

# **JSC PASHA Bank Georgia**

## **Interim condensed financial statements**

*30 June 2022 together with Report on Review of  
Interim Financial Information*

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### Report on Review of Interim Financial Information

#### Interim condensed financial statements

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## Report on Review of Interim Financial Information

To the Shareholder and Board of Directors 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 2022 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 20 to the interim condensed financial statements, which describes a significant concentration of the Bank's transactions with related parties. Our opinion is not modified in respect of this matter.



Ana Kusrashvili

On behalf of EY LLC

Tbilisi, Georgia

15 August 2022

**Interim statement of financial position****As at 30 June 2022***(Figures in tables are in thousands of Georgian lari)*

|                                      | <i>Notes</i> | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|--------------------------------------|--------------|---|-----------------------------|
| <b>Assets</b>                        |              |   |                             |
| Cash and cash equivalents            | 3            | 47,781                                  | 42,380                      |
| Amounts due from credit institutions | 4            | 37,960                                  | 50,662                      |
| Loans to customers                   | 5            | 318,326                                 | 294,973                     |
| Investment securities                | 6            | 42,499                                  | 42,059                      |
| Property and equipment               | 7            | 3,026                                   | 3,827                       |
| Right of use assets                  | 8            | 4,393                                   | 5,412                       |
| Intangible assets                    | 9            | 4,872                                   | 4,863                       |
| Other assets                         | 10           | 2,088                                   | 1,819                       |
| <b>Total assets</b>                  |              | <b>460,945</b>                          | <b>445,995</b>              |
| <b>Liabilities</b>                   |              |   |                             |
| Amounts due to credit institutions   | 11           | 117,933                                 | 123,135                     |
| Amounts due to customers             | 12           | 206,295                                 | 201,987                     |
| Provisions                           | 16           | 250                                     | 240                         |
| Deferred income tax liability        | 14           | -                                       | -                           |
| Lease liabilities                    | 8            | 4,766                                   | 6,147                       |
| Subordinated debt                    | 13           | 28,677                                  | 30,222                      |
| Other liabilities                    | 10           | 4,420                                   | 5,186                       |
| <b>Total liabilities</b>             |              | <b>362,341</b>                          | <b>366,917</b>              |
| <b>Equity</b>                        |              |   |                             |
| Share capital                        | 15           | 129,000                                 | 103,000                     |
| Additional paid-in capital           | 13           | 1,155                                   | 1,155                       |
| Accumulated deficit                  |              | (31,551)                                | (25,077)                    |
| <b>Total equity</b>                  |              | <b>98,604</b>                           | <b>79,078</b>               |
| <b>Total equity and liabilities</b>  |              | <b>460,945</b>                          | <b>445,995</b>              |

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 2022



**Interim statement of comprehensive income****For the six months ended 30 June 2022***(Figures in tables are in thousands of Georgian lari)*

|   | <i>Notes</i>      | <i>For the<br/>six months ended<br/>30 June 2022<br/>(unaudited)</i> | <i>For the<br/>six months ended<br/>30 June 2021<br/>(unaudited)</i> |
|---|-------------------|--|--|
| <b>Interest income calculated using effective interest rate</b>         |                   |  |  |
| Loans to customers  |                   | 16,456   | 14,637   |
| Investment securities   |                   | 2,372  | 2,122  |
| Amounts due from credit institutions                                    |                   | 746  | 236  |
|   |                   | <b>19,574</b>  | <b>16,995</b>  |
| <b>Interest expense</b>   |                   |  |  |
| Amounts due to customers  |                   | (4,130)  | (3,021)  |
| Amounts due to credit institutions                                      |                   | (3,215)  | (3,187)  |
| Subordinated debt   |                   | (768)  | (835)  |
| Lease liabilities   |                   | (131)  | (233)  |
|   |                   | <b>(8,244)</b>   | <b>(7,276)</b>   |
| <b>Net interest income</b>  |                   | <b>11,330</b>  | <b>9,719</b>   |
| Credit (loss)/reverse on interest bearing assets                        | 3, 4, 5, 6,<br>16 | (4,449)  | 3,475  |
| <b>Net interest income after impairment losses</b>                      |                   | <b>6,881</b>   | <b>13,194</b>  |
| <b>Net gains from foreign currencies</b>                                |                   |  |  |
| - Dealing   |                   | 6,403  | 4,065  |
| - Translation differences   |                   | (3,453)  | (2,885)  |
| Net fee and commission income   | 17                | 322  | 197  |
| Net gain on modification of financial assets measured at amortised cost | 5                 | 213  | 106  |
| Other operating income  |                   | 41   | 503  |
| <b>Non-interest income</b>  |                   | <b>3,526</b>   | <b>1,986</b>   |
| Personnel expenses  | 18                | (8,922)  | (7,669)  |
| General and administrative expenses                                     | 18                | (5,106)  | (2,817)  |
| Depreciation and amortisation   | 7, 8, 9           | (2,754)  | (3,020)  |
| Provisions  |                   | (23)   | -  |
| Other operating expenses  |                   | (76)   | (554)  |
| <b>Non-interest expenses</b>  |                   | <b>(16,881)</b>  | <b>(14,060)</b>  |
| <b>(Loss)/profit before income tax expense</b>                          |                   | <b>(6,474)</b>   | <b>1,120</b>   |
| Income tax expense  | 14                | -  | (640)  |
| <b>Net (loss)/profit for the period</b>                                 |                   | <b>(6,474)</b>   | <b>480</b>   |
| Other comprehensive income  |                   | -  | -  |
| <b>Total comprehensive (loss)/profit for the period</b>                 |                   | <b>(6,474)</b>   | <b>480</b>   |

The accompanying notes on pages 5 to 26 are an integral part of these interim condensed financial statements.

**Interim statement of changes in equity****For the six months ended 30 June 2022***(Figures in tables are in thousands of Georgian lari)*

|   | <i>Notes</i> | <i>Share<br/>capital</i> | <i>Additional<br/>paid-in<br/>capital</i> | <i>(Accumulated<br/>deficit)</i> | <i>Total<br/>equity</i> |
|---|--------------|--------------------------|---|----------------------------------|-------------------------|
| <b>As at 1 January 2021</b>   |              | <b>103,000</b>           | <b>1,155</b>                              | <b>(21,071)</b>                  | <b>83,084</b>           |
| Net profit for the six months ended 30 June 2021 (unaudited)                        |              | -                        | -   | 480                              | <b>480</b>              |
| <b>Total comprehensive profit for the six months ended 30 June 2021 (unaudited)</b> |              | <b>-</b>                 | <b>-</b>                                  | <b>480</b>                       | <b>480</b>              |
| <b>At 30 June 2021 (unaudited)</b>  |              | <b>103,000</b>           | <b>1,155</b>                              | <b>(20,591)</b>                  | <b>83,564</b>           |
| <b>As at 1 January 2022</b>   |              | <b>103,000</b>           | <b>1,155</b>                              | <b>(25,077)</b>                  | <b>79,078</b>           |
| Net loss for the six months ended 30 June 2022 (unaudited)                          |              | -                        | -   | (6,474)                          | <b>(6,474)</b>          |
| <b>Total comprehensive loss for the six months ended 30 June 2022 (unaudited)</b>   |              | <b>-</b>                 | <b>-</b>                                  | <b>(6,474)</b>                   | <b>(6,474)</b>          |
| Issue of share capital  | 15           | 26,000                   | -   | -                                | <b>26,000</b>           |
| <b>At 30 June 2022 (unaudited)</b>  |              | <b>129,000</b>           | <b>1,155</b>                              | <b>(31,551)</b>                  | <b>98,604</b>           |

*The accompanying notes on pages 5 to 26 are an integral part of these interim condensed financial statements.*

