# JSC PASHA Bank Georgia

## Interim condensed financial statements

*30 June 2021 together with*
*Report on Review of Interim Condensed Financial Statements*

# Contents

Building a better working world

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# Report on Review of Interim Financial Information

To the Shareholders 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 condensed statement of financial position as at 30 June 2021 and the related interim condensed statements of income, 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.

Marchello Gelashvili

On behalf of EY LLC

Tbilisi, Georgia

27 August 2021

## Interim statement of financial position

## As at 30 June 2021

*(Figures in tables are in thousands of Georgian lari)*

| | Notes | 30 June 2021 (unaudited) | 31 December 2020 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 3 | 42,690 | 39,118 |
| Amounts due from credit institutions | 4 | 39,617 | 46,518 |
| Loans to customers | 5 | 279,458 | 320,118 |
| Investment securities | 6 | 41,182 | 46,223 |
| Property and equipment | 7 | 5,328 | 6,738 |
| Right of use assets | 8 | 6,855 | 8,921 |
| Intangible assets | 9 | 4,458 | 4,241 |
| Other assets | 10 | 1,907 | 1,527 |
| **Total assets** | | **421,495** | **473,404** |
| **Liabilities** | | | |
| Amounts due to credit institutions | 11 | 122,474 | 131,091 |
| Amounts due to customers | 12 | 173,064 | 210,222 |
| Provisions | 16 | 737 | 395 |
| Deferred income tax liability | 14 | 866 | 226 |
| Lease liabilities | 8 | 7,857 | 10,528 |
| Subordinated debt | 13 | 30,718 | 31,742 |
| Other liabilities | 10 | 2,215 | 6,116 |
| **Total liabilities** | | **337,931** | **390,320** |
| **Equity** | | | |
| Share capital | 15 | 103,000 | 103,000 |
| Additional paid-in capital | 13 | 1,155 | 1,155 |
| Accumulated deficit | | (20,591) | (21,071) |
| **Total equity** | | **83,564** | **83,084** |
| **Total equity and liabilities** | | **421,495** | **473,404** |

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

27 August 2021

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*The accompanying notes on pages 5 to 25 are an integral part of these interim condensed financial statements.*

## Interim statement of comprehensive income

## For the six months ended 30 June 2021

*(Figures in tables are in thousands of Georgian lari)*

| | *Notes* | *For the six months ended 30 June 2021 (unaudited)* | *For the six months ended 30 June 2020 (unaudited)* |
|---|---|---|---|
| **Interest income calculated using effective interest rate** | | | |
| Loans to customers | | 14,637 | 13,402 |
| Investment securities | | 2,122 | 2,107 |
| Amounts due from credit institutions | | 236 | 641 |
| | | **16,995** | **16,150** |
| **Interest expense** | | | |
| Amounts due to credit institutions | | (3,187) | (2,748) |
| Amounts due to customers | | (3,021) | (4,255) |
| Subordinated debt | | (835) | (766) |
| Lease liabilities | | (233) | (307) |
| | | **(7,276)** | **(8,076)** |
| **Net interest income** | | **9,719** | **8,074** |
| Credit reverse/(loss) on interest bearing assets | 3, 4, 5, 6, 16 | 3,475 | (9,675) |
| **Net interest income after impairment losses** | | **13,194** | **(1,601)** |
| **Net gains from foreign currencies** | | | |
| - Dealing | | 4,065 | 4,672 |
| - Translation differences | | (2,885) | (2,174) |
| Net fee and commission income | 17 | 197 | 332 |
| Net gain on modification of financial assets measured at amortised cost | 5 | 106 | – |
| Other operating income | | 503 | 77 |
| **Non-interest income** | | **1,986** | **2,907** |
| Personnel expenses | 18 | (7,669) | (8,547) |
| General and administrative expenses | 18 | (2,817) | (3,408) |
| Depreciation and amortisation | 7, 8, 9 | (3,020) | (3,219) |
| Other operating expenses | | (554) | (2) |
| **Non-interest expenses** | | **(14,060)** | **(15,176)** |
| **Profit/(Loss) before income tax expense** | | **1,120** | **(13,870)** |
| Income tax expense | 14 | (640) | (375) |
| **Net profit/(loss) for the period** | | **480** | **(14,245)** |
| Other comprehensive income | | – | – |
| **Total comprehensive profit/(loss) for the period** | | **480** | **(14,245)** |

*The accompanying notes on pages 5 to 25 are an integral part of these interim condensed financial statements.*

## Interim statement of changes in equity

## For the six months ended 30 June 2021

*(Figures in tables are in thousands of Georgian lari)*

| | *Share capital* | *Additional paid-in capital* | *(Accumulated deficit) / retained earnings* | *Total equity* |
|---|---|---|---|---|
| **As at 1 January 2020** | **103,000** | **1,155** | **(1,818)** | **102,337** |
| Net loss for the six months ended 30 June 2020 (unaudited) | – | – | (14,245) | **(14,245)** |
| **Total comprehensive loss for the six months ended 30 June 2020 (unaudited)** | **–** | **–** | **(14,245)** | **(14,245)** |
| **At 30 June 2020 (unaudited)** | **103,000** | **1,155** | **(16,063)** | **88,092** |
| **As at 1 January 2021** | **103,000** | **1,155** | **(21,071)** | **83,084** |
| Net profit for the six months ended 30 June 2021 (unaudited) | – | – | 480 | **480** |
| **Total comprehensive profit for the six months ended 30 June 2021 (unaudited)** | **–** | **–** | **480** | **480** |
| **At 30 June 2021 (unaudited)** | **103,000** | **1,155** | **(20,591)** | **83,564** |

*The accompanying notes on pages 5 to 25 are an integral part of these interim condensed financial statements.*

