	(2,914)	–	(2,914)
Current period income		(3,649)	135	(3,514)
Core tier 1 capital		103,679	(2,687)	100,992
Tier 1 capital		103,679	(2,687)	100,992
Supplementary capital		4,637	431	5,068
Total regulatory capital		108,316	(2,256)	106,060
Risk weighted assets				444,081
Capital adequacy ratio				23.88%
Core Tier 1 capital / Tier 1 capital adequacy ratio				22.74%

	<i>Notes</i>	<i>31 December 2018</i>	<i>Adjustments</i>	<i>31 December 2018 per the NBG</i>
Share capital	13	103,000	–	103,000
Retained earnings		4,053	(1,840)	2,213
Less: intangible assets, net	8	(2,513)	–	(2,513)
Current period income		3,189	(615)	2,574
Core tier 1 capital		107,729	(2,455)	105,274
Tier 1 capital		107,729	(2,455)	105,274
Supplementary capital		3,020	1,020	4,040
Total regulatory capital		110,749	(1,435)	109,314
Risk weighted assets				364,770
Capital adequacy ratio				29.97%
Core Tier 1 capital / Tier 1 capital adequacy ratio				28.86%