JSC PASHA Bank Georgia

Interim condensed financial statements

30 June 2024 together with Report on Review of Interim Financial Information

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Report on Review of Interim Financial Information

To the Shareholders and Supervisory Board of JSC PASHA Bank Georgia

Introduction

We have reviewed the accompanying interim condensed financial statements of JSC PASHA Bank Georgia (hereinafter, the "Bank") as at 30 June 2024, which comprise the interim statement of financial position as at 30 June 2024 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 condensed financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Emphasis of matter

We draw attention to Note 21 to the interim condensed financial statements, which describes a significant concentration of the Bank's transactions with related parties. Our conclusion is not modified in respect of this matter.

Ana Kusrashvili (SARAS-A-169041)

On behalf of EY LLC (SARAS-F-855308)

14 August 2024

Tbilisi, Georgia

Interim statement of financial position

As at 30 June 2024

(Figures in tables are in thousands of Georgian lari)

	Notes	30 June 2024 (unaudited)	31 December 2023
Assets			
Cash and cash equivalents	4	143,556	64,785
Amounts due from credit institutions	5	89,978	36,790
Loans to customers	6	290,467	336,106
Investment securities	7	68,748	65,230
Repossessed collateral	8	15,334	15,710
Property and equipment	9	2,682	1,922
Right-of-use assets	10	1,476	3,047
Intangible assets	11	4,607	4,895
Other assets	12	2,748	3,887
Total assets		**619,596**	**532,372**
Liabilities			
Amounts due to credit institutions	13	98,718	90,139
Amounts due to customers	14	365,905	288,855
Provisions	18	206	914
Lease liabilities	10	1,658	3,135
Subordinated debt	15	33,330	27,716
Other liabilities	12	4,875	9,298
Total liabilities		**504,692**	**420,057**
Equity			
Share capital	17	136,800	136,800
Additional paid-in capital	15	1,155	1,155
Accumulated deficit		(23,051)	(25,640)
Total equity		**114,904**	**112,315**
Total equity and liabilities		**619,596**	**532,372**

Signed and authorised for release on behalf of the Board of Directors of the Bank on 14 August 2024:

Ramil Imamov — Chairman of the Board of Directors

Parvin Mammadov — Chief Financial Officer, Member of the Board of Directors

The accompanying notes on pages 5 to 24 are an integral part of these interim condensed financial statements.

Interim statement of financial position

As at 30 June 2024

(Figures in tables are in thousands of Georgian lari)

	Notes	30 June 2024 (unaudited)	31 December 2023
Assets			
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Interim statement of comprehensive income

For the six months ended 30 June 2024

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2024 (unaudited)*	*For the six months ended 30 June 2023 (unaudited)*
Interest income calculated using effective interest rate			
Loans to customers		16,783	20,864
Amounts due from credit institutions		4,004	2,391
Investment securities		3,797	3,388
		24,584	**26,643**
Interest expense			
Amounts due to customers		(7,279)	(6,603)
Amounts due to credit institutions		(2,641)	(2,494)
Subordinated debt		(780)	(652)
Lease liabilities		(48)	(74)
		(10,748)	**(9,823)**
Net interest income		**13,836**	**16,820**
Credit loss on interest bearing assets	4, 5, 6,7, 18	(1,232)	(4,899)
Net interest income after impairment losses		**12,604**	**11,921**
Net gains from foreign currencies			
- Dealing		7,342	2,568
- Translation differences		(1,424)	1,977
Fee and commission income, net:	19	875	746
− fee and commission income		1,577	2,009
− fee and commission expense		(702)	(1,263)
Gain from sale of loan portfolio	6	1,000	−
Other operating income		431	115
Non−interest income		**8,224**	**5,406**
Personnel expenses	20	(12,085)	(11,445)
General and administrative expenses	20	(3,230)	(4,848)
Depreciation and amortisation	9, 10, 11	(2,277)	(2,527)
Modification loss	15	−	(955)
Provisions		170	1
Other operating expenses		(817)	(22)
Non−interest expenses		**(18,239)**	**(19,796)**
Profit/(loss) before income tax expense		**2,589**	**(2,469)**
Income tax expense	16	−	−
Net profit/(loss) for the period		**2,589**	**(2,469)**
Other comprehensive income		−	−
Total comprehensive profit/(loss) for the period		**2,589**	**(2,469)**

The accompanying notes on pages 5 to 24 are an integral part of these interim condensed financial statements.