## Interim statement of cash flows

## For the six months ended 30 June 2021

*(Figures in tables are in thousands of Georgian lari)*

| | *Notes* | *For the six months ended 30 June 2021 (unaudited)* | *For the six months ended 30 June 2020 (unaudited)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 17,919 | 13,360 |
| Interest paid | | (5,747) | (5,923) |
| Fees and commissions received | | 797 | 700 |
| Fees and commissions paid | | (913) | (448) |
| Realised gains less losses from dealing in foreign currencies | | 4,065 | 4,672 |
| Personnel expenses paid | | (8,816) | (9,050) |
| General and administrative expenses paid | | (3,868) | (4,205) |
| **Cash flows from / (used in) operating activities before changes in operating assets and liabilities** | | **3,437** | **(894)** |
| *Net (increase)/decrease in operating assets* | | | |
| Amounts due from credit institutions | | 5,488 | 7,633 |
| Loans to customers | | 34,107 | 17,203 |
| Other assets | | 6 | – |
| *Net increase/(decrease) in operating liabilities* | | | |
| Amounts due to credit institutions | | (7,247) | (7,212) |
| Amounts due to customers | | (30,795) | (26,328) |
| Other liabilities | | (1,274) | – |
| **Net cash flows from / (used in) operating activities before income tax** | | **3,722** | **(9,598)** |
| Income tax paid | | – | – |
| **Net cash flows from / (used in) operating activities before income tax** | | **3,722** | **(9,598)** |
| **Cash flows from investing activities** | | | |
| Purchase of investment securities | 6 | – | (17,499) |
| Proceeds from redemption of investment securities | 6 | 4,500 | – |
| Purchase of property and equipment | | (316) | (250) |
| Proceeds from sale of property and equipment | | 153 | – |
| Purchase of intangible assets | | (867) | (729) |
| **Net cash from / (used in) activities** | | **3,470** | **(18,478)** |
| **Cash flows from financing activities** | | | |
| Principal repayments of lease liability | | (1,530) | (1,370) |
| **Net cash (used in) financing activities** | | **(1,530)** | **(1,370)** |
| Effect of exchange rates changes on cash and cash equivalents | | (2,114) | 6,188 |
| Effect of expected credit losses on cash and cash equivalents | | 24 | (8) |
| **Net increase/(decrease) in cash and cash equivalents** | | **3,572** | **(23,266)** |
| Cash and cash equivalents, beginning | 3 | 39,118 | 88,951 |
| **Cash and cash equivalents, ending** | 3 | **42,690** | **65,685** |

*The accompanying notes on pages 5 to 25 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 2021. The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 30 June 2021 and 31 December 2020, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), domiciled in the Republic of Azerbaijan. The Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev, who exercise joint control over the Bank.

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

## 2. Basis of preparation

These interim condensed financial statements for the six months ended 30 June 2021, 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 2020.

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

### Effect of COVID-19 pandemic

Due to rapid spread of COVID-19 pandemic in the early 2020 many governments, including Georgian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, tourism restriction, closure of business and other venues and lockdown of certain areas. These have affected the global supply chain, demand for goods and services, as well as scale of business activity. The consequences of the above had been dire for Georgian economy, which plunged 6.2% in 2020 and further 4.5% in the first quarter of 2021. There has been a dramatic rise in poverty and unemployment (18.5%), significant depreciation of GEL against major foreign currencies and increase of external debt to over 60% of GDP. Although the financial sector demonstrated good resilience during the pandemic, non-performing loans (NPLs) increased by 3.5% since the start of the pandemic and total amount of additional provisions created by the banks reached GEL 1.1 billion. As described in the following paragraphs, as of the date of issue of these financial statements, there exists valid evidence of the strong prospective economic recovery in 2021 from the negative effects of the pandemic mentioned above.

The substantial support measures by authorities, aided by considerable donor injections, helped protect vulnerable households and businesses. These measures included, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

As pandemic started to flatline in the end of prior year and the beginning of the current reporting period, the government started to gradually lift the numerous restrictions imposed earlier, releasing practically all of them by the end of March 2021. This has had a positive overall impact on the economy, allowing it to gain impressive momentum over the first half of the year, translating into the officially published 12.7% GDP growth figure in the first six months of the year. The major contributing factors to the growth have been the increase in remittances and exports and early signs of recovery in the tourism sector. Based on the preliminary findings of IMF staff mission to Georgia, the 2021 growth is expected to reach 7.7%, a significant upgrade from the initial estimate.

*(Figures in tables are in thousands of Georgian lari)*

## 2. Basis of preparation (continued)

### Effect of COVID-19 pandemic (continued)

There remains high level uncertainty in relation to potential for adverse COVID-19 developments. Although authorities have been making progress in terms of vaccines supplies, more is needed and vaccinations have to be increased in order to ensure that over 60% of the population is fully vaccinated by the end of the year. New COVID-19 variants or vaccination delays could derail the recovery by requiring new lockdowns and reducing external demand.

The Bank continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

### Estimation uncertainty

To the extent that information is available as at 30 June 2021, 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). For the purposes of ECL estimation as of 30 June 2021 the Bank removed the post model adjustments and sectoral overlays that had been applied on the prior year reporting to reflect the COVID 19 related uncertainties.

### 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 2020.

The nature and the effect of these changes are disclosed below. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Several amendments effective since 1 January 2021 were applied but do not have an impact on the interim condensed financial statements of the Bank.

## 3. Cash and cash equivalents

Cash and cash equivalents comprise:

| | ***30 June 2021 (unaudited)*** | ***31 December 2020*** |
|---|---|---|
| Cash on hand | 5,147 | 5,452 |
| Current accounts with the NBG | 1,734 | 2,776 |
| Current accounts with other credit institutions | 29,556 | 15,608 |
| Time deposits with credit institutions up to 90 days | 6,257 | 15,310 |
| Less: allowance for impairment | (4) | (28) |
| **Cash and cash equivalents** | **42,690** | **39,118** |

As at 30 June 2021, current accounts and time deposit accounts with credit institutions denominated in USD, EUR and GEL represent 59.9%, 21.5% and 17.9% of total current and time deposit accounts, respectively (31 December 2020: USD 18.41%, EUR 58.09% and GEL 19.52%).

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

## 4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | ***30 June 2021 (unaudited)*** | ***31 December 2020*** |
|---|---|---|
| Mandatory reserve with the NBG | 39,617 | 46,518 |
| **Amounts due from credit institutions** | **39,617** | **46,518** |

In 2021 and 2020 credit institutions are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% and 25% of the average of funds attracted from customers and non-resident financial institutions by a credit institution for the appropriate two-week period in GEL and foreign currencies, respectively.

*(Figures in tables are in thousands of Georgian lari)*

## 4. Amounts due from credit institutions (continued)

As at 30 June 2021, amounts due from credit institutions comprise of mandatory reserves with the NBG.