**Interim statement of cash flows****For the six months ended 30 June 2022***(Figures in tables are in thousands of Georgian lari)*

| <b>Notes</b>   | <b>For the<br/>six months ended<br/>30 June 2022<br/>(unaudited)</b> | <b>For the<br/>six months ended<br/>30 June 2021<br/>(unaudited)</b> |
|--|--|--|
| <b>Cash flows from operating activities</b>  |  |  |
| Interest received  | 18,971   | 17,919   |
| Interest paid  | (13,687)   | (5,747)  |
| Fees and commissions received  | 1,121  | 797  |
| Fees and commissions paid  | (830)  | (913)  |
| Realised gains less losses from dealing in foreign currencies  | 6,403  | 4,065  |
| Personnel expenses paid  | (9,559)  | (8,816)  |
| General and administrative expenses paid   | (4,362)  | (3,868)  |
| <b>Cash flows (used in) / from operating activities before changes in operating assets and liabilities</b> | <b>(1,943)</b>   | <b>3,437</b>   |
| <i>Net (increase)/decrease in operating assets</i>   |  |  |
| Amounts due from credit institutions   | 11,025   | 5,488  |
| Loans to customers   | (41,698)   | 34,107   |
| Other assets   | 37   | 6  |
| <i>Net increase/(decrease) in operating liabilities</i>  |  |  |
| Amounts due to credit institutions   | 6,017  | (7,247)  |
| Amounts due to customers   | 15,732   | (30,795)   |
| Other liabilities  | (1,485)  | (1,274)  |
| <b>Net cash flows (used in) / from operating activities before income tax</b>                              | <b>(12,315)</b>  | <b>3,722</b>   |
| Income tax paid  | -  | -  |
| <b>Net cash flows (used in) / from operating activities before income tax</b>                              | <b>(12,315)</b>  | <b>3,722</b>   |
| <b>Cash flows from investing activities</b>  |  |  |
| Purchase of investment securities  | 6 (3,907)  | -  |
| Proceeds from redemption of investment securities  | 6 2,700  | 4,500  |
| Purchase of property and equipment   | (200)  | (316)  |
| Proceeds from sale of property and equipment   | -  | 153  |
| Purchase of intangible assets  | (820)  | (867)  |
| <b>Net cash (used in) / from investing activities</b>  | <b>(2,227)</b>   | <b>3,470</b>   |
| <b>Cash flows from financing activities</b>  |  |  |
| Principal repayments of lease liability  | (1,211)  | (1,530)  |
| Proceeds from issue of share capital   | 15 26,000  | -  |
| <b>Net cash from / (used in) financing activities</b>  | <b>24,789</b>  | <b>(1,530)</b>   |
| Effect of exchange rates changes on cash and cash equivalents  | (4,818)  | (2,114)  |
| Effect of expected credit losses on cash and cash equivalents  | (28)   | 24   |
| <b>Net increase in cash and cash equivalents</b>   | <b>5,401</b>   | <b>3,572</b>   |
| Cash and cash equivalents, beginning   | 3 42,380   | 39,118   |
| <b>Cash and cash equivalents, ending</b>   | <b>3 47,781</b>  | <b>42,690</b>  |

The accompanying notes on pages 5 to 26 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 up to GEL 5,000, with certain exceptions.

The Bank has four service offices in Georgia as of 30 June 2022. The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 30 June 2022 and 31 December 2021, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), domiciled in the Republic of Azerbaijan. As at 30 June 2022 and 31 December 2021, 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 2022, 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 2021.

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 2022, the Bank has reflected revised estimates of expected future cash flows in its ECL assessment (Notes 3, 5, 6, 16), estimation of fair values of financial instruments (Note 19).

### 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 2021. The following amendments to standards were applied for the first time in the 2022 interim financial period, resulting in consequential changes to the accounting policies and other note disclosures:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

The amendments effective since 1 January 2022 do not have an impact on the interim condensed financial statements of the Bank. 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:

|  | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|--|---|-----------------------------|
| Cash on hand   | 4,677                                   | 4,747                       |
| Current accounts with the NBG                        | 2,257                                   | 168                         |
| Current accounts with other credit institutions      | 32,565                                  | 12,300                      |
| Time deposits with credit institutions up to 90 days | 8,313                                   | 25,168                      |
| Less: allowance for impairment                       | (31)                                    | (3)                         |
| <b>Cash and cash equivalents</b>                     | <b>47,781</b>                           | <b>42,380</b>               |

As at 30 June 2022, current accounts and time deposit accounts with credit institutions denominated in USD, EUR and GEL represent 48.2%, 33.1% and 16.1% of total current and time deposit accounts, respectively (31 December 2021: USD 26.6%, EUR 30.3% and GEL 40.4%).

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:

|   | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|---|---|-----------------------------|
| Mandatory reserve with the NBG              | 35,026                                  | 47,563                      |
| Time deposits for more than 90 days         | 2,938                                   | 3,103                       |
| Less: allowance for impairment              | (4)                                     | (4)                         |
| <b>Amounts due from credit institutions</b> | <b>37,960</b>                           | <b>50,662</b>               |

As at 30 June 2022, amounts due from credit institutions comprise of mandatory reserves with the NBG and time deposits for more than 90 days. 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 2022 is as follows:

|                                      | <b>Gross carrying<br/>value</b> | <b>ECL</b> |
|--------------------------------------|---------------------------------|------------|
| <b>As at 1 January 2022</b>          | <b>3,103</b>                    | <b>(4)</b> |
| New assets originated                | 2,867                           | (6)        |
| Assets repaid                        | (3,224)                         | 1          |
| Foreign exchange and other movements | 192                             | 5          |
| <b>At 30 June 2022</b>               | <b>2,938</b>                    | <b>(4)</b> |

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:

|                                | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|--------------------------------|---|-----------------------------|
| Corporate                      | 182,174                                 | 154,437                     |
| Commercial                     | 118,397                                 | 128,918                     |
| Consumer                       | 35,694                                  | 25,482                      |
| <b>Loans to customers</b>      | <b>336,265</b>                          | <b>308,837</b>              |
| Less: allowance for impairment | (17,939)                                | (13,864)                    |
| <b>Loans to customers</b>      | <b>318,326</b>                          | <b>294,973</b>              |

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 2022 is as follows:

| <b>Corporate loans at amortized cost, gross</b>  | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>    |
|--|----------------|----------------|----------------|-----------------|
| <b>Gross carrying value as at 1 January 2022</b> | <b>114,192</b> | <b>40,245</b>  | -              | <b>154,437</b>  |
| New assets originated                            | 133,058        | -              | -              | <b>133,058</b>  |
| Assets repaid                                    | (96,151)       | (2,587)        | -              | <b>(98,738)</b> |
| 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)           | <b>(6,583)</b>  |
| <b>At 30 June 2022 (unaudited)</b>               | <b>164,498</b> | <b>17,501</b>  | <b>175</b>     | <b>182,174</b>  |

| <b>Corporate loans at amortized cost, allowance for ECL</b> | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>   |
|---|----------------|----------------|----------------|----------------|
| <b>ECL as at 1 January 2022</b>                             | <b>(1,376)</b> | <b>(823)</b>   | -              | <b>(2,199)</b> |
| New assets originated                                       | (1,868)        | -              | -              | <b>(1,868)</b> |
| Assets repaid   | 743            | 23             | -              | <b>766</b>     |
| Transfers to Stage 1  | (81)           | 81             | -              | -              |
| Transfers to Stage 2  | 170            | (170)          | -              | -              |
| Transfers to Stage 3  | -              | 3              | (3)            | -              |
| Foreign exchange and net other movements                    | 473            | 565            | (173)          | <b>865</b>     |
| <b>At 30 June 2022 (unaudited)</b>                          | <b>(1,939)</b> | <b>(321)</b>   | <b>(176)</b>   | <b>(2,436)</b> |

| <b>Commercial loans at amortized cost, gross</b> | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>    |
|--|----------------|----------------|----------------|-----------------|
| <b>Gross carrying value as at 1 January 2022</b> | <b>67,770</b>  | <b>45,516</b>  | <b>15,632</b>  | <b>128,918</b>  |
| New assets originated                            | 21,361         | -              | -              | <b>21,361</b>   |
| Assets repaid                                    | (19,843)       | (4,458)        | -              | <b>(24,301)</b> |
| 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)        | <b>(7,581)</b>  |
| <b>At 30 June 2022 (unaudited)</b>               | <b>68,782</b>  | <b>19,306</b>  | <b>30,309</b>  | <b>118,397</b>  |

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

| <b>Commercial loans at amortized cost, allowance for ECL</b> | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b>  | <b>Total</b>    |
|--|----------------|----------------|-----------------|-----------------|
| <b>ECL as at 1 January 2022</b>                              | <b>(1,075)</b> | <b>(3,295)</b> | <b>(5,373)</b>  | <b>(9,743)</b>  |
| 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)         | -               |
| Foreign exchange and net other movements                     | 339            | (716)          | (3,008)         | (3,385)         |
| <b>At 30 June 2022 (unaudited)</b>                           | <b>(893)</b>   | <b>(1,344)</b> | <b>(10,438)</b> | <b>(12,675)</b> |

| <b>Consumer loans at amortized cost, gross</b>   | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>  |
|--|----------------|----------------|----------------|---------------|
| <b>Gross carrying value as at 1 January 2022</b> | <b>24,425</b>  | <b>319</b>     | <b>738</b>     | <b>25,482</b> |
| 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            |
| <b>At 30 June 2022 (unaudited)</b>               | <b>33,591</b>  | <b>795</b>     | <b>1,308</b>   | <b>35,694</b> |

| <b>Consumer loans at amortized cost, allowance for ECL</b> | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>   |
|--|----------------|----------------|----------------|----------------|
| <b>ECL as at 1 January 2022</b>                            | <b>(1,136)</b> | <b>(48)</b>    | <b>(738)</b>   | <b>(1,922)</b> |
| 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)           |
| Foreign exchange and net other movements                   | 112            | (95)           | (796)          | (779)          |
| <b>At 30 June 2022 (unaudited)</b>                         | <b>(1,422)</b> | <b>(98)</b>    | <b>(1,308)</b> | <b>(2,828)</b> |