Interim statement of changes in equity

For the six months ended 30 June 2024

(Figures in tables are in thousands of Georgian lari)

	Share capital	***Additional paid− in capital***	***Accumulated deficit***	***Total equity***
As at 1 January 2023	**129,000**	**1,155**	**(27,340)**	**102,815**
Total comprehensive loss for the six months ended 30 June 2023 (unaudited)	–	–	(2,469)	**(2,469)**
At 30 June 2023 (unaudited)	**129,000**	**1,155**	**(29,809)**	**100,346**
As at 1 January 2024	**136,800**	**1,155**	**(25,640)**	**112,315**
Total comprehensive profit for the six months ended 30 June 2024 (unaudited)	–	–	2,589	**2,589**
At 30 June 2024 (unaudited)	**136,800**	**1,155**	**(23,051)**	**114,904**

The accompanying notes on pages 5 to 24 are an integral part of these interim condensed financial statements.

Interim statement of cash flows

For the six months ended 30 June 2024

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2024 (unaudited)*	*For the six months ended 30 June 2023 (unaudited)*
Cash flows from operating activities			
Interest received		23,568	25,987
Interest paid		(12,827)	(8,426)
Fees and commissions received		1,609	2,002
Fees and commissions paid		(711)	(1,040)
Realised gains less losses from dealing in foreign currencies		7,342	2,568
Personnel expenses paid		(13,408)	(11,891)
General and administrative and other expenses paid		(2,703)	(5,785)
Other income received		1,347	98
Cash flows from operating activities before changes in operating assets and liabilities		**4,217**	**3,513**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(52,397)	3,173
Loans to customers		51,215	17,303
Other assets		417	(267)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		7,292	(12,999)
Amounts due to customers		69,465	10,962
Other liabilities		(2,656)	(443)
Net cash flows from operating activities before income tax		**77,553**	**21,242**
Income tax paid		–	–
Net cash flows from operating activities after income tax		**77,553**	**21,242**
Cash flows from investing activities			
Purchase of investment securities	7	(7,000)	(31,517)
Proceeds from redemption of investment securities	7	3,480	14,000
Purchase of property and equipment		(1,488)	(418)
Proceeds from sale of property and equipment		78	33
Purchase of intangible assets		(1,171)	(932)
Net cash used in investing activities		**(6,101)**	**(18,834)**
Cash flows from financing activities			
Proceeds from subordinated debt		4,014	–
Principal repayments of lease liability		(865)	(936)
Net cash used in financing activities		**3,149**	**(936)**
Effect of exchange rates changes on cash and cash equivalents		4,187	(1,904)
Effect of expected credit losses on cash and cash equivalents		(17)	1
Net increase/(decrease) in cash and cash equivalents		**78,771**	**(431)**
Cash and cash equivalents, beginning	4	64,785	62,542
Cash and cash equivalents, ending	4	**143,556**	**62,111**

The accompanying notes on pages 5 to 24 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. Based on strategic initiatives approved by the Bank's shareholders, the Bank retains its primary focus on the corporate customers. During the first six months of 2024 the Bank stopped mass retail lending and sold respective part of its loan portfolio (Note 6).

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

The Bank has one service office in Georgia as of 30 June 2024 (31 December 2023: four). The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 30 June 2024 and 31 December 2023, direct shareholders of the Bank were as follows:

Shareholder	***2024, %***	***2023, %***
OJSC PASHA Bank (the "Parent")	85.06%	85.06%
PASHA Holding LLC	14.94%	14.94%
Total	**100.00%**	**100.00%**

As at 30 June 2024 and 31 December 2023, 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 2024, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2023.

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

New standards, interpretations and amendments adopted by the Bank

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 2023. Several amendments apply for the first time in 2024, but do not have an impact on the interim condensed financial statements of the Bank:

- Supplier Finance Arrangements − Amendments to IAS 7 and IFRS 7
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback
- Amendments to IAS 1: Classification of Liabilities as Current or Non−current

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

(Figures in tables are in thousands of Georgian lari)

3. Significant accounting judgments and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the interim financial statements.

Defining discontinued operation:

During the first six months of 2024 the Bank ceased mass retail lending and sold respective part of its loan portfolio (Note 6). The Bank exercised judgement to determine whether this transaction meets definition of a discontinued operation. Discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations
- Forms part of a single co−ordinated plan to dispose of a separate major line of business or geographical area of operation; or
- A subsidiary acquired exclusively with a view to resale

The term 'major' in the definition of the discontinued operation refers to both 'line of business' and 'geographical area of operations', i.e., a discontinued operations needs to represent either a major line of business or a major geographical area of operations. Quantitative thresholds and qualitative aspects from IFRS 8 – Operating segments that are applied to identify a reportable segment were used for determination whether mass retail lending represented a separate major line of business or geographical area of operations. The Bank retained a small part of retail loan portfolio and continues to service the deposits and current accounts of retail customers. Based on the performed analysis, the Bank's management concluded that the sale of mass retail portfolio and ceased mass retail lending does not meet the definition of 'discontinued operation' per IFRS 5 requirements. Hence the results of retail business prior to mass retail portfolio disposal and in the comparative period continue to be presented in respective income statement lines rather than aggregated in a single line of discontinued operations.