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 2020 is as follows:

| | *Gross carrying value* | *ECL* |
|---|---|---|
| **As at 1 January 2020** | **–** | **–** |
| New assets originated | 13,946 | (81) |
| Assets repaid | (5,103) | 73 |
| Foreign exchange and other movements | 147 | 1 |
| **At 30 June 2020** | **8,990** | **(7)** |

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

## 5. Loans to customers

Loans to customers comprise:

| | *30 June 2021 (unaudited)* | *31 December 2020* |
|---|---|---|
| Corporate | 124,357 | 159,634 |
| Commercial | 152,081 | 168,018 |
| Consumer | 16,218 | 9,955 |
| **Loans to customers** | **292,656** | **337,607** |
| Less: allowance for impairment | (13,198) | (17,489) |
| **Loans to customers** | **279,458** | **320,118** |

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 2021 is as follows:

| *Corporate loans at amortized cost, gross* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2021** | **122,244** | **37,390** | **–** | **159,634** |
| 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 | – | – | – | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | (1,829) | (1,973) | – | **(3,802)** |
| **At 30 June 2021** | **93,865** | **30,492** | **–** | **124,357** |

| *Corporate loans at amortized cost, allowance for ECL* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2021** | **(1,298)** | **(3,622)** | **–** | **(4,920)** |
| 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 | – | – | – | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | (95) | 2,238 | – | **2,143** |
| **At 30 June 2021** | **(1,089)** | **(737)** | – | **(1,826)** |

*(Figures in tables are in thousands of Georgian lari)*

## 5. Loans to customers (continued)

| *Commercial loans at amortized cost, gross* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2021** | **120,487** | **43,327** | **4,204** | **168,018** |
| 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 | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | (2,928) | (3,820) | (213) | **(6,961)** |
| **At 30 June 2021** | **90,489** | **54,833** | **6,759** | **152,081** |

| *Commercial loans at amortized cost, allowance for ECL* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2021** | **(3,189)** | **(7,210)** | **(1,560)** | **(11,959)** |
| 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) | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | (530) | 2,658 | (386) | **1,742** |
| **At 30 June 2021** | **(2,611)** | **(4,921)** | **(2,660)** | **(10,192)** |

| *Consumer loans at amortized cost, gross* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2021** | **9,163** | **783** | **9** | **9,955** |
| 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 other movements | 71 | (145) | 27 | **(47)** |
| **At 30 June 2021** | **15,494** | **349** | **375** | **16,218** |

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

An analysis of changes in the gross carrying value in relation to loans to customers during the six months ended 30 June 2020 is as follows.

| *Corporate loans at amortized cost, gross* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2020** | **158,010** | **–** | **840** | **158,850** |
| New assets originated | 53,653 | – | – | **53,653** |
| Assets repaid | (69,726) | – | – | **(69,726)** |
| Transfers to Stage 1 | – | – | – | **–** |
| Transfers to Stage 2 | (20,765) | 20,765 | – | **–** |
| Transfers to Stage 3 | – | – | – | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | 5,605 | – | – | **5,605** |
| **At 30 June 2020** | **126,777** | **20,765** | **840** | **148,382** |

*(Figures in tables are in thousands of Georgian lari)*

## 5. Loans to customers (continued)

| ***Corporate loans at amortized cost, allowance for ECL*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(1,790)** | **–** | **(705)** | **(2,495)** |
| New assets originated | (628) | – | – | **(628)** |
| Assets repaid | 354 | – | – | **354** |
| Transfers to Stage 1 | – | – | – | **–** |
| Transfers to Stage 2 | 1,714 | (1,714) | – | **–** |
| Transfers to Stage 3 | – | – | – | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | (2,001) | – | – | **(2,001)** |
| **At 30 June 2020** | **(2,351)** | **(1,714)** | **(705)** | **(4,770)** |

| ***Commercial loans at amortized cost, gross*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2020** | **141,304** | **1,808** | **–** | **143,112** |
| New assets originated | 45,034 | – | – | **45,034** |
| Assets repaid | (45,178) | (110) | – | **(45,288)** |
| Transfers to Stage 1 | – | – | – | **–** |
| Transfers to Stage 2 | (23,534) | 23,534 | – | **–** |
| Transfers to Stage 3 | (3,843) | – | 3,843 | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | 8,898 | 161 | 57 | **9,116** |
| **At 30 June 2020** | **122,681** | **25,393** | **3,900** | **151,974** |

| ***Commercial loans at amortized cost, allowance for ECL*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(2,954)** | **(218)** | **–** | **(3,172)** |
| New assets originated | (995) | – | – | **(995)** |
| Assets repaid | 521 | 10 | – | **531** |
| Transfers to Stage 1 | – | – | – | **–** |
| Transfers to Stage 2 | 3,394 | (3,394) | – | **–** |
| Transfers to Stage 3 | 1,660 | – | (1,660) | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | (6,069) | (38) | (454) | **(6,561)** |
| **At 30 June 2020** | **(4,443)** | **(3,640)** | **(2,114)** | **(10,197)** |

| ***Consumer loans at amortized cost, gross*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2020** | **1,523** | **83** | **9** | **1,615** |
| New assets originated | 8,345 | 4 | – | **8,349** |
| Assets repaid | (1,815) | (8) | – | **(1,823)** |
| Transfers to Stage 1 | – | – | – | **–** |
| Transfers to Stage 2 | (100) | 100 | – | **–** |
| Transfers to Stage 3 | – | – | – | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | 35 | (1) | – | **34** |
| **At 30 June 2020** | **7,988** | **178** | **9** | **8,175** |

| ***Consumer loans at amortized cost, allowance for ECL*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(98)** | **(18)** | **(9)** | **(125)** |
| New assets originated | (24) | – | – | **(24)** |
| Assets repaid | 18 | – | – | **18** |
| Transfers to Stage 1 | – | – | – | **–** |
| Transfers to Stage 2 | 22 | (22) | – | **–** |
| Transfers to Stage 3 | – | – | – | **–** |
| Amounts written off | – | – | – | **–** |
| Foreign exchange and other movements | (240) | 3 | – | **(237)** |
| **At 30 June 2020** | **(322)** | **(37)** | **(9)** | **(368)** |

*(Figures in tables are in thousands of Georgian lari)*

## 5. Loans to customers (continued)

### Modified and restructured loans

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

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 2021, the Bank has modified the terms and conditions of certain corporate and commercial loans, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID-19 pandemic. The Bank considered these modifications to be non-substantial.

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

| ***Loans modified during the period*** | ***30 June 2021 (unaudited)*** | ***30 June 2020 (unaudited)*** |
|---|---|---|
| Amortised cost before modification | 37,767 | – |
| Net modification gain | 106 | – |

As at 30 June 2021, the Bank had a concentration of loans due from three major groups of borrowers with the total exposure of GE 47,270 thousand that represented 16.15% of the total gross loan portfolio (31 December 2020: GEL 62,181 thousand that represented 18.42% of the total gross loan portfolio). An ECL of GEL 464 thousand (31 December 2020: GEL 1,310 thousand) was recognized against these loans.