An analysis of changes in the gross carrying value in relation to loans to customers during the six months ended 30 June 2021 is as follows.

| <b>Corporate loans at amortized cost, gross</b>  | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>   |
|--|----------------|----------------|----------------|----------------|
| <b>Gross carrying value as at 1 January 2021</b> | <b>122,244</b> | <b>37,390</b>  | <b>-</b>       | <b>159,634</b> |
| New assets originated                            | 40,630         | 250            | -              | 40,880         |
| Assets repaid                                    | (67,063)       | (5,292)        | -              | (72,355)       |
| Transfers to Stage 1                             | 21,891         | (21,891)       | -              | -              |
| Transfers to Stage 2                             | (22,008)       | 22,008         | -              | -              |
| Transfers to Stage 3                             | -              | -              | -              | -              |
| Foreign exchange and net other movements         | (1,829)        | (1,973)        | -              | (3,802)        |
| <b>At 30 June 2021 (unaudited)</b>               | <b>93,865</b>  | <b>30,492</b>  | <b>-</b>       | <b>124,357</b> |

*(Figures in tables are in thousands of Georgian lari)***5. Loans to customers (continued)****Corporate loans at amortized cost,  
allowance for ECL**

|  | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>   |
|--|----------------|----------------|----------------|----------------|
| <b>ECL as at 1 January 2021</b>          | <b>(1,298)</b> | <b>(3,622)</b> | <b>-</b>       | <b>(4,920)</b> |
| New assets originated                    | (451)          | (33)           | -              | (484)          |
| Assets repaid                            | 745            | 690            | -              | 1,435          |
| Transfers to Stage 1                     | (1,912)        | 1,912          | -              | -              |
| Transfers to Stage 2                     | 1,922          | (1,922)        | -              | -              |
| Transfers to Stage 3                     | -              | -              | -              | -              |
| Foreign exchange and net other movements | (95)           | 2,238          | -              | 2,143          |
| <b>At 30 June 2021 (unaudited)</b>       | <b>(1,089)</b> | <b>(737)</b>   | <b>-</b>       | <b>(1,826)</b> |

**Commercial loans at amortized cost, gross**

|  | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>   |
|--|----------------|----------------|----------------|----------------|
| <b>Gross carrying value as at 1 January 2021</b> | <b>120,487</b> | <b>43,327</b>  | <b>4,204</b>   | <b>168,018</b> |
| New assets originated                            | 24,143         | 16,775         | 1,210          | 42,128         |
| Assets repaid                                    | (37,452)       | (11,606)       | (2,046)        | (51,104)       |
| Transfers to Stage 1                             | 7,683          | (7,683)        | -              | -              |
| Transfers to Stage 2                             | (19,837)       | 22,603         | (2,766)        | -              |
| Transfers to Stage 3                             | (1,607)        | (4,763)        | 6,370          | -              |
| Foreign exchange and net other movements         | (2,928)        | (3,820)        | (213)          | (6,961)        |
| <b>At 30 June 2021 (unaudited)</b>               | <b>90,489</b>  | <b>54,833</b>  | <b>6,759</b>   | <b>152,081</b> |

**Commercial loans at amortized cost,  
allowance for ECL**

|  | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>    |
|--|----------------|----------------|----------------|-----------------|
| <b>ECL as at 1 January 2021</b>          | <b>(3,189)</b> | <b>(7,210)</b> | <b>(1,560)</b> | <b>(11,959)</b> |
| New assets originated                    | (668)          | (2,148)        | (463)          | (3,279)         |
| Assets repaid                            | 1,036          | 1,486          | 782            | 3,304           |
| Transfers to Stage 1                     | (750)          | 750            | -              | -               |
| Transfers to Stage 2                     | 1,153          | (1,790)        | 637            | -               |
| Transfers to Stage 3                     | 337            | 1,333          | (1,670)        | -               |
| Foreign exchange and net other movements | (530)          | 2,658          | (386)          | 1,742           |
| <b>At 30 June 2021 (unaudited)</b>       | <b>(2,611)</b> | <b>(4,921)</b> | <b>(2,660)</b> | <b>(10,192)</b> |

**Consumer loans at amortized cost, gross**

|  | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>  |
|--|----------------|----------------|----------------|---------------|
| <b>Gross carrying value as at 1 January 2021</b> | <b>9,163</b>   | <b>783</b>     | <b>9</b>       | <b>9,955</b>  |
| New assets originated                            | 15,550         | 41             | -              | 15,591        |
| Assets repaid                                    | (8,721)        | (15)           | (1)            | (8,737)       |
| Transfers to Stage 1                             | 245            | (228)          | (17)           | -             |
| Transfers to Stage 2                             | (814)          | 816            | (2)            | -             |
| Transfers to Stage 3                             | -              | (903)          | 903            | -             |
| Amounts written off                              | -              | -              | (544)          | (544)         |
| Foreign exchange and net other movements         | 71             | (145)          | 27             | (47)          |
| <b>At 30 June 2021 (unaudited)</b>               | <b>15,494</b>  | <b>349</b>     | <b>375</b>     | <b>16,218</b> |

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

| <b>Consumer loans at amortized cost, allowance for ECL</b> | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>   |
|--|----------------|----------------|----------------|----------------|
| <b>ECL as at 1 January 2021</b>                            | <b>(484)</b>   | <b>(117)</b>   | <b>(9)</b>     | <b>(610)</b>   |
| New assets originated                                      | (792)          | (4)            | -              | <b>(796)</b>   |
| Assets repaid  | 444            | 1              | 1              | <b>446</b>     |
| Transfers to Stage 1                                       | (32)           | 23             | 9              | -              |
| Transfers to Stage 2                                       | 31             | (32)           | 1              | -              |
| Transfers to Stage 3                                       | -              | 502            | (502)          | -              |
| Amounts written off  | -              | -              | 544            | <b>544</b>     |
| Foreign exchange and net other movements                   | 71             | (430)          | (405)          | <b>(764)</b>   |
| <b>At 30 June 2021 (unaudited)</b>                         | <b>(762)</b>   | <b>(57)</b>    | <b>(361)</b>   | <b>(1,180)</b> |

**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.

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 2022, the Bank has modified the terms and conditions of certain commercial loans. The Bank considered these modifications to be non-substantial.

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification gain recognized by the Bank.

| <b>Loans modified during the period</b> | <b>30 June 2022<br/>(unaudited)</b> | <b>30 June 2021<br/>(unaudited)</b> |
|---|-------------------------------------|-------------------------------------|
| Amortised cost before modification      | 1,937                               | 37,767                              |
| Net modification gain                   | 213                                 | 106                                 |

As at 30 June 2022, the Bank had a concentration of loans due from three major groups of borrowers with the total exposure of GEL 49,200 thousand that represented 14.63% of the total gross loan portfolio (31 December 2021: GEL 53,514 thousand that represented 17.33% of the total gross loan portfolio). An ECL of GEL 623 thousand (31 December 2021: GEL 756 thousand) was recognized against these loans.

Loans are made in the following industry sectors:

|                                  | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|----------------------------------|---|-----------------------------|
| Trade and service                | 132,956                                 | 145,424                     |
| Non-banking credit organizations | 51,942                                  | 28,878                      |
| Real estate management           | 47,083                                  | 56,038                      |
| Individuals                      | 35,694                                  | 25,482                      |
| Construction                     | 27,023                                  | 29,792                      |
| Energy                           | 21,491                                  | 18,565                      |
| Mining                           | 11,744                                  | -                           |
| Agro                             | 8,201                                   | 4,359                       |
| Other                            | 131                                     | 299                         |
|                                  | <b>336,265</b>                          | <b>308,837</b>              |

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.