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2024 (unaudited)	*31 December 2023*
Cash on hand	2,011	2,919
Current accounts with the NBG	252	3,440
Current accounts with other credit institutions	21,209	24,030
Time deposits with credit institutions up to 90 days	120,103	34,398
Less: allowance for impairment	(19)	(2)
Cash and cash equivalents	**143,556**	**64,785**

As at 30 June 2024, current accounts and time deposit accounts with credit institutions denominated in USD, EUR and GEL represent 74.71%, 1.84% and 20.54% of total current and time deposit accounts, respectively (31 December 2023: USD 77.17%, EUR 4.38% and GEL 18.03%).

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

(Figures in tables are in thousands of Georgian lari)

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2024 (unaudited)	*31 December 2023*
Mandatory reserve with the NBG	45,586	27,787
Loans to banks	45,011	–
Time deposits for more than 90 days	–	9,004
Less: allowance for impairment	(619)	(1)
Amounts due from credit institutions	**89,978**	**36,790**

As at 30 June 2024, amounts due from credit institutions comprise of mandatory reserves with the NBG. Credit institutions are required to maintain cash deposits (mandatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw these deposits is restricted by the regulation.

The Bank issued a loan in amount of GEL 45,000 to a resident commercial bank which was part of the consideration paid for mass retail portfolio sold (Note 6).

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 2024 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2024	**9,004**	**(1)**
New assets originated	56,523	(629)
Assets repaid	(20,498)	10
Foreign exchange and other movements	(18)	1
At 30 June 2024 (unaudited)	**45,011**	**(619)**

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

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

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)

6. Loans to customers

Loans to customers comprise:

	30 June 2024 (unaudited)	*31 December 2023*
Corporate	163,005	146,805
Commercial	136,113	134,974
Consumer	825	70,530
Loans to customers	**299,943**	**352,309**
Less: allowance for impairment	(9,476)	(16,203)
Loans to customers	**290,467**	**336,106**

Commercial loans include loans to medium−sized companies.

According to the new strategy in 2024−2026 period, the Bank ceased mass retail lending and focused on expanding its corporate business. On 15 March 2024, the Bank sold mass retail loan portfolio of GEL 56,299 (gross amount – GEL 62,933; allowance for impairment – GEL 6,634, out of which GEL 6,172 was attributable to ECL for the on balance retail loans and GEL 462 – to unused credit lines) with premium in the amount of GEL 1,000 thousand which is recognized as gain from sale of loan portfolio.

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 2024 is as follows:

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2024	**135,498**	**4,943**	**6,364**	**146,805**
New assets originated	69,172	–	–	**69,172**
Assets repaid	(55,000)	(576)	(223)	**(55,799)**
Transfers to Stage 1	4,899	(4,899)	–	**–**
Transfers to Stage 2	(569)	569	–	**–**
Unwinding of discount	–	–	248	**248**
Foreign exchange and net other movements	2,342	(37)	274	**2,579**
At 30 June 2024 (unaudited)	**156,342**	**–**	**6,663**	**163,005**

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2024	**(1,270)**	**(34)**	**(2,317)**	**(3,621)**
New assets originated	(738)	–	–	**(738)**
Assets repaid	147	–	22	**169**
Transfers to Stage 1	(7)	7	–	**–**
Transfers to Stage 2	(1)	1	–	**–**
Unwinding of discount	–	–	248	**248**
Net remeasurement of ECL	511	26	(153)	**384**
At 30 June 2024 (unaudited)	**(1,358)**	**–**	**(2,200)**	**(3,558)**

Commercial loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2024	**104,049**	**11,515**	**18,437**	**973**	**134,974**
New assets originated	27,205	–	–	–	**27,205**
Assets repaid	(27,268)	(914)	(1,154)	–	**(29,336)**
Transfers to Stage 2	(2,737)	2,801	(64)	–	**–**
Transfers to Stage 3	–	(2,830)	2,830	–	**–**
Unwinding of discount	–	–	345	–	**345**
Foreign exchange and net other movements	2,293	400	185	47	**2,925**
At 30 June 2024 (unaudited)	**103,542**	**10,972**	**20,579**	**1,020**	**136,113**

(Figures in tables are in thousands of Georgian lari)

6. Loans to customers (continued)

Commercial loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2024	**(830)**	**(467)**	**(4,366)**	**(8)**	**(5,671)**
New assets originated	(355)	–	–	–	**(355)**
Assets repaid	133	30	163	–	**326**
Transfers to Stage 1	51	(51)	–	–	**–**
Transfers to Stage 2	116	(126)	10	–	**–**
Transfers to Stage 3	–	106	(106)	–	**–**
Unwinding of discount	–	–	345	–	**345**
Net remeasurement of ECL	(66)	(287)	(278)	156	**(475)**
At 30 June 2024 (unaudited)	**(951)**	**(795)**	**(4,232)**	**148**	**(5,830)**