Loans are made in the following industry sectors:

| | ***30 June 2021 (unaudited)*** | ***31 December 2020*** |
|---|---|---|
| Trade and service | 135,360 | 164,561 |
| Real estate management | 68,356 | 79,530 |
| Construction | 32,566 | 34,113 |
| Non-banking credit organizations | 24,923 | 35,296 |
| Individuals | 16,218 | 9,955 |
| Energy | 9,266 | 8,547 |
| Agro | 5,504 | 4,869 |
| Mining | 77 | 136 |
| Other | 386 | 600 |
| | **292,656** | **337,607** |

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 2021, investment securities mainly comprised of treasury bonds of the Ministry of Finance of Georgia and debt securities of financial institutions and other companies registered in Georgia.

| | *30 June 2021 (unaudited)* | *31 December 2020* |
|---|---|---|
| **Debt securities at amortised cost** | | |
| Corporate bonds | 19,953 | 20,449 |
| Bonds of financial institutions | 16,129 | 20,720 |
| Treasury bonds of the Ministry of Finance of Georgia | 5,469 | 5,469 |
| | **41,551** | **46,638** |
| Less: allowance for impairment | (369) | (415) |
| **Total debt securities** | **41,182** | **46,223** |

An analysis of changes in the gross carrying value in relation to investment securities during six months ended 30 June 2021 is as follows:

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

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

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

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 2020 is as follows:

| | *Corporate bonds* | *Bonds of financial institutions* | *Treasury bonds of the Ministry of Finance of Georgia* | *Total* |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2020** | **20,221** | **6,656** | **–** | **26,877** |
| New assets originated | – | 14,004 | 3,499 | **17,503** |
| Assets repaid | – | – | – | **–** |
| Foreign exchange and other movements | 129 | 54 | 11 | **194** |
| **At 30 June 2020** | **20,350** | **20,714** | **3,510** | **44,574** |

*(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 2020 is as follows:

| | *Corporate bonds* | *Bonds of financial institutions* | *Treasury bonds of the Ministry of Finance of Georgia* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(183)** | **(214)** | **–** | **(397)** |
| New assets originated | – | (95) | – | **(95)** |
| Assets repaid | – | – | – | **–** |
| Foreign exchange and other movements | 2 | 71 | – | **73** |
| **At 30 June 2020** | **(181)** | **(238)** | **–** | **(419)** |

## 7. Property and equipment

The movements in property and equipment were as follows:

| | *Furniture and fixtures* | *Computers and equipment* | *Motor vehicles* | *Other equipment* | *Leasehold improve-ments* | *Total* |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **1 January 2020** | **2,949** | **4,734** | **542** | **713** | **4,753** | **13,691** |
| Additions (unaudited) | 61 | 139 | 19 | 11 | 1 | **231** |
| Disposals and write-offs (unaudited) | – | (3) | – | – | (7) | **(10)** |
| **30 June 2020 (unaudited)** | **3,010** | **4,870** | **561** | **724** | **4,747** | **13,912** |
| **1 January 2021** | **2,994** | **5,137** | **561** | **688** | **4,405** | **13,785** |
| Additions (unaudited) | 2 | 313 | – | 2 | – | **317** |
| Disposals and write-offs (unaudited) | (68) | (104) | (214) | (13) | (797) | **(1,196)** |
| **30 June 2021 (unaudited)** | **2,928** | **5,346** | **347** | **677** | **3,608** | **12,906** |
| **Accumulated depreciation** | | | | | | |
| **1 January 2020** | **(1,067)** | **(2,812)** | **(350)** | **(247)** | **(339)** | **(4,815)** |
| Depreciation charge (unaudited) | (227) | (327) | (47) | (49) | (506) | **(1,156)** |
| Disposals and write-offs (unaudited) | – | 1 | – | – | 7 | **8** |
| **30 June 2020 (unaudited)** | **(1,294)** | **(3,138)** | **(397)** | **(296)** | **(838)** | **(5,963)** |
| **1 January 2021** | **(1,515)** | **(3,545)** | **(442)** | **(338)** | **(1,207)** | **(7,047)** |
| Depreciation charge (unaudited) | (223) | (380) | (44) | (47) | (450) | **(1,144)** |
| Disposals and write-offs (unaudited) | 28 | 76 | 204 | 4 | 301 | **613** |
| **30 June 2021 (unaudited)** | **(1,710)** | **(3,849)** | **(282)** | **(381)** | **(1,356)** | **(7,578)** |
| **Net book value** | | | | | | |
| **30 June 2020 (unaudited)** | **1,716** | **1,732** | **164** | **428** | **3,909** | **7,949** |
| **31 December 2020** | **1,479** | **1,592** | **119** | **350** | **3,198** | **6,738** |
| **30 June 2021 (unaudited)** | **1,218** | **1,497** | **65** | **296** | **2,252** | **5,328** |

As of 30 June 2021 fully depreciated items amounted 3,128 GEL (2020: 3,326 GEL).

*(Figures in tables are in thousands of Georgian lari)*

## 8. Right of use assets

The movements in right of use assets were as follows:

| | ***Right-of-use assets (unaudited)*** |
|---|---|
| **1 January 2020** | **6,560** |
| Additions | 7,796 |
| Disposals and write-offs | (891) |
| **30 June 2020** | **13,465** |
| **1 January 2021** | **12,371** |
| Additions | – |
| Disposals and write-offs | (1,564) |
| **30 June 2021** | **10,807** |
| **Accumulated depreciation** | |
| **1 January 2020** | **(1,320)** |
| Depreciation charge | (1,431) |
| Disposals and write-offs | 261 |
| **30 June 2020** | **(2,490)** |
| **1 January 2021** | **(3,450)** |
| Depreciation charge | (1,228) |
| Disposals and write-offs | 726 |
| **30 June 2021** | **(3,952)** |
| **Net book value** | |
| **30 June 2020** | **10,975** |
| **31 December 2020** | **8,921** |
| **30 June 2021** | **6,855** |

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

| | ***Right-of-use assets*** | | | |
|---|---|---|---|---|
| | ***Buildings*** | ***Motor vehicles*** | ***Total*** | ***Lease liabilities*** |
| **As at 1 January 2021** | **8,921** | **–** | **8,921** | **10,528** |
| Additions | – | – | **–** | – |
| Disposals and write offs | (1,564) | – | **(1,564)** | (1,071) |
| Depreciation expense | (1,228) | – | **(1,228)** | – |
| Depreciation of disposal | 726 | – | **726** | – |
| Interest expense | – | – | **–** | 233 |
| Payments | – | – | **–** | (1,530) |
| Rent concessions | – | – | **–** | (81) |
| Foreign currency translation difference | – | – | **–** | **(222)** |
| **As at 30 June 2021** | **6,855** | **–** | **6,855** | **7,857** |

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

The movement in right-of-use assets and lease liabilities during the period ended 30 June 2020 were as follows:

| | ***Right-of-use assets*** | | | |
|---|---|---|---|---|
| | ***Buildings*** | ***Motor vehicles*** | ***Total*** | ***Lease liabilities*** |
| **As at 1 January 2020** | **4,937** | **303** | **5,240** | **5,575** |
| Additions | 7,796 | – | **7,796** | 7,793 |
| Disposals and write offs | (514) | (377) | **(891)** | (726) |
| Depreciation expense | (1,393) | (38) | **(1,431)** | – |
| Depreciation of disposal | 149 | 112 | **261** | – |
| Interest expense | – | – | **–** | 307 |
| Payments | – | – | **–** | (1,370) |
| Foreign currency translation difference | – | – | **–** | 441 |
| **As at 30 June 2020** | **10,975** | **–** | **10,975** | **12,020** |

The Bank recognised rent expense from short-term leases of GEL 452 thousand for the period ended 30 June 2020.