*(Figures in tables are in thousands of Georgian lari)***6. Investment securities**

As at 30 June 2022, 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.

|  | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|--|---|-----------------------------|
| <b>Debt securities at amortised cost</b>             |   |                             |
| Corporate bonds                                      | 23,319                                  | 22,875                      |
| Bonds of financial institutions                      | 14,054                                  | 14,057                      |
| Treasury bonds of the Ministry of Finance of Georgia | 5,469                                   | 5,469                       |
|  | <b>42,842</b>                           | <b>42,401</b>               |
| Less: allowance for impairment                       | (343)                                   | (342)                       |
| <b>Total debt securities</b>                         | <b>42,499</b>                           | <b>42,059</b>               |

As at 30 June 2022, GEL 16,138 thousand worth of investment securities were pledged as a collateral for the loan from the National Bank of Georgia (31 December 2021: GEL 20,102 thousand).

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

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

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

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

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 2021 is as follows:

|  | <b>Corporate<br/>bonds</b> | <b>Bonds of<br/>financial<br/>institutions</b> | <b>Treasury bonds<br/>of the Ministry<br/>of Finance of<br/>Georgia</b> | <b>Total</b>  |
|--|----------------------------|--|---|---------------|
| <b>Gross carrying value as at 1 January 2021</b> | <b>20,449</b>              | <b>20,720</b>                                  | <b>5,469</b>  | <b>46,638</b> |
| New assets originated                            | –                          | –  | –   | –             |
| Assets repaid                                    | –                          | (4,500)  | –   | (4,500)       |
| Foreign exchange and other movements             | (496)                      | (91)   | –   | (587)         |
| <b>At 30 June 2021</b>                           | <b>19,953</b>              | <b>16,129</b>                                  | <b>5,469</b>  | <b>41,551</b> |

*(Figures in tables are in thousands of Georgian lari)***6. Investment securities (continued)**

An analysis of changes in the ECL allowances during the six months ended 30 June 2021 is as follows:

|                                      | <b>Corporate<br/>bonds</b> | <b>Bonds of<br/>financial<br/>institutions</b> | <b>Treasury bonds<br/>of the Ministry<br/>of Finance of<br/>Georgia</b> | <b>Total</b> |
|--------------------------------------|----------------------------|--|---|--------------|
| <b>ECL as at 1 January 2021</b>      | <b>(255)</b>               | <b>(160)</b>                                   | <b>-</b>  | <b>(415)</b> |
| New assets originated                | -                          | -  | -   | -            |
| Assets repaid                        | -                          | 1  | -   | 1            |
| Foreign exchange and other movements | (6)                        | 51   | -   | 45           |
| <b>At 30 June 2021</b>               | <b>(261)</b>               | <b>(108)</b>                                   | <b>-</b>  | <b>(369)</b> |

**7. Property and equipment**

The movements in property and equipment were as follows:

|                                      | <b>Furniture<br/>and fixtures</b> | <b>Computers<br/>and<br/>equipment</b> | <b>Motor<br/>vehicles</b> | <b>Other<br/>equipment</b> | <b>Leasehold<br/>improve-<br/>ments</b> | <b>Total</b>   |
|--------------------------------------|-----------------------------------|--|---------------------------|----------------------------|---|----------------|
| <b>Cost</b>                          |                                   |  |                           |                            |   |                |
| <b>1 January 2021</b>                | <b>2,994</b>                      | <b>5,137</b>                           | <b>561</b>                | <b>688</b>                 | <b>4,405</b>                            | <b>13,785</b>  |
| Additions (unaudited)                | 2                                 | 313                                    | -                         | 2                          | -                                       | 317            |
| Disposals and write-offs (unaudited) | (68)                              | (104)                                  | (214)                     | (13)                       | (797)                                   | (1,196)        |
| <b>30 June 2021 (unaudited)</b>      | <b>2,928</b>                      | <b>5,346</b>                           | <b>347</b>                | <b>677</b>                 | <b>3,608</b>                            | <b>12,906</b>  |
| <b>1 January 2022</b>                | <b>2,166</b>                      | <b>4,732</b>                           | <b>346</b>                | <b>535</b>                 | <b>3,605</b>                            | <b>11,384</b>  |
| Additions (unaudited)                | -                                 | 200                                    | -                         | -                          | -                                       | 200            |
| Disposals and write-offs (unaudited) | -                                 | -                                      | -                         | -                          | (281)                                   | (281)          |
| <b>30 June 2022 (unaudited)</b>      | <b>2,166</b>                      | <b>4,932</b>                           | <b>346</b>                | <b>535</b>                 | <b>3,324</b>                            | <b>11,303</b>  |
| <b>Accumulated depreciation</b>      |                                   |  |                           |                            |   |                |
| <b>1 January 2021</b>                | <b>(1,515)</b>                    | <b>(3,545)</b>                         | <b>(442)</b>              | <b>(338)</b>               | <b>(1,207)</b>                          | <b>(7,047)</b> |
| Depreciation charge (unaudited)      | (223)                             | (380)                                  | (44)                      | (47)                       | (450)                                   | (1,144)        |
| Disposals and write-offs (unaudited) | 28                                | 76                                     | 204                       | 4                          | 301                                     | 613            |
| <b>30 June 2021 (unaudited)</b>      | <b>(1,710)</b>                    | <b>(3,849)</b>                         | <b>(282)</b>              | <b>(381)</b>               | <b>(1,356)</b>                          | <b>(7,578)</b> |
| <b>1 January 2022</b>                | <b>(1,562)</b>                    | <b>(3,590)</b>                         | <b>(312)</b>              | <b>(359)</b>               | <b>(1,734)</b>                          | <b>(7,557)</b> |
| Depreciation charge (unaudited)      | (179)                             | (320)                                  | (25)                      | (32)                       | (368)                                   | (924)          |
| Disposals and write-offs (unaudited) | -                                 | -                                      | -                         | -                          | 204                                     | 204            |
| <b>30 June 2022 (unaudited)</b>      | <b>(1,741)</b>                    | <b>(3,910)</b>                         | <b>(337)</b>              | <b>(391)</b>               | <b>(1,898)</b>                          | <b>(8,277)</b> |
| <b>Net book value</b>                |                                   |  |                           |                            |   |                |
| <b>30 June 2021 (unaudited)</b>      | <b>1,218</b>                      | <b>1,497</b>                           | <b>65</b>                 | <b>296</b>                 | <b>2,252</b>                            | <b>5,328</b>   |
| <b>31 December 2021</b>              | <b>604</b>                        | <b>1,142</b>                           | <b>34</b>                 | <b>176</b>                 | <b>1,871</b>                            | <b>3,827</b>   |
| <b>30 June 2022 (unaudited)</b>      | <b>425</b>                        | <b>1,022</b>                           | <b>9</b>                  | <b>144</b>                 | <b>1,426</b>                            | <b>3,026</b>   |

As of 30 June 2022, fully depreciated items amounted GEL 3,451 thousand (31 December 2021: GEL 3,225 thousand).

*(Figures in tables are in thousands of Georgian lari)***8. Right of use assets**

The movements in right of use assets were as follows:

|                                 | <b><i>Right-of-use<br/>assets</i></b> |
|---------------------------------|---------------------------------------|
| <b>Cost</b>                     |                                       |
| <b>1 January 2021</b>           | <b>12,371</b>                         |
| Additions                       | -                                     |
| Disposals and write-offs        | (1,564)                               |
| <b>30 June 2021 (unaudited)</b> | <b>10,807</b>                         |
| <b>1 January 2022</b>           | <b>9,875</b>                          |
| Additions                       | -                                     |
| Disposals and write-offs        | -                                     |
| <b>30 June 2022 (unaudited)</b> | <b>9,875</b>                          |
| <b>Accumulated depreciation</b> |                                       |
| <b>1 January 2021</b>           | <b>(3,450)</b>                        |
| Depreciation charge             | (1,228)                               |
| Disposals and write-offs        | 726                                   |
| <b>30 June 2021 (unaudited)</b> | <b>(3,952)</b>                        |
| <b>1 January 2022</b>           | <b>(4,463)</b>                        |
| Depreciation charge             | (1,019)                               |
| Disposals and write-offs        | -                                     |
| <b>30 June 2022 (unaudited)</b> | <b>(5,482)</b>                        |
| <b>Net book value</b>           |                                       |
| <b>30 June 2021 (unaudited)</b> | <b>6,855</b>                          |
| <b>31 December 2021</b>         | <b>5,412</b>                          |
| <b>30 June 2022 (unaudited)</b> | <b>4,393</b>                          |

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

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

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

The movement in right-of-use assets and lease liabilities during the period ended 30 June 2021 were as follows:

|   | <b><i>Right-of-use assets</i></b>       |   |
|---|---|---|
|   | <b><i>Buildings<br/>(unaudited)</i></b> | <b><i>Lease liabilities<br/>(unaudited)</i></b> |
| <b>As at 1 January 2021</b>             | <b>8,921</b>                            | <b>10,528</b>                                   |
| Disposals and write offs                | (1,564)                                 | (1,071)   |
| Depreciation expense                    | (1,228)                                 | -   |
| Depreciation of disposal                | 726                                     | -   |
| Interest expense                        | -                                       | 233   |
| Payments                                | -                                       | (1,530)   |
| Rent concessions                        | -                                       | (81)  |
| Foreign currency translation difference | -                                       | (222)   |
| <b>As at 30 June 2021</b>               | <b>6,855</b>                            | <b>7,857</b>                                    |

The Bank recognized rent expense from short-term leases of GEL 461 thousand for the period ended 30 June 2021.