Consumer loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2024	**61,909**	**4,287**	**4,334**	**70,530**
New assets originated	19,525	–	–	**19,525**
Assets repaid	(23,633)	(980)	(150)	**(24,763)**
Transfers to Stage 1	795	(795)	–	**–**
Transfers to Stage 2	(2,188)	2,544	(356)	**–**
Transfers to Stage 3	–	(1,551)	1,551	**–**
Sale of portfolio	(55,710)	(3,442)	(3,781)	**(62,933)**
Amounts written off	–	–	(1,491)	**(1,491)**
Foreign exchange and net other movements	32	(63)	(12)	**(43)**
At 30 June 2024 (unaudited)	**730**	**–**	**95**	**825**

Consumer loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2024	**(2,630)**	**(729)**	**(3,552)**	**(6,911)**
New assets originated	(1,317)	–	–	**(1,317)**
Assets repaid	1,272	226	202	**1,700**
Transfers to Stage 1	(72)	69	3	**–**
Transfers to Stage 2	517	(527)	10	**–**
Transfers to Stage 3	–	496	(496)	**–**
Sale of portfolio	2,408	637	3,127	**6,172**
Amounts written off	–	–	1,491	**1,491**
Recoveries	–	–	(412)	**(412)**
Net remeasurement of ECL	(188)	(172)	(451)	**(811)**
At 30 June 2024 (unaudited)	**(10)**	**–**	**(78)**	**(88)**

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

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

(Figures in tables are in thousands of Georgian lari)

6. Loans to customers (continued)

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

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

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

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

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

(Figures in tables are in thousands of Georgian lari)

6. Loans to customers (continued)

Concentration of loans to customers

As at 30 June 2024, the Bank had a concentration of loans due from ten major groups of borrowers with the total exposure of GEL 162,894 thousand that represented 54.31% of the total gross loan portfolio (31 December 2023: GEL 143,110 thousand that represented 40.62% of the total gross loan portfolio). An ECL of GEL 1,760 thousand (31 December 2023: GEL 1,539 thousand) was recognized against these loans.

Loans are made in the following industry sectors:

	30 June 2024 (unaudited)	***31 December 2023***
Trade and service	147,565	111,323
Non−banking credit organizations	58,073	60,783
Energy	38,840	39,774
Real estate management	28,004	45,478
Construction	18,760	16,402
Agro	7,847	7,974
Individuals	825	70,530
Other	29	45
	299,943	**352,309**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The types of collateral normally obtained are charges over real estate properties, also cash covers and guarantees, provided by borrowers or third parties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

7. Investment securities

As at 30 June 2024, 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 2024 (unaudited)	***31 December 2023***
Debt securities at amortised cost		
Bonds of financial institutions	39,901	32,897
Corporate bonds	23,909	27,282
Treasury bonds of the Ministry of Finance of Georgia	5,469	5,469
	69,279	**65,648**
Less: allowance for impairment	(531)	(418)
Total debt securities	**68,748**	**65,230**

(Figures in tables are in thousands of Georgian lari)

7. Investment securities (continued)

An analysis of changes in the gross carrying value in relation to investment securities during six months ended 30 June 2024 is as follows:

	Bonds of financial institutions	*Corporate bonds*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2024	**32,897**	**27,282**	**5,469**	**65,648**
New assets originated	7,000	–	–	**7,000**
Assets repaid	–	(3,480)	–	**(3,480)**
Foreign exchange and other movements	4	107	–	**111**
At 30 June 2024 (unaudited)	**39,901**	**23,909**	**5,469**	**69,279**

An analysis of changes in the ECL allowances during the six months ended 30 June 2024 is as follows:

	Bonds of financial institutions	*Corporate bonds*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2024	**(190)**	**(228)**	**–**	**(418)**
New assets originated	(114)	–	–	**(114)**
Assets repaid	–	5	–	**5**
Foreign exchange and other movements	2	(6)	–	**(4)**
At 30 June 2024 (unaudited)	**(302)**	**(229)**	**–**	**(531)**

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 2023 is as follows:

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

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

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

(Figures in tables are in thousands of Georgian lari)

8. Repossessed collateral

The Bank holds repossessed property which represents land, commercial and residential real estate taken into Bank's ownership as a settlement of non−performing loans. The Bank intends to sell those assets in normal course of business. In general, the Bank does not occupy repossessed properties for business use. The carrying value of the collaterals repossessed during the period and held as at the reporting date is as follows:

	30 June 2024 (unaudited)	*31 December 2023*
Commercial real estate	13,861	13,861
Residential real estate	958	1,334
Land	192	192
Other	323	323
Total repossessed collateral	**15,334**	**15,710**

During six months ended 30 June 2024, the Bank didn't repossess any collateral (2023: GEL 15,202 thousand).