*(Figures in tables are in thousands of Georgian lari)*

## 9. Intangible assets

The movements in intangible assets were as follows:

| | *Licenses* | *Computer software* | *Total* |
|---|---|---|---|
| **Cost** | | | |
| **1 January 2020** | **151** | **5,945** | **6,096** |
| Additions (unaudited) | – | 729 | **729** |
| Disposals and write-off (unaudited) | (2) | (487) | **(489)** |
| **30 June 2020 (unaudited)** | **149** | **6,187** | **6,336** |
| **1 January 2021** | **149** | **6,349** | **6,498** |
| Additions (unaudited) | 55 | 812 | **867** |
| Disposals and write-off (unaudited) | – | (745) | **(745)** |
| **30 June 2021 (unaudited)** | **204** | **6,416** | **6,620** |
| **Accumulated amortization** | | | |
| **1 January 2020** | **(92)** | **(1,397)** | **(1,489)** |
| Amortization charge (unaudited) | (7) | (625) | **(632)** |
| Disposals and write-off (unaudited) | 2 | 487 | **489** |
| **30 June 2020 (unaudited)** | **(97)** | **(1,535)** | **(1,632)** |
| **1 January 2021** | **(105)** | **(2,152)** | **(2,257)** |
| Amortization charge (unaudited) | (10) | (638) | **(648)** |
| Disposals and write-off (unaudited) | – | 743 | **743** |
| **30 June 2021 (unaudited)** | **(115)** | **(2,047)** | **(2,162)** |
| **Net book value** | | | |
| **30 June 2020 (unaudited)** | **52** | **4,652** | **4,704** |
| **31 December 2020** | **44** | **4,197** | **4,241** |
| **30 June 2021 (unaudited)** | **89** | **4,369** | **4,458** |

## 10. Other assets and liabilities

Other assets comprise:

| | *30 June 2021 (unaudited)* | *31 December 2020* |
|---|---|---|
| **Other non-financial assets** | | |
| Prepaid expenses | 620 | 624 |
| Inventory | 252 | 192 |
| Repossessed collateral | 140 | 140 |
| Prepaid taxes other than income tax | 84 | 10 |
| Prepayments for operating lease | 29 | 29 |
| Prepayments for acquisition of property plant and equipment and intangible assets | – | 2 |
| | **1,125** | **997** |
| **Other financial assets** | | |
| Funds in settlement | 388 | 147 |
| Derivative financial assets | 334 | 302 |
| Accrued commission receivable on guarantees and letters of credit | 34 | 41 |
| Other | 26 | 40 |
| | **782** | **530** |
| **Total other assets** | **1,907** | **1,527** |

*(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 2021 (unaudited)* | | | *31 December 2020* | | |
|---|---|---|---|---|---|---|
| | *Notional amount* | *Fair values Asset* | *Fair values Liability* | *Notional amount* | *Fair value Asset* | *Fair value Liability* |
| Forwards − foreign | 77,096 | − | 66 | 106,617 | 45 | − |
| Forwards − domestic | 22,399 | 334 | 29 | 40,764 | 257 | 640 |
| **Total derivative assets/liabilities** | | **334** | **95** | | **302** | **640** |

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 2021 (unaudited)* | *31 December 2020* |
|---|---|---|
| **Other financial liabilities** | | |
| Funds in settlement | 391 | 1,997 |
| Payables and accrued expenses | 384 | 984 |
| Derivative financial liabilities | 95 | 640 |
| | **870** | **3,621** |
| **Other non-financial liabilities** | | |
| Payable to employees | 1,300 | 2,448 |
| Deferred income | 30 | 24 |
| Taxes other than income tax | 15 | 23 |
| | **1,345** | **2,495** |
| **Total other liabilities** | **2,215** | **6,116** |

## 11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

| | *Note* | *30 June 2021 (unaudited)* | *31 December 2020* |
|---|---|---|---|
| Time deposits and loans from non-resident commercial banks | | 81,349 | 87,600 |
| Loan from the National Bank of Georgia | | 20,076 | 15,000 |
| Time deposits from resident commercial banks | | 10,509 | 4,262 |
| Deposits from the Ministry of Finance | | 10,492 | 10,996 |
| Current accounts of the Parent | 20 | 35 | 117 |
| Overdraft from the Parent | 20 | 13 | 8,201 |
| Time deposits and loans from the Parent | 20 | − | 4,915 |
| **Amounts due to credit institutions** | | **122,474** | **131,091** |

As at 30 June 2021 time deposits and loans from non-resident commercial banks are comprised of USD denominated loans and deposits of entities under common control and other non-resident bank (2020: 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 2021 time deposits placed by three resident commercial banks were denominated in GEL and matured in July and August 2021 (2020: Time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in USD and matured in January 2021).

*(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 5,011 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 of the long-term deposit placed by the Ministry as the liquidity support measure in return for the similar term treasury bonds purchased by the Bank.

## 12. Amounts due to customers

The amounts due to customers include the following:

| | *30 June 2021 (unaudited)* | *31 December 2020* |
|---|---|---|
| Current and demand accounts | 44,730 | 71,000 |
| Time deposits (including certificates of deposit) | 128,334 | 139,222 |
| **Amounts due to customers** | **173,064** | **210,222** |
| Held as security against guarantees issued (Note 16) | 7,043 | 14,001 |

As at 30 June 2021, amounts due to customers included balances with three major customers of GEL 88,004 thousand that constituted 50.85% of the total of customer accounts (31 December 2020: GEL 91,567 thousand that constituted 43.56%of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

| | *30 June 2021 (unaudited)* | *31 December 2020* |
|---|---|---|
| Insurance | 67,154 | 69,450 |
| Individuals | 38,894 | 42,077 |
| Trade and service | 24,247 | 60,716 |
| Real estate management | 22,092 | 2,215 |
| Construction | 9,360 | 13,907 |
| Non-banking credit organizations | 8,283 | 18,343 |
| Energy | 965 | 1,086 |
| Mining | 915 | 1,593 |
| Agro | 346 | 297 |
| Other | 808 | 538 |
| **Amounts due to customers** | **173,064** | **210,222** |

## 13. Subordinated debt

Subordinated loans consisted of the following:

| | *30 June 2021 (unaudited)* | *31 December 2020* |
|---|---|---|
| Subordinated loans | 30,718 | 31,742 |
| **Subordinated loans** | **30,718** | **31,742** |

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 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 28,263 (31 December 2020: GEL 32,551).