*(Figures in tables are in thousands of Georgian lari)***9. Intangible assets**

The movements in intangible assets were as follows:

|                                 | <i>Licenses</i> | <i>Computer software</i> | <i>Total</i>   |
|---------------------------------|-----------------|--------------------------|----------------|
| <b>Cost</b>                     |                 |                          |                |
| <b>1 January 2021</b>           | <b>149</b>      | <b>6,349</b>             | <b>6,498</b>   |
| Additions                       | 55              | 812                      | 867            |
| Write-off                       | -               | (745)                    | (745)          |
| <b>30 June 2021 (unaudited)</b> | <b>204</b>      | <b>6,416</b>             | <b>6,620</b>   |
| <b>1 January 2022</b>           | <b>204</b>      | <b>7,410</b>             | <b>7,614</b>   |
| Additions                       | -               | 820                      | 820            |
| Write-off                       | -               | (582)                    | (582)          |
| <b>30 June 2022 (unaudited)</b> | <b>204</b>      | <b>7,648</b>             | <b>7,852</b>   |
| <b>Accumulated amortization</b> |                 |                          |                |
| <b>1 January 2021</b>           | <b>(105)</b>    | <b>(2,152)</b>           | <b>(2,257)</b> |
| Amortization charge             | (10)            | (638)                    | (648)          |
| Write-off                       | -               | 743                      | 743            |
| <b>30 June 2021 (unaudited)</b> | <b>(115)</b>    | <b>(2,047)</b>           | <b>(2,162)</b> |
| <b>1 January 2022</b>           | <b>(125)</b>    | <b>(2,626)</b>           | <b>(2,751)</b> |
| Amortization charge             | (10)            | (801)                    | (811)          |
| Write-off                       | -               | 582                      | 582            |
| <b>30 June 2022 (unaudited)</b> | <b>(135)</b>    | <b>(2,845)</b>           | <b>(2,980)</b> |
| <b>Net book value</b>           |                 |                          |                |
| <b>30 June 2021 (unaudited)</b> | <b>89</b>       | <b>4,369</b>             | <b>4,458</b>   |
| <b>31 December 2021</b>         | <b>79</b>       | <b>4,784</b>             | <b>4,863</b>   |
| <b>30 June 2022 (unaudited)</b> | <b>69</b>       | <b>4,803</b>             | <b>4,872</b>   |

**10. Other assets and liabilities**

Other assets comprise:

|   | <i>30 June<br/>2022<br/>(unaudited)</i> | <i>31 December<br/>2021</i> |
|---|---|-----------------------------|
| <b>Other non-financial assets</b>   |   |                             |
| Prepaid expenses  | 531                                     | 583                         |
| Repossessed collateral  | 372                                     | 372                         |
| Inventory   | 317                                     | 228                         |
| Prepaid taxes other than income tax   | 64                                      | 54                          |
| Prepayments for operating lease   | 19                                      | 78                          |
| Prepayments for acquisition of property and equipment and intangible assets | 6                                       | -                           |
|   | <b>1,309</b>                            | <b>1,315</b>                |
| <b>Other financial assets</b>   |   |                             |
| Derivative financial assets   | 276                                     | 186                         |
| Funds in settlement   | 199                                     | 133                         |
| Accrued commission receivable on guarantees and letters of credit           | 52                                      | 28                          |
| Other   | 252                                     | 157                         |
|   | <b>779</b>                              | <b>504</b>                  |
| <b>Total other assets</b>   | <b>2,088</b>                            | <b>1,819</b>                |

*(Figures in tables are in thousands of Georgian lari)***10. Other assets and liabilities (continued)**

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 2022<br>(unaudited) |             |            | 31 December<br>2021 |            |            |
|--|-----------------------------|-------------|------------|---------------------|------------|------------|
|  | Notional<br>amount          | Fair values |            | Notional<br>amount  | Fair value |            |
|  |                             | Asset       | Liability  |                     | Asset      | Liability  |
| Forwards/Swaps – foreign                   | –                           | –           | –          | 48,246              | 53         | 7          |
| Forwards/Swaps – domestic                  | 79,637                      | 276         | 723        | 24,313              | 133        | 325        |
| <b>Total derivative assets/liabilities</b> |                             | <b>276</b>  | <b>723</b> |                     | <b>186</b> | <b>332</b> |

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<br>2022<br>(unaudited) | 31 December<br>2021 |
|--|--------------------------------|---------------------|
| <b>Other financial liabilities</b>     |                                |                     |
| Funds in settlement                    | 1,223                          | 1,963               |
| Derivative financial liabilities       | 723                            | 332                 |
| Payables and accrued expenses          | 614                            | 452                 |
|  | <b>2,560</b>                   | <b>2,747</b>        |
| <b>Other non-financial liabilities</b> |                                |                     |
| Payable to employees                   | 1,792                          | 2,428               |
| Taxes other than income tax            | 49                             | –                   |
| Deferred income                        | 19                             | 11                  |
|  | <b>1,860</b>                   | <b>2,439</b>        |
| <b>Total other liabilities</b>         | <b>4,420</b>                   | <b>5,186</b>        |

**11. Amounts due to credit institutions**

Amounts due to credit institutions comprise:

|  | Note | 30 June<br>2022<br>(unaudited) | 31 December<br>2021 |
|--|------|--------------------------------|---------------------|
| Time deposits and loans from non-resident commercial banks |      | 77,399                         | 81,331              |
| Loan from the National Bank of Georgia                     |      | 16,103                         | 20,026              |
| Deposits from the Ministry of Finance                      |      | 10,296                         | 10,497              |
| Overdraft from the Parent                                  | 20   | 7,470                          | 8,241               |
| Time deposits from resident commercial banks               |      | 5,500                          | 3,001               |
| Current accounts of the Parent                             | 20   | 1,165                          | 39                  |
| <b>Amounts due to credit institutions</b>                  |      | <b>117,933</b>                 | <b>123,135</b>      |

As at 30 June 2022 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 (2021: Time deposits and loans of non-resident commercial banks are comprised of USD denominated deposits and loans of entity under common control and other non-resident bank).

As at 30 June 2022 time deposits placed by two resident commercial banks were denominated in GEL and matured in July 2022 (2021: time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in GEL and matured in January 2022).

*(Figures in tables are in thousands of Georgian lari)***11. Amounts due to credit institutions (continued)**

Loans from the National Bank of Georgia represent short-term GEL refinancing facilities used by the Bank to uphold its liquidity needs in GEL. Deposits from the Ministry of Finance represent GEL 4,815 thousand of short-term funds attracted from the Ministry of Finance as a refinancing facility similar to that of the National Bank of Georgia and 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:

|  | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|--|---|-----------------------------|
| Current and demand accounts                          | 48,291                                  | 50,690                      |
| Time deposits (including certificates of deposit)    | 158,004                                 | 151,297                     |
| <b>Amounts due to customers</b>                      | <b>206,295</b>                          | <b>201,987</b>              |
| Held as security against guarantees issued (Note 16) | 1,982                                   | 2,634                       |

As at 30 June 2022, amounts due to customers included balances with three major customers of GEL 97,685 thousand that constituted 47.35% of the total of customer accounts (31 December 2021: GEL 86,102 thousand that constituted 42.63% of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

|                                      | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|--------------------------------------|---|-----------------------------|
| Insurance                            | 78,362                                  | 68,665                      |
| Trade and service                    | 49,891                                  | 62,810                      |
| Individuals                          | 42,015                                  | 36,487                      |
| Construction                         | 15,722                                  | 9,401                       |
| Energy                               | 9,788                                   | 9,863                       |
| Non-banking credit organizations     | 8,521                                   | 12,515                      |
| Agro                                 | 144                                     | 22                          |
| Real estate management               | 136                                     | 414                         |
| Transportation and telecommunication | 30                                      | -                           |
| Mining                               | 19                                      | 416                         |
| Other                                | 1,667                                   | 1,394                       |
| <b>Amounts due to customers</b>      | <b>206,295</b>                          | <b>201,987</b>              |

**13. Subordinated debt**

Subordinated loans consisted of the following:

|                           | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|---------------------------|---|-----------------------------|
| Subordinated loans        | 28,677                                  | 30,222                      |
| <b>Subordinated loans</b> | <b>28,677</b>                           | <b>30,222</b>               |

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.