9. 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 2023	**2,096**	**4,940**	**526**	**516**	**3,338**	**11,416**
Additions	38	177	4	4	195	**418**
Disposals and write−offs	−	(50)	(3)	(2)	(108)	**(163)**
30 June 2023 (unaudited)	**2,134**	**5,067**	**527**	**518**	**3,425**	**11,671**
1 January 2024	**2,158**	**5,348**	**482**	**522**	**3,301**	**11,811**
Additions	12	1,476	−	−	−	**1,488**
Disposals and write−offs	(182)	(135)	(24)	(40)	(382)	**(763)**
30 June 2024 (unaudited)	**1,988**	**6,689**	**458**	**482**	**2,919**	**12,536**
Accumulated depreciation						
1 January 2023	**(1,846)**	**(4,153)**	**(347)**	**(408)**	**(2,242)**	**(8,996)**
Depreciation charge	(137)	(220)	(24)	(30)	(353)	**(764)**
Disposals and write−offs	−	44	3	1	91	**139**
30 June 2023 (unaudited)	**(1,983)**	**(4,329)**	**(368)**	**(437)**	**(2,504)**	**(9,621)**
1 January 2024	**(2,061)**	**(4,541)**	**(260)**	**(467)**	**(2,560)**	**(9,889)**
Depreciation charge	(16)	(217)	(34)	(24)	(252)	**(543)**
Disposals and write−offs	159	121	18	36	244	**578**
30 June 2024 (unaudited)	**(1,918)**	**(4,637)**	**(276)**	**(455)**	**(2,568)**	**(9,854)**
Net book value						
30 June 2023 (unaudited)	**151**	**738**	**159**	**81**	**921**	**2,050**
31 December 2023	**97**	**807**	**222**	**55**	**741**	**1,922**
30 June 2024 (unaudited)	**70**	**2,052**	**182**	**27**	**351**	**2,682**

After the sale of mass retail loan portfolio the Bank has ceased the operations in three branches and wrote off the respective property and equipment. Significant part of total write−offs was leasehold improvements in amount of GEL 382 thousand.

As of 30 June 2024, fully depreciated items amounted GEL 6,627 thousand (31 December 2023: GEL 6,879 thousand).

(Figures in tables are in thousands of Georgian lari)

10. Leases

The movement in right−of−use assets and lease liabilities during the six months ended 30 June 2024 were as follows:

	Right−of−use assets	
	Buildings	***Lease liabilities***
As at 1 January 2024	**3,047**	**3,135**
Additions	583	583
Disposals and write offs (gross)	(1,425)	(1,239)
Depreciation expense	(863)	−
Disposals and write−offs (accumulated depreciation)	134	−
Interest expense	−	48
Payments	−	(924)
Rent concessions	−	(16)
Foreign currency translation difference	−	71
As at 30 June 2024 (unaudited)	**1,476**	**1,658**

The Bank recognized rent expense from short−term leases of GEL 401 thousand for the period ended 30 June 2024 (For the period ended 30 June 2023: GEL 362 thousand).

After the sale of mass retail loan portfolio, the Bank has ceased operations in three branches and derecognized respective leases.

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

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

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

(Figures in tables are in thousands of Georgian lari)

11. Intangible assets

The movements in intangible assets were as follows:

	Computer software and related licenses	*Other licenses*	*Total*
Cost			
1 January 2023	**8,554**	**204**	**8,758**
Additions	932	−	**932**
Write−off	(569)	−	**(569)**
30 June 2023 (unaudited)	**8,917**	**204**	**9,121**
1 January 2024	**8,995**	**204**	**9,199**
Additions	1,171	−	**1,171**
Write−off	(1,854)	−	**(1,854)**
30 June 2024 (unaudited)	**8,312**	**204**	**8,516**
Accumulated amortization			
1 January 2023	**(3,358)**	**(145)**	**(3,503)**
Amortization charge	(742)	(10)	**(752)**
Write−off	569	−	**569**
30 June 2023 (unaudited)	**(3,531)**	**(155)**	**(3,686)**
1 January 2024	**(4,140)**	**(164)**	**(4,304)**
Amortization charge	(867)	(4)	**(871)**
Write−off	1,266	−	**1,266**
30 June 2024 (unaudited)	**(3,741)**	**(168)**	**(3,909)**
Net book value			
30 June 2023 (unaudited)	**5,386**	**49**	**5,435**
31 December 2023	**4,855**	**40**	**4,895**
30 June 2024 (unaudited)	**4,571**	**36**	**4,607**

After the sale of mass retail loan portfolio, the Bank has written−off GEL 1,123 thousand computer software with accumulated amortization of GEL 561 thousand related to mass retail lending operations.