*(Figures in tables are in thousands of Georgian lari)*

## 14. Taxation

The corporate income tax expense for the six months ended 30 June 2021 and 2020 comprised:

| | *Six months ended 30 June 2021 (unaudited)* | *Six months ended 30 June 2020 (unaudited)* |
|---|---|---|
| Deferred tax expense | (640) | (375) |
| **Income tax expense** | **(640)** | **(375)** |

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:

| | *Six months ended 30 June 2021 (unaudited)* | *Six months ended 30 June 2020 (unaudited)* |
|---|---|---|
| **Profit/(Loss) before income tax** | **1,120** | **(13,870)** |
| Statutory tax rate | 15% | 15% |
| **Theoretical income tax (expense)/benefit at the statutory rate** | **(168)** | **2,081** |
| Tax exempt income | 71 | 31 |
| Non-deductible expenses | (101) | (13) |
| Expired tax losses carried forward | (442) | (2,474) |
| **Income tax expense** | **(640)** | **(375)** |

Deferred tax assets and liabilities as at 30 June 2021 and 31 December 2020 and their movements for the respective period of six months comprise:

| | *31 December 2020* | *Through statement of profit and loss* | *30 June 2021 (unaudited)* |
|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | |
| 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 |
| **Deferred tax asset** | **936** | **241** | **1,177** |
| **Tax effect of taxable temporary differences** | | | |
| Investment securities | (92) | 9 | (83) |
| Intangible assets | (113) | 10 | (103) |
| Loans to customers | (603) | (622) | (1,225) |
| Lease liabilities | (354) | (278) | (632) |
| **Deferred tax liability** | **(1,162)** | **(881)** | **(2,043)** |
| **Deferred tax (liability)/asset** | **(226)** | **(640)** | **(866)** |

| | *31 December 2019* | *Through statement of profit and loss* | *30 June 2020 (unaudited)* |
|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | |
| Right of use assets | 198 | 216 | 414 |
| Subordinated debt | | 4 | 4 |
| Amounts due from credit institutions | – | 3 | 3 |
| Other liabilities | 248 | (74) | 174 |
| **Deferred tax asset** | **446** | **149** | **595** |
| **Tax effect of taxable temporary differences** | | | |
| Investment securities | (53) | (39) | (92) |
| Property plant and equipment | (59) | 56 | (3) |
| Intangible assets | (126) | (9) | (135) |
| Loans to customers | (126) | (395) | (521) |
| Finance lease liabilities | (146) | (137) | (283) |
| **Deferred tax liability** | **(510)** | **(524)** | **(1,034)** |
| **Deferred tax (liability)/asset** | **(64)** | **(375)** | **(439)** |

*(Figures in tables are in thousands of Georgian lari)*

## 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 2021 and 30 June 2020.

As at 30 June 2021 and 31 December 2020, the Bank's authorized, issued and fully paid capital amounted to GEL 103,000 thousands comprising of 103,000,000 common shares with nominal value of GEL 1.00. Each common share entitles one vote to the shareholder.

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

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.

The negative effect of COVID 19 pandemic on the Georgian economy has been severe, as described in the *Effect of Covid 19 Pandemic* paragraph on page 6 of this financial statements.

The level of inflation reached 11.9% year-on-year in June 2021, largely reflecting utility price increases, higher commodity prices and elevated input costs. NBG has increased its refinancing rate twice during the six months ended 30 June 2021 to reach 9.5% and further increased to 10% as of the issue of these financial statements. The inflationary expectations remain high for 2021 before it starts declining in 2022. NBG remains vigilant against signs of high inflation becoming entrenched and is ready to further increase the refinancing rate if needed.

The financial sector has proved resilient thanks to the NBG's prudent supervisory approach before the COVID-19 crisis and decisive actions afterwards. In the recent years banks' prudential requirements have been brought in line with the Basel III framework, retail lending regulations revised and excessive dollarization issues addressed. Fiscal support measures to households and businesses have helped cushion the impact of the pandemic on the financial sector. The NBG expanded liquidity provision, required banks to take significant up-front general provisions against potential loan losses at an early stage, and temporarily eased some capital requirements as described in more detail in the Note 21. Capital adequacy to these financial statements.

With the economic recovery recorded in the first six months of 2021 as described in the *Effect of Covid 19 Pandemic* paragraph on page 6 of these financial statements, significant downsize risks related to further development of COVID-19 situation remain. As of the date of signing of these financial statements the total share of fully vaccinated adult population of Georgia reached 12.1%. It is hard to underestimate the significance of controlling the pandemic to avoid new lockdowns that would derail the signs of recovery. Renewed political uncertainty could also increase GEL volatility and undermine investor confidence.

*(Figures in tables are in thousands of Georgian lari)*

## 16. Commitments and contingencies (continued)

### Operating environment (continued)

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. Nevertheless, the roll out of the vaccination program by the government, the positive economic outlook for 2021 and the ongoing modifications of the customer's loan facilities has allowed the Bank to obtain certain improvements on the quality of its portfolios and recognize reversal of provisions in the reporting period as described in Notes 5, 6 and 16 to these financial statements. Despite the negative effect of the pandemic the management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis, reasonable NPL levels due to timely restructuring actions and continued support from the Parent. The Parent's operating environment has also been negatively affected by the consequences of COVID-19 pandemic with its economy being particularly sensitive to oil and gas prices, which had tumbled to their historical lows during the period. Being one of the systemic banks in the country, the Parent has been subject to certain regulatory easing measures, including the revised capital adequacy requirements.

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 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 2021 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

### Legal

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

During the year 2021 the Bank has had ongoing litigation where the Bank is jointly and severally liable defendant together with its employees. The amount of the claim equals GEL 646. The Bank's management believes that the probability of any losses resulting from either of the cases is low, therefore no provision has been recognized in relation to them.