The amortised value of the subordinated loan qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was GEL 17,580 thousand (31 December 2021: GEL 18,592).

*(Figures in tables are in thousands of Georgian lari)***14. Taxation**

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

The corporate income tax expense for the six months ended 30 June 2022 and 2021 comprised:

|                           | <b>Six months ended<br/>30 June 2022<br/>(unaudited)</b> | <b>Six months ended<br/>30 June 2021<br/>(unaudited)</b> |
|---------------------------|--|--|
| Deferred tax expense      | –  | (640)  |
| <b>Income tax expense</b> | <b>–</b>   | <b>(640)</b>   |

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:

|  | <b>Six months ended<br/>30 June 2022<br/>(unaudited)</b> | <b>Six months ended<br/>30 June 2021<br/>(unaudited)</b> |
|--|--|--|
| <b>(Loss)/profit before income tax</b>                                 | <b>(6,474)</b>   | <b>1,120</b>   |
| Statutory tax rate   | 15%  | 15%  |
| <b>Theoretical income tax benefit /(expense) at the statutory rate</b> | <b>971</b>   | <b>(168)</b>   |
| Tax exempt income  | 46   | 71   |
| Non-deductible expenses  | (23)   | (101)  |
| Unrecognized tax losses carried forward                                | (994)  | (442)  |
| <b>Income tax expense</b>  | <b>–</b>   | <b>(640)</b>   |

The Bank's accumulated tax losses at 30 June 2022 equals GEL 10,557 (31 December 2021: GEL 6,990 thousand) thousand on which the Bank has tax loss carried forward GEL 1,584 thousand (31 December 2021: GEL 1,049 thousand), out of which GEL 216 thousand (31 December 2021: GEL 675 thousand) was recognized.

Deferred tax assets and liabilities as at 30 June 2022 and 31 December 2021 and their movements for the respective period of six months comprise:

|   | <b>31 December<br/>2021</b> | <b>Through statement<br/>of profit or loss</b> | <b>30 June<br/>2022<br/>(unaudited)</b> |
|---|-----------------------------|--|---|
| <b>Tax effect of deductible temporary differences</b> |                             |  |   |
| Tax losses carried forward                            | 675                         | (459)  | 216                                     |
| Right of use assets                                   | 972                         | 153  | 1,125                                   |
| Property and equipment                                | 171                         | 52   | 223                                     |
| Amounts due from credit institutions                  | 1                           | 4  | 5                                       |
| Other assets  | 25                          | –  | 25                                      |
| Subordinated debt                                     | 50                          | 22   | 72                                      |
| Other liabilities                                     | 303                         | (133)  | 170                                     |
| <b>Deferred tax asset</b>                             | <b>2,197</b>                | <b>(361)</b>                                   | <b>1,836</b>                            |
| <b>Tax effect of taxable temporary differences</b>    |                             |  |   |
| Investment securities                                 | (90)                        | (1)  | (91)                                    |
| Intangible assets                                     | (140)                       | 12   | (128)                                   |
| Loans to customers                                    | (1,124)                     | 573  | (551)                                   |
| Lease liabilities                                     | (843)                       | (223)  | (1,066)                                 |
| <b>Deferred tax liability</b>                         | <b>(2,197)</b>              | <b>361</b>                                     | <b>(1,836)</b>                          |
| <b>Deferred tax asset/(liability)</b>                 | <b>–</b>                    | <b>–</b>                                       | <b>–</b>                                |

*(Figures in tables are in thousands of Georgian lari)***14. Taxation (continued)**

|   | <b>31 December<br/>2020</b> | <b>Through<br/>statement of<br/>profit and loss</b> | <b>30 June<br/>2021<br/>(unaudited)</b> |
|---|-----------------------------|---|---|
| <b>Tax effect of deductible temporary differences</b> |                             |   |   |
| Right of use assets                                   | 622                         | 184   | 806                                     |
| Property and equipment                                | 52                          | 64  | 116                                     |
| Amounts due from credit institutions                  | 4                           | (4)   | –                                       |
| Other assets  | 24                          | –   | 24                                      |
| Subordinated debt                                     | 9                           | 21  | 30                                      |
| Other liabilities                                     | 225                         | (24)  | 201                                     |
| <b>Deferred tax asset</b>                             | <b>936</b>                  | <b>241</b>  | <b>1,177</b>                            |
| <b>Tax effect of taxable temporary differences</b>    |                             |   |   |
| Investment securities                                 | (92)                        | 9   | (83)                                    |
| Intangible assets                                     | (113)                       | 10  | (103)                                   |
| Loans to customers                                    | (603)                       | (622)   | (1,225)                                 |
| Lease liabilities                                     | (354)                       | (278)   | (632)                                   |
| <b>Deferred tax liability</b>                         | <b>(1,162)</b>              | <b>(881)</b>  | <b>(2,043)</b>                          |
| <b>Deferred tax (liability)/asset</b>                 | <b>(226)</b>                | <b>(640)</b>  | <b>(866)</b>                            |

**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 2022 and 30 June 2021.

In March 2022 GEL 26,000 thousand of share capital was injected by the Parent of the Bank. As at 30 June 2022 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 (2021: 103,000 thousand comprising of 103,000,000 common shares). 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.

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 with 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)

During the current reporting period the government continued to gradually lift numerous COVID-19 related restrictions imposed earlier, releasing practically all of them. This has had a positive overall impact on the economy. However, level of uncertainty in relation to potential adverse COVID-19 developments remains.

According to the preliminary estimates June 2022 growth of GDP amounted 7.2%, resulting in six-month average growth of 10.5%. Major contributing factors to the growth have been transportation and storage, electricity, gas, steam and air conditioning supply, hotels and restaurants, mining and quarrying. Based on the preliminary findings of IMF staff mission to Georgia, the 2022 growth is expected to reach 3.2%.

The level of inflation reached 12.8% year-on-year in June 2022. Due to the war initiated by Russia in Ukraine, prices on the international commodity markets have sharply increased. Sanctions and supply disruptions imposed on Russia in response to the aggression as well as sharp restriction of export from Ukraine, lead to the fact that food products, various raw materials on the world markets and energy resources became more expensive. In particular, oil, wheat, sugar, vegetable oil and prices of other food items have risen sharply. According to the Food and Agriculture Organization of the United Nations global food prices are at historic highs in recent months. The increased prices on the international markets are transmitted to Georgia as well, and the inflation remains at the higher than the targeted level. The created new reality aggravates the risks of the inflationary environment.

The NBG has increased its refinancing rate during the six months ended 30 June 2022 to reach 11.0%. As the inflationary expectations remain high for 2022, the NBG remains vigilant against signs of high inflation becoming entrenched and is ready to further increase the refinancing rate if needed. Inflation pressure on developing countries forced central banks to tighten their monetary policies resulting significant increase in their rates. This situation puts pressure on the funding costs of the Bank for hard currencies.

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.

Although the management of the Bank is strongly committed to the further expansion of the Bank on the Georgian market in line with the approved strategic plans, the major medium-term focus amidst the persisting uncertainties related to COVID-19 and Russian-Ukrainian war developments is to restore and preserve sufficient retained earnings to ensure strong platform for future growth and development.