12. Other assets and liabilities

Other assets comprise:

	30 June 2024 (unaudited)	*31 December 2023*
Other non−financial assets		
Prepaid expenses	1,336	830
Prepaid taxes other than income tax	257	571
Inventory	252	475
Prepayments for short−term lease	78	68
Other prepayments	3	34
	1,926	**1,978**
Other financial assets		
Derivative financial assets	491	651
Funds in settlement	53	548
Accrued commission receivable on guarantees and letters of credit	44	86
Other	234	624
	822	**1,909**
Total other assets	**2,748**	**3,887**

After the sale of mass retail loan portfolio the Bank has written off GEL 200 thousand of retail plastic cards included in inventory.

(Figures in tables are in thousands of Georgian lari)

12. 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 2024 (unaudited)			***31 December 2023***		
	Notional amount	***Fair values***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Forwards/Swaps – domestic	129,724	491	625	154,653	651	786
Total derivative assets/liabilities		**491**	**625**		**651**	**786**

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 2024 (unaudited)	***31 December 2023***
Other financial liabilities		
Derivative financial liabilities	625	786
Payables and accrued expenses	482	496
Funds in settlement	391	3,301
	1,498	**4,583**
Other non−financial liabilities		
Payable to employees	3,361	4,686
Deferred income	16	29
	3,377	**4,715**
Total other liabilities	**4,875**	**9,298**

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

(Figures in tables are in thousands of Georgian lari)

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	Note	*30 June 2024 (unaudited)*	*31 December 2023*
Time deposits and loans from non−resident commercial banks		70,144	69,460
Deposits from the Ministry of Finance		12,507	12,509
Overdraft from the Parent	21	7,909	7,786
Time deposits from resident commercial bank		7,329	−
Current accounts of the Parent	21	555	384
Current accounts of the resident commercial banks		272	−
Current accounts of the non−resident commercial banks		2	−
Amounts due to credit institutions		**98,718**	**90,139**

As at 30 June 2024 time deposits and loans from non−resident commercial banks are comprised of USD denominated deposits and loans of an entity under common control and other non−resident bank (2023: USD denominated deposits and loans of an entity under common control and other non−resident bank).

As at 30 June 2024 time deposits from commercial bank in amount of GEL 7,329 were denominated in USD and EUR and matured in July 2024.

Deposits from the Ministry of Finance represent GEL 7,026 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.

14. Amounts due to customers

The amounts due to customers include the following:

	30 June 2024 (unaudited)	*31 December 2023*
Current and demand accounts	174,817	110,025
Time deposits (including certificates of deposit)	191,088	178,830
Amounts due to customers	**365,905**	**288,855**
Held as security against guarantees issued (Note 18)	24,300	3,908

As at 30 June 2024, amounts due to customers included balances with ten major customers of GEL 227,471 thousand that constituted 62.17% of the total of customer accounts (31 December 2023: GEL 165,290 thousand that constituted 57.22%of the total of customer accounts).

(Figures in tables are in thousands of Georgian lari)

14. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	30 June 2024 (unaudited)	***31 December 2023***
Trade and service	98,241	93,583
Construction	79,833	16,797
Individuals	64,277	61,041
Insurance	58,904	88,278
Non−banking credit organizations	52,762	22,461
Energy	8,509	3,769
Real estate management	562	748
Mining	324	1,213
Government agencies	298	299
Transportation and telecommunication	245	58
Agro	191	12
Other	1,759	596
Amounts due to customers	**365,905**	**288,855**

15. Subordinated debt

Subordinated loans consisted of the following:

	30 June 2024 (unaudited)	***31 December 2023***
Subordinated loans from entities under common control (Note 21)	18,202	13,321
Subordinated loan from the Parent (Note 21)	15,128	14,395
Subordinated loans	**33,330**	**27,716**

On 19 December 2019 the Bank obtained a USD denominated subordinated loans with the interest rate of 5% p.a. maturing in December 2025 from the Parent and entities under common control. Management considered that interest rate on the loan is better than market rate for the similar instruments, therefore loan was recognized at fair value using market interest rate. The difference of GEL 1,155 thousand between fair value and nominal amount of the loan is recognized as additional paid−in capital. Annual effective interest rate equals 5.88%. The loan is not redeemable before the maturity. In May 2023 subordinated loan from the Parent was prolonged and matures in December 2030 with the interest rate of 8% p.a. after December 2025. In 2023 the Bank recognized modification loss of GEL 955 thousand.