*(Figures in tables are in thousands of Georgian lari)*

## 16. Commitments and contingencies (continued)

### Legal (continued)

*Commitments and contingencies*

As at 30 June 2021, the Bank's commitments and contingencies comprised the following:

| | *30 June 2021 (unaudited)* | *31 December 2020* |
|---|---|---|
| **Credit related commitments** | | |
| Unused credit lines | 24,616 | 35,706 |
| Letters of credit | – | 181 |
| | **24,616** | **35,887** |
| **Operating lease commitments** | | |
| Not later than 1 year | 138 | 139 |
| More than 1 year but less than 5 years | 13 | 38 |
| | **151** | **177** |
| **Performance guarantees issued** | | |
| Performance guarantees issued | 32,252 | 34,872 |
| | **32,252** | **34,872** |
| Less: ECL for credit related commitments | (737) | (395) |
| **Commitments and contingencies (before deducting collateral)** | **56,282** | **70,541** |
| Less: deposits held as security against guarantees issued (Note 12) | (7,043) | (14,001) |
| **Commitments and contingencies** | **49,239** | **56,540** |

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

| | *Letters of credit* | *Unused credit lines* | *Total* |
|---|---|---|---|
| **ECL as at 1 January 2021** | **–** | **(395)** | **(395)** |
| New exposures | – | (225) | **(225)** |
| Matured exposures | – | 285 | **285** |
| Foreign exchange and other movements | – | (402) | **(402)** |
| **At 30 June 2021** | **–** | **(737)** | **(737)** |

An analysis of changes in the ECL allowances during the six months ended 30 June 2020 is, as follows:

| | *Letters of credit* | *Unused credit lines* | *Total* |
|---|---|---|---|
| **ECL as at 1 January 2020** | **(1)** | **(413)** | **(414)** |
| New exposures | – | (46) | **(46)** |
| Matured exposures | 1 | 272 | **273** |
| Foreign exchange and other movements | – | (324) | **(324)** |
| **At 30 June 2020** | **–** | **(511)** | **(511)** |

*(Figures in tables are in thousands of Georgian lari)*

## 17. Net fee and commission income

Net fee and commission income comprise:

| | *Six months ended 30 June 2021 (unaudited)* | *Six months ended 30 June 2020 (unaudited)* |
|---|---|---|
| Guarantees and letters of credits issued | 418 | 471 |
| Settlement operations | 205 | 140 |
| Plastic card operations | 177 | 80 |
| Cash operations | 42 | 31 |
| **Fee and commission income** | **842** | **722** |
| Plastic card operations | (348) | (164) |
| Settlement operations | (292) | (221) |
| Cash operations | (5) | (2) |
| Guarantees and letters of credits issued | – | (3) |
| **Fee and commission expense** | **(645)** | **(390)** |
| **Net fee and commission income** | **197** | **332** |

## 18. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

| | *Six months ended 30 June 2021 (unaudited)* | *Six months ended 30 June 2020 (unaudited)* |
|---|---|---|
| Salaries | 6,771 | 6,630 |
| Bonuses and other employee benefits | 898 | 1,917 |
| **Personnel expenses** | **7,669** | **8,547** |
| Professional services | 1,235 | 1,284 |
| Operating leases | 461 | 452 |
| Advertising costs | 336 | 752 |
| Communication | 144 | 147 |
| Utilities | 114 | 141 |
| Insurance | 102 | 65 |
| Personnel training | 85 | 88 |
| Office supplies | 56 | 114 |
| Membership fees | 50 | 32 |
| Maintenance and exploitation | 32 | 31 |
| Taxes other than income tax | 30 | 28 |
| Corporate hospitality and entertainment | 24 | 33 |
| Charity costs | 20 | 12 |
| Security expenses | 18 | 21 |
| Recruitment costs | 13 | 10 |
| Deposit insurance fee | 9 | 5 |
| Transportation and business trip expenses | 7 | 68 |
| Other | 81 | 125 |
| **General and administrative expenses** | **2,817** | **3,408** |

## 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: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

*(Figures in tables are in thousands of Georgian lari)*

## 19. Fair values of financial instruments (continued)

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

| | *Fair value measurement using* | | | |
|---|---|---|---|---|
| ***At 30 June 2021*** | ***Level 1 (unaudited)*** | ***Level 2 (unaudited)*** | ***Level 3 (unaudited)*** | ***Total (unaudited)*** |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | 42,690 | – | – | **42,690** |
| Amounts due from credit institutions | – | – | 39,617 | **39,617** |
| Loans to customers | – | – | 279,458 | **279,458** |
| Investment securities | – | 5,487 | 36,556 | **42,043** |
| **Assets measured at fair value** | | | | |
| Other assets − derivative financial assets | – | 334 | – | **334** |

| | *Fair value measurement using* | | | |
|---|---|---|---|---|
| ***At 30 June 2021*** | ***Level 1 (unaudited)*** | ***Level 2 (unaudited)*** | ***Level 3 (unaudited)*** | ***Total (unaudited)*** |
| **Liabilities for which fair values are disclosed** | | | | |
| Amounts due to credit institutions | – | – | 122,474 | **122,474** |
| Amounts due to customers | – | – | 173,064 | **173,064** |
| Lease liabilities | – | – | 7,857 | **7,857** |
| Subordinated debt | – | – | 30,718 | **30,718** |
| **Liabilities measured at fair value** | | | | |
| Other liabilities − derivative financial liabilities | – | 95 | – | **95** |

| | *Fair value measurement using* | | | |
|---|---|---|---|---|
| ***At 31 December 2020*** | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Total*** |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | 39,118 | – | – | **39,118** |
| Amounts due from credit institutions | – | – | 46,518 | **46,518** |
| Loans to customers | – | – | 320,118 | **320,118** |
| Investment securities | – | 5,547 | 41,437 | **46,984** |
| **Assets measured at fair value** | | | | |
| Other assets − derivative financial assets | – | 302 | – | **302** |

| | *Fair value measurement using* | | | |
|---|---|---|---|---|
| ***At 31 December 2020*** | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Total*** |
| **Liabilities for which fair values are disclosed** | | | | |
| Amounts due to credit institutions | – | – | 131,091 | **131,091** |
| Amounts due to customers | – | – | 210,222 | **210,222** |
| Lease liabilities | – | – | 10,528 | **10,528** |
| **Liabilities measured at fair value** | | | | |
| Other liabilities − derivative financial liabilities | – | 640 | – | **640** |

### Valuation techniques and assumptions

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

### Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. All of the Bank's financial assets excluding loans to customers (i.e. cash and cash equivalents and amounts due from credit institutions) and financial liabilities excluding amounts due to customers are either liquid or are maturing within 3 months from the reporting date.

*(Figures in tables are in thousands of Georgian lari)*

## 19. Fair values of financial instruments (continued)

### Assets for which fair value approximates carrying value (continued)

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 loan and 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. 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 2020 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 2021 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.