### 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 2022 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

*(Figures in tables are in thousands of Georgian lari)***16. Commitments and contingencies (continued)****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 2022, the Bank's commitments and contingencies comprised the following:

|   | <b>30 June<br/>2022<br/>(unaudited)</b> | <b>31 December<br/>2021</b> |
|---|---|-----------------------------|
| <b>Credit related commitments</b>                                   |   |                             |
| Unused credit lines   | 40,307                                  | 26,461                      |
|   | <b>40,307</b>                           | <b>26,461</b>               |
| <b>Short term lease commitments</b>                                 |   |                             |
| Not later than 1 year   | 94                                      | 195                         |
| More than 1 year but less than 5 years                              | –                                       | 4                           |
|   | <b>94</b>                               | <b>199</b>                  |
| <b>Performance guarantees issued</b>                                |   |                             |
| Performance guarantees issued                                       | 40,623                                  | 25,731                      |
|   | <b>40,623</b>                           | <b>25,731</b>               |
| Less: ECL for credit related commitments                            | (182)                                   | (195)                       |
| <b>Commitments and contingencies (before deducting collateral)</b>  | <b>80,842</b>                           | <b>52,196</b>               |
| Less: deposits held as security against guarantees issued (Note 12) | (1,982)                                 | (2,634)                     |
| <b>Commitments and contingencies</b>                                | <b>78,860</b>                           | <b>49,562</b>               |

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

|                                      | <b>Unused<br/>credit lines</b> | <b>Total</b> |
|--------------------------------------|--------------------------------|--------------|
| <b>ECL as at 1 January 2022</b>      | <b>(195)</b>                   | <b>(195)</b> |
| New exposures                        | (232)                          | (232)        |
| Matured exposures                    | 224                            | 224          |
| Foreign exchange and other movements | 21                             | 21           |
| <b>At 30 June 2022</b>               | <b>(182)</b>                   | <b>(182)</b> |

An analysis of changes in the ECL allowances during the six months ended 30 June 2021 is, as follows:

|                                      | <b>Unused<br/>credit lines</b> | <b>Total</b> |
|--------------------------------------|--------------------------------|--------------|
| <b>ECL as at 1 January 2021</b>      | <b>(395)</b>                   | <b>(395)</b> |
| New exposures                        | (225)                          | (225)        |
| Matured exposures                    | 285                            | 285          |
| Foreign exchange and other movements | (402)                          | (402)        |
| <b>At 30 June 2021</b>               | <b>(737)</b>                   | <b>(737)</b> |

*(Figures in tables are in thousands of Georgian lari)***17. Net fee and commission income**

Net fee and commission income comprise:

|  | <i>Six months ended<br/>30 June 2022<br/>(unaudited)</i> | <i>Six months ended<br/>30 June 2021<br/>(unaudited)</i> |
|--|--|--|
| Plastic card operations                  | 453  | 177  |
| Guarantees and letters of credits issued | 369  | 418  |
| Settlement operations                    | 280  | 205  |
| Cash operations                          | 23   | 42   |
| <b>Fee and commission income</b>         | <b>1,125</b>   | <b>842</b>   |
| Plastic card operations                  | (393)  | (348)  |
| Settlement operations                    | (373)  | (292)  |
| Cash operations                          | (2)  | (5)  |
| Guarantees and letters of credits issued | (35)   | -  |
| <b>Fee and commission expense</b>        | <b>(803)</b>   | <b>(645)</b>   |
| <b>Net fee and commission income</b>     | <b>322</b>   | <b>197</b>   |

**18. Personnel, general and administrative expenses**

Personnel, general and administrative expenses comprise:

|  | <i>Six months ended<br/>30 June 2022<br/>(unaudited)</i> | <i>Six months ended<br/>30 June 2021<br/>(unaudited)</i> |
|--|--|--|
| Salaries                                   | 7,219  | 6,771  |
| Bonuses and other employee benefits        | 1,703  | 898  |
| <b>Personnel expenses</b>                  | <b>8,922</b>   | <b>7,669</b>   |
| Advertising costs                          | 1,983  | 336  |
| Professional services                      | 1,935  | 1,235  |
| Operating leases                           | 362  | 461  |
| Communication                              | 176  | 144  |
| Office supplies                            | 119  | 56   |
| Insurance                                  | 93   | 102  |
| Utilities                                  | 71   | 114  |
| Membership fees                            | 64   | 50   |
| Charity costs                              | 51   | 20   |
| Corporate hospitality and entertainment    | 45   | 24   |
| Maintenance and exploitation               | 34   | 32   |
| Personnel training                         | 34   | 85   |
| Taxes other than income tax                | 30   | 30   |
| Recruitment costs                          | 19   | 13   |
| Deposit insurance fee                      | 18   | 9  |
| Transportation and business trip expenses  | 17   | 7  |
| Security expenses                          | 13   | 18   |
| Other                                      | 42   | 81   |
| <b>General and administrative expenses</b> | <b>5,106</b>   | <b>2,817</b>   |



*(Figures in tables are in thousands of Georgian lari)***19. 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 — 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

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

| <b>At 30 June 2022</b>                                 | <b>Fair value measurement using</b> |                                |                                | <b>Total<br/>(unaudited)</b> |
|--|-------------------------------------|--------------------------------|--------------------------------|------------------------------|
|  | <b>Level 1<br/>(unaudited)</b>      | <b>Level 2<br/>(unaudited)</b> | <b>Level 3<br/>(unaudited)</b> |                              |
| <b>Assets for which fair values are disclosed</b>      |                                     |                                |                                |                              |
| Cash and cash equivalents                              | 47,781                              | –                              | –                              | <b>47,781</b>                |
| Amounts due from credit institutions                   | –                                   | –                              | 37,960                         | <b>37,960</b>                |
| Loans to customers                                     | –                                   | –                              | 321,090                        | <b>321,090</b>               |
| Investment securities                                  | –                                   | 17,124                         | 24,845                         | <b>41,969</b>                |
| <b>Assets measured at fair value</b>                   |                                     |                                |                                |                              |
| Other assets – derivative financial assets             | –                                   | 276                            | –                              | <b>276</b>                   |
| <b>Fair value measurement using</b>                    |                                     |                                |                                |                              |
| <b>At 30 June 2022</b>                                 | <b>Level 1<br/>(unaudited)</b>      | <b>Level 2<br/>(unaudited)</b> | <b>Level 3<br/>(unaudited)</b> | <b>Total<br/>(unaudited)</b> |
| <b>Liabilities for which fair values are disclosed</b> |                                     |                                |                                |                              |
| Amounts due to credit institutions                     | –                                   | 40,914                         | 77,019                         | <b>117,933</b>               |
| Amounts due to customers                               | –                                   | 84,065                         | 122,230                        | <b>206,295</b>               |
| Lease liabilities                                      | –                                   | –                              | 4,766                          | <b>4,766</b>                 |
| Subordinated debt                                      | –                                   | –                              | 28,677                         | <b>28,677</b>                |
| <b>Liabilities measured at fair value</b>              |                                     |                                |                                |                              |
| Other liabilities – derivative financial liabilities   | –                                   | 723                            | –                              | <b>723</b>                   |
| <b>Fair value measurement using</b>                    |                                     |                                |                                |                              |
| <b>At 31 December 2021</b>                             | <b>Level 1</b>                      | <b>Level 2</b>                 | <b>Level 3</b>                 | <b>Total</b>                 |
| <b>Assets for which fair values are disclosed</b>      |                                     |                                |                                |                              |
| Cash and cash equivalents                              | 42,380                              | –                              | –                              | <b>42,380</b>                |
| Amounts due from credit institutions                   | –                                   | –                              | 50,662                         | <b>50,662</b>                |
| Loans to customers                                     | –                                   | –                              | 294,461                        | <b>294,461</b>               |
| Investment securities                                  | –                                   | 5,338                          | 37,538                         | <b>42,876</b>                |
| <b>Assets measured at fair value</b>                   |                                     |                                |                                |                              |
| Other assets – derivative financial assets             | –                                   | 186                            | –                              | <b>186</b>                   |
| <b>Fair value measurement using</b>                    |                                     |                                |                                |                              |
| <b>At 31 December 2021</b>                             | <b>Level 1</b>                      | <b>Level 2</b>                 | <b>Level 3</b>                 | <b>Total</b>                 |
| <b>Liabilities for which fair values are disclosed</b> |                                     |                                |                                |                              |
| Amounts due to credit institutions                     | –                                   | –                              | 123,135                        | <b>123,135</b>               |
| Amounts due to customers                               | –                                   | –                              | 201,987                        | <b>201,987</b>               |
| Lease liabilities                                      | –                                   | –                              | 6,147                          | <b>6,147</b>                 |
| Subordinated debt                                      | –                                   | –                              | 30,222                         | <b>30,222</b>                |
| <b>Liabilities measured at fair value</b>              |                                     |                                |                                |                              |
| Other liabilities – derivative financial liabilities   | –                                   | 332                            | –                              | <b>332</b>                   |

*(Figures in tables are in thousands of Georgian lari)***19. Fair values of financial instruments (continued)****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.