On 15 March 2024 the Bank additionally obtained a USD denominated subordinated loan in amount of GEL 4,014 thousand with an interest rate of 8% p.a. maturing in March 2031 from an entity under common control.

The amortized value of the subordinated loan qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was GEL 21,074 thousand as at 30 June 2024 (31 December 2023: GEL 16,135 thousand).

(Figures in tables are in thousands of Georgian lari)

16. Taxation

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

The corporate income tax expense for the six months ended 30 June 2024 and 2023 equalled nil.

The income tax rate applicable to the Bank's income is 20%. 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 2024 (unaudited)	*Six months ended 30 June 2023 (unaudited)*
Profit/(loss) before income tax	**2,589**	**(2,469)**
Statutory tax rate	20%	20%
Theoretical income tax (expense)/benefit at the statutory rate	**(518)**	**494**
Tax exempt income	118	76
Non−deductible expenses	(52)	(11)
Unrecognized tax losses carried forward	452	(559)
Income tax expense	**–**	**–**

The Bank's accumulated tax losses as at 30 June 2024 equal GEL 27,641 thousand (31 December 2023: GEL 37,234 thousand) on which the Bank has tax loss carried forward of GEL 5,528 thousand (31 December 2023: GEL 7,447 thousand), and respective allowance of GEL 5,076 thousand (31 December 2023: GEL 5,436 thousand). The Bank has been accumulating tax losses since 2020. In 2024 the Bank has generated net profit and utilized GEL 452 thousand accumulated tax losses for this period.

17. 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 2024 and 30 June 2023.

As at 30 June 2024 the Bank's authorized, issued and fully paid capital amounted to GEL 136,800 thousands comprising of 136,800,000 common shares with nominal value of GEL 1.00 (2023: 136,800 thousand comprising of 136,800,000 common shares). Each common share entitles one vote to the shareholder.

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

18. Commitments and contingencies

Operating environment

Over the last few years the Georgian Government has made a number of developments in order to positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. The existing tendency aimed at the overall improvement of the business environment is expected to persist. 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. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

(Figures in tables are in thousands of Georgian lari)

18. Commitments and contingencies (continued)

Operating environment (continued)

According to the preliminary estimates published by the National Statistics Office of Georgia, as of June 2024 growth of GDP amounted 7.5%, resulting in six−month average growth of 9.0%. Major contributing factors to the growth have been financial and insurance activities, construction, information and communication, professional, transportation and storage, scientific and technical activities. Declines were observed in manufacturing. Based on the preliminary findings of IMF staff mission to Georgia, the projected real GDP growth is 5.7% for 2024.

In Georgia, inflation remains below the target of 3 percent. The close−to−target inflation was largely ensured by the monetary policy implemented by the National Bank of Georgia. According to the updated forecast of the National Bank of Georgia, other things being equal, the overall price level increase will be kept close to the 3% target over the medium term.

The management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience. The Bank is actively working to decrease NPLs to reasonable levels using timely restructuring actions, continued support from the Parent and diligent collection actions. The Bank continues to assess the effect of changing micro− and macroeconomic conditions on its activities, financial position and financial results.

Taxation

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant tax authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods up to the end of 2022 have been assessed in terms of tax risk by the Large Payers' Office of the Revenue Service. Based on the analysis of the information provided by the Bank, no risks have been identified.

Management believes that its interpretation of the relevant legislation as at 30 June 2024 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Legal

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

Commitments and contingencies

As at 30 June 2024, the Bank's commitments and contingencies comprised the following:

	30 June 2024 (unaudited)	***31 December 2023***
Credit related commitments		
Unused credit lines	15,098	97,545
	15,098	**97,545**
Performance guarantees	59,283	86,921
Commitments and contingencies	**74,381**	**184,466**
Provisions for ECL for credit related commitments	(206)	(914)
Deposits held as security against letters of credit (Note 14)	(24,300)	(3,908)

(Figures in tables are in thousands of Georgian lari)

18. Commitments and contingencies (continued)

Legal (continued)

An analysis of changes in the ECL allowances during the six months ended 30 June 2024 is as follows:

	Unused credit lines	*Performance Guarantees*	*Total*
ECL as at 1 January 2024	**(603)**	**(311)**	**(914)**
New exposures	(526)	(8)	**(534)**
Matured exposures	550	183	**733**
Sale of portfolio	462	–	**462**
Foreign exchange and other movements	20	27	**47**
At 30 June 2024 (unaudited)	**(97)**	**(109)**	**(206)**

As at the date of the sale of mass retail portfolio, the unused credit lines that were linked to the portfolio sold amounted to GEL 72,783 thousand gross and an ECL of GEL 462 thousand has been created against it.