### 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 2021 (unaudited)* | | | *31 December 2020* | | |
|---|---|---|---|---|---|---|
| | *Carrying value* | *Fair value* | *Unrecognised gain* | *Carrying value* | *Fair value* | *Unrecognised gain* |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 42,690 | 42,690 | – | 39,118 | 39,118 | – |
| Amounts due from credit institutions | 39,617 | 39,617 | – | 46,518 | 46,518 | – |
| Loans to customers | 279,458 | 279,458 | – | 320,118 | 320,118 | – |
| Investments securities | 41,182 | 42,043 | 861 | 46,223 | 46,984 | 761 |
| Other financial assets | 782 | 782 | – | 530 | 530 | – |
| **Financial liabilities** | | | | | | |
| Amounts due to credit institutions | 122,474 | 122,474 | – | 131,091 | 131,091 | – |
| Amounts due to customers | 173,064 | 173,064 | – | 210,222 | 210,222 | – |
| Other financial liabilities | 870 | 870 | – | 3,621 | 3,621 | – |
| Lease liabilities | 7,857 | 7,857 | – | 10,528 | 10,528 | – |
| Subordinated debt | 30,718 | 30,718 | – | 31,742 | 31,742 | – |
| **Total unrecognized change in fair value** | | | **861** | | | **761** |

## 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.

*(Figures in tables are in thousands of Georgian lari)*

## 20. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

| | *30 June 2021 (unaudited)* | | | | *31 December 2020* | | | |
|---|---|---|---|---|---|---|---|---|
| | ***The Parent*** | ***Key management personnel*** | ***Entities under common control*** | ***Other*** | ***The Parent*** | ***Key management personnel*** | ***Entities under common control*** | ***Other*** |
| Cash and cash equivalents | 1,429 | – | 810 | – | 270 | – | 961 | – |
| Loans to customers | – | 334 | – | – | – | 36 | – | – |
| Other assets | – | – | – | 5 | – | 2 | – | 9 |
| Amounts due to credit institutions | (48) | – | (16,980) | – | (13,233) | – | (22,192) | – |
| Amounts due to customers | – | (9,423) | (89,032) | – | – | (9,766) | (92,526) | – |
| Other liabilities | – | – | – | – | – | – | (334) | – |
| Subordinated debt | (15,359) | – | (15,359) | – | (15,871) | – | (15,871) | – |

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

| | *For the six months ended* | |
|---|---|---|
| | ***30 June 2021 (unaudited)*** | ***30 June 2020 (unaudited)*** |
| Interest income | 11 | 114 |
| Fee and commission income | 1 | 6 |
| Fee and commission expense | (4) | (2) |
| Interest expense | (3,006) | (2,988) |
| Professional fees | (5) | – |

Compensation of key management personnel was comprised of the following:

| | *For the six months ended* | |
|---|---|---|
| | ***30 June 2021 (unaudited)*** | ***30 June 2020 (unaudited)*** |
| Salaries and other short-term benefits | 965 | 1,357 |

Key management personnel as at 30 June 2021 comprised of 5 members of the Supervisory Board and 4 members of the Board of Directors of the Bank (31 December 2020: 5 members of the Supervisory Board and 3 members of the Board of Directors).

## 21. Capital adequacy

During the six months ended 30 June 2021, the Bank followed externally imposed capital requirements as adjusted based on the NBG's special supervisory plan effected in response to COVID19 (described in the NBG special supervisory plan paragraph below). As at 30 June 2021 the Bank was in slight breach of the single outsider ratio, which limits the bank's single exposure to largest borrower to 15% of its regulatory capital. This breach does not lead to any regulatory punishment, because of the moratorium on penalties announced by NBG for the effective period of the special supervisory plan.

### NBG capital adequacy ratio

In December 2017 the NBG has introduced amendments to the "Regulation on Capital Adequacy Requirements for Commercial Banks". Under the updated capital framework, capital requirements are divided into Pillar 1 Requirements for Common Equity Tier 1, Tier 1 and Regulatory Capital and additional buffers under Pillar 1 and Pillar 2.

*Pillar 1*

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

*(Figures in tables are in thousands of Georgian lari)*

## 21. Capital adequacy (continued)

### NBG capital adequacy ratio (continued)

*Pillar 2*

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

### 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. With the early signs of the economic recovery, NBG expects the banking sector to report profit in 2021. The restoration of capital buffers is expected to be carried out gradually during the two years, starting 1 January 2022.

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 14.01%, Tier 1 Capital ratio of 8.72% and Core Tier 1 Capital ratio of 6.54% of risk-weighted assets, computed based on Basel III requirements. As at 30 June 2021 the Bank's capital adequacy ratio on this basis was as follows:

| | *Notes* | *30 June 2021 (Unaudited)* | *Adjustments* | *30 June 2021 Per the NBG* |
|---|---|---|---|---|
| Share capital | 15 | 103,000 | – | 103,000 |
| Retained earnings | | (21,071) | (5,912) | (26,983) |
| Less: intangible assets, net | 9 | (4,458) | – | (4,458) |
| Current period income | | 480 | (1,906) | (1,426) |
| **Core tier 1 capital** | | **77,951** | **(7,818)** | **70,133** |
| **Tier 1 capital** | | **77,951** | **(7,818)** | **70,133** |
| Tier 2 capital | | 28,263 | – | 28,263 |
| Supplementary capital | | 14,308 | (9,297) | 5,011 |
| **Total regulatory capital** | | **120,522** | **(17,115)** | **103,407** |
| **Risk weighted assets** | | | | **444,839** |
| Capital adequacy ratio | | | | 23.25% |
| Core Tier 1 capital / Tier 1 capital adequacy ratio | | | | 15.77% |

| | *Notes* | *31 December 2020* | *Adjustments* | *31 December 2020 Per the NBG* |
|---|---|---|---|---|
| Share capital | 15 | 103,000 | – | 103,000 |
| Retained earnings | | (1,818) | (1,971) | (3,789) |
| Less: intangible assets, net | 9 | (4,241) | – | (4,241) |
| Current period loss | | (19,253) | (3,941) | (23,194) |
| **Core tier 1 capital** | | **77,688** | **(5,912)** | **71,776** |
| **Tier 1 capital** | | **77,688** | **(5,912)** | **71,776** |
| Tier 2 capital | | 32,551 | – | 32,551 |
| Supplementary capital | | 18,327 | (12,470) | 5,857 |
| **Total regulatory capital** | | **128,566** | **(18,382)** | **110,184** |
| **Risk weighted assets** | | | | **511,914** |
| Capital adequacy ratio | | | | 21.52% |
| Core Tier 1 capital / Tier 1 capital adequacy ratio | | | | 14.02% |