The fair values of the Bank's financial assets and liabilities are estimated by comparing their applicable market interest rates at initial recognition with current market rates on similar financial assets and liabilities. The contractual interest rates of the Bank's investments securities portfolios issued and customer accounts and funding from financial institutions obtained during the reporting period remain at market interest rates and their carrying value approximates their fair value, except for some investment securities which are measured at bid prices from inactive market. The subordinated debt facility obtained by the bank at the end of reporting period ending 31 December 2019 had been recognized at fair value at initial recognition with nor further indicators suggesting significant fair value adjustment to its carrying value.

As at 30 June 2022 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 2022 investment securities represent fixed and floating 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. Some investment securities are measured at bid prices from inactive market and are therefore classified as level 2.

**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 2022<br>(unaudited) |            |                          | 31 December 2021 |            |                          |
|--|-----------------------------|------------|--------------------------|------------------|------------|--------------------------|
|  | Carrying value              | Fair value | Unrecognised gain/(loss) | Carrying value   | Fair value | Unrecognised gain/(loss) |
| <b>Financial assets</b>                        |                             |            |                          |                  |            |                          |
| Cash and cash equivalents                      | 47,781                      | 47,781     | -                        | 42,380           | 42,380     | -                        |
| Amounts due from credit institutions           | 37,960                      | 37,960     | -                        | 50,662           | 50,662     | -                        |
| Loans to customers                             | 318,326                     | 321,090    | 2,764                    | 294,973          | 294,973    | -                        |
| Investments securities                         | 42,499                      | 41,969     | (530)                    | 42,059           | 42,876     | 817                      |
| Other financial assets                         | 779                         | 779        | -                        | 504              | 504        | -                        |
| <b>Financial liabilities</b>                   |                             |            |                          |                  |            |                          |
| Amounts due to credit institutions             | 117,933                     | 117,933    | -                        | 123,135          | 123,135    | -                        |
| Amounts due to customers                       | 206,295                     | 206,295    | -                        | 201,987          | 201,987    | -                        |
| Other financial liabilities                    | 2,560                       | 2,560      | -                        | 2,747            | 2,747      | -                        |
| Lease liabilities                              | 4,766                       | 4,766      | -                        | 6,147            | 6,147      | -                        |
| Subordinated debt                              | 28,677                      | 28,677     | -                        | 30,222           | 30,222     | -                        |
| <b>Total unrecognized change in fair value</b> |                             |            | <b>2,234</b>             |                  |            | <b>817</b>               |

*(Figures in tables are in thousands of Georgian lari)***20. 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:

|                                    | <b>30 June 2022<br/>(unaudited)</b> |                                 |                                      |              | <b>31 December 2021</b> |                                 |                                      |              |
|------------------------------------|-------------------------------------|---------------------------------|--------------------------------------|--------------|-------------------------|---------------------------------|--------------------------------------|--------------|
|                                    | <b>The Parent</b>                   | <b>Key management personnel</b> | <b>Entities under common control</b> | <b>Other</b> | <b>The Parent</b>       | <b>Key management personnel</b> | <b>Entities under common control</b> | <b>Other</b> |
| Cash and cash equivalents          | 148                                 | –                               | 742                                  | –            | 284                     | –                               | 3,946                                | –            |
| Loans to customers                 | –                                   | 302                             | –                                    | 3            | –                       | 322                             | –                                    | 2            |
| Other assets                       | –                                   | 2                               | 22                                   | –            | –                       | –                               | –                                    | –            |
| Amounts due to credit institutions | 8,635                               | –                               | 20,757                               | –            | 8,278                   | –                               | 16,960                               | –            |
| Amounts due to customers           | –                                   | 8,829                           | 96,039                               | –            | –                       | 9,066                           | 86,502                               | –            |
| Other liabilities                  | 1                                   | –                               | 4                                    | –            | –                       | –                               | 3                                    | 7            |
| Subordinated debt                  | 14,338                              | –                               | 14,338                               | –            | 15,111                  | –                               | 15,111                               | –            |

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

|                            | <b>For the six months ended</b>     |                                     |
|----------------------------|-------------------------------------|-------------------------------------|
|                            | <b>30 June 2022<br/>(unaudited)</b> | <b>30 June 2021<br/>(unaudited)</b> |
| Interest income            | 20                                  | 11                                  |
| Fee and commission income  | 4                                   | 1                                   |
| Fee and commission expense | (1)                                 | (4)                                 |
| Interest expense           | (2,854)                             | (3,006)                             |
| Professional fees          | (33)                                | (5)                                 |
| Charity costs              | (12)                                | –                                   |

Compensation of key management personnel was comprised of the following:

|  | <b>For the six months ended</b>     |                                     |
|--|-------------------------------------|-------------------------------------|
|  | <b>30 June 2022<br/>(unaudited)</b> | <b>30 June 2021<br/>(unaudited)</b> |
| Salaries and other short-term benefits | 1,057                               | 965                                 |

Key management personnel as at 30 June 2022 comprised of 5 members of the Supervisory Board and 4 members of the Board of Directors of the Bank (31 December 2021: 5 members of the Supervisory Board and 4 members of the Board of Directors of the Bank).

(Figures in tables are in thousands of Georgian lari)

## 21. 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 2022, the Bank followed externally imposed capital requirements.

As at 30 June 2022 the Bank was in breach of the single related party ratio. This breach does not lead to any regulatory punishment, because of the waiver granted by the NBG. As of the date of the issue of interim condensed financial statements the breach has been fixed.

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.

#### 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.

### NBG special supervisory plan

On 31 March 2020, NBG announced its supervisory plan to combat the negative effects of COVID-19. The plan alleviates the regulatory burden on commercial banks in the period of distress in order to enable them to carry on their businesses and continue lending to real economy. In particular, NBG has allowed commercial banks to use their capital buffers by eliminating the 2.5% conservation buffer and decreasing the foreign currency induced credit risk buffer by 2/3. NBG has also put in place a moratorium on any regulatory breaches of commercial banks caused by external factors such as additional credit losses, foreign exchange rate fluctuations and so on. In March 2022, as described in Note 15 to this financial statements, GEL 26,000 thousand additional share capital was injected by the Parent of the Bank. As a result of this, the Bank stopped using capital buffers.

*(Figures in tables are in thousands of Georgian lari)***21. Capital adequacy (continued)**

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 18.96%, Tier 1 Capital ratio of 13.93% and Core Tier 1 Capital ratio of 11.07% of risk-weighted assets, computed based on Basel III requirements. As at 30 June 2022 the Bank's capital adequacy ratio on this basis was as follows:

|  | <b>Notes</b> | <b>30 June 2022<br/>Per the NBG (unaudited)</b> |
|--|--------------|---|
| Share capital  | 15           | 129,000   |
| Retained earnings  |              | (33,136)  |
| Less: intangible assets, net                               | 9            | (4,872)   |
| Current period income                                      |              | (3,303)   |
|  |              | <b>87,689</b>                                   |
| <b>Core tier 1 capital</b>                                 |              | <b>87,689</b>                                   |
| <b>Tier 1 capital</b>                                      |              | <b>87,689</b>                                   |
| Tier 2 capital   |              | 17,580  |
| Supplementary capital                                      |              | 5,504   |
|  |              | <b>110,773</b>                                  |
| <b>Total regulatory capital</b>                            |              | <b>495,835</b>                                  |
| <b>Risk weighted assets</b>                                |              | <b>22.34%</b>                                   |
| <b>Capital adequacy ratio</b>                              |              | <b>17.69%</b>                                   |
| <b>Core Tier 1 capital / Tier 1 capital adequacy ratio</b> |              |   |

  

|  | <b>Notes</b> | <b>31 December 2021<br/>Per the NBG</b> |
|--|--------------|---|
| Share capital  | 15           | 103,000                                 |
| Retained earnings  |              | (26,983)                                |
| Less: intangible assets, net                               | 9            | (4,863)                                 |
| Current period loss  |              | (6,153)                                 |
|  |              | <b>65,001</b>                           |
| <b>Core tier 1 capital</b>                                 |              | <b>65,001</b>                           |
| <b>Tier 1 capital</b>                                      |              | <b>65,001</b>                           |
| Tier 2 capital   |              | 18,592                                  |
| Supplementary capital                                      |              | 5,256                                   |
|  |              | <b>88,849</b>                           |
| <b>Total regulatory capital</b>                            |              | <b>475,591</b>                          |
| <b>Risk weighted assets</b>                                |              | <b>18.68%</b>                           |
| <b>Capital adequacy ratio</b>                              |              | <b>13.67%</b>                           |
| <b>Core Tier 1 capital / Tier 1 capital adequacy ratio</b> |              |   |