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

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

19. Fee and commission income, net

Net fee and commission income comprise:

	Six months ended 30 June 2024 (unaudited)	*Six months ended 30 June 2023 (unaudited)*
Guarantees and letters of credits issued	679	651
Plastic card operations	514	1,001
Settlement operations	281	320
Cash operations	103	37
Fee and commission income	**1,577**	**2,009**
Plastic card operations	(450)	(621)
Settlement operations	(235)	(509)
Cash operations	(1)	(3)
Other	(16)	(130)
Fee and commission expense	**(702)**	**(1,263)**
Net fee and commission income	**875**	**746**

(Figures in tables are in thousands of Georgian lari)

20. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	Six months ended 30 June 2024 (unaudited)	*Six months ended 30 June 2023 (unaudited)*
Salaries	8,302	8,855
Bonuses and other employee benefits	3,783	2,590
Personnel expenses	**12,085**	**11,445**
Professional services	991	571
IT maintenance	667	1,613
Operating leases	401	330
Office supplies	262	182
Communication	146	212
Personnel training	130	258
Utilities	87	96
Advertising costs	86	1,096
Insurance	77	74
Membership fees	72	68
Corporate hospitality and entertainment	61	50
Deposit insurance fee	52	29
Taxes other than income tax	49	30
Transportation and business trip expenses	48	59
Maintenance and exploitation	27	46
Recruitment costs	7	25
Security expenses	6	11
Charity costs	4	31
Other	57	67
General and administrative expenses	**3,230**	**4,848**

Personnel expenses include compensations in amount of GEL 1,267 thousand paid to the employees whose employment agreements were terminated due to the cessation of mass retail lending.

21. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

	30 June 2024 (unaudited)			*31 December 2023*		
	The Parent	*Key management personnel*	*Entities under common control*	*The Parent*	*Key management personnel*	*Entities under common control*
Cash and cash equivalents	260	–	962	755	–	1,255
Loans to customers	–	281	–	–	3	–
Allowance for impairment	–	(4)	–	–	–	–
Other assets	–	–	–	–	–	2
Amounts due to credit institutions	(8,464)	–	(15,289)	(8,168)	–	(14,394)
Amounts due to customers	–	(5,763)	(38,960)	–	(1,736)	(72,371)
Other liabilities	–	–	(3)	–	–	(3)
Subordinated debt	(15,128)	–	(18,202)	(14,395)	–	(13,321)

(Figures in tables are in thousands of Georgian lari)

21. Related party disclosures (continued)

The Bank's liabilities towards related parties amount to 20% of its total liabilities as at 30 June 2024 (31 December 2023: 29%), which represents a significant concentration.

In May 2023 subordinated loan from the Parent was prolonged and matures in December 2030 with the interest rate of 8% p.a. after December 2025. During six months ended 30 June 2023, the Bank recognized modification loss of GEL 955 thousand. (Note 15).

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

	For the six months ended	
	30 June 2024 (unaudited)	***30 June 2023 (unaudited)***
Interest income	8	34
Fee and commission income	18	20
Fee and commission expense	(3)	(1)
Interest expense	(2,158)	(2,611)
Professional fees	(1)	(13)
Credit loss on interest bearing assets	(4)	−

Compensation of key management personnel was comprised of the following:

	For the six months ended	
	30 June 2024 (unaudited)	***30 June 2023 (unaudited)***
Salaries and other short−term benefits	1,745	1,128

Key management personnel as at 30 June 2024 and 31 December 2023 comprised of 5 members of the Supervisory Board and 4 members of the Board of Directors of the Bank.

22. 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 2024, the Bank followed externally imposed capital requirements.

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

NBG capital adequacy ratio

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

Pillar 1

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

(Figures in tables are in thousands of Georgian lari)

22. Capital adequacy (continued)

NBG capital adequacy ratio (continued)

Pillar 2

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

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 21.49%, Tier 1 Capital ratio of 17.30% and Core Tier 1 Capital ratio of 14.15% of risk−weighted assets, computed based on Basel III requirements. As at 30 June 2024 the Bank's capital adequacy ratio on this basis, as reported to NBG, was as follows:

	Notes	*30 June 2024 (unaudited)*	*31 December 2023*
Share capital	17	136,800	136,800
Retained earnings		(25,640)	(27,340)
Less: intangible assets, net	11	(4,607)	(4,895)
Current period profit/(loss)		2,589	1,700
Core tier 1 capital		**109,142**	**106,265**
Tier 1 capital		**109,142**	**106,265**
Tier 2 capital		21,074	16,135
Total regulatory capital		**130,216**	**122,400**
Risk weighted assets		**599,864**	**586,989**
Capital adequacy ratio		21.71%	20.85%
Core Tier 1 capital / Tier 1 capital adequacy ratio		18.19%	18.10%