JSC PASHA Bank Georgia

Interim condensed financial statements

30 June 2020 together with
Report on Review of Interim Condensed Financial Statements

Contents

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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 2020 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

18 August 2020

Interim statement of financial position

As at 30 June 2020

(Figures in tables are in thousands of Georgian lari)

	Notes	30 June 2020 (unaudited)	31 December 2019
Assets			
Cash and cash equivalents	3	65,685	88,951
Amounts due from credit institutions	4	56,616	58,670
Loans to customers	5	293,196	297,785
Investment securities	6	44,155	26,480
Property and equipment	7	7,949	8,876
Right of use assets	8	10,975	5,240
Intangible assets	9	4,704	4,607
Income tax asset		–	183
Other assets	10	1,728	1,496
Total assets		**485,008**	**492,288**
Liabilities			
Amounts due to credit institutions	11	113,278	110,130
Amounts due to customers	12	231,966	241,708
Provisions	16	511	416
Deferred income tax liability	14	439	64
Lease liabilities		12,020	5,575
Subordinated debt	13	29,492	27,589
Other liabilities	10	9,210	4,469
Total liabilities		**396,916**	**389,951**
Equity			
Share capital	15	103,000	103,000
Additional paid-in capital	13	1,155	1,155
Accumulated deficit		(16,063)	(1,818)
Total equity		**88,092**	**102,337**
Total equity and liabilities		**485,008**	**492,288**

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

Arda Yusuf Arkun Chairman of the Board of Directors

Chingiz Abdullayev Chief Financial Officer, Member of the Board of Directors

18 August 2020

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

Interim statement of comprehensive income

For the six months ended 30 June 2020

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2020 (unaudited)*	*For the six months ended 30 June 2019 (unaudited)*
Interest income calculated using effective interest rate			
Loans to customers		13,402	9,828
Investment securities		2,107	1,149
Amounts due from credit institutions		641	1,753
		16,150	**12,730**
Interest expense			
Amounts due to customers		(4,255)	(1,548)
Amounts due to credit institutions		(2,748)	(2,430)
Subordinated debt		(766)	–
Lease liabilities		(307)	(174)
		(8,076)	**(4,152)**
Net interest income		**8,074**	**8,578**
Credit loss expense on interest bearing assets	3, 4, 5, 6, 16	(9,675)	(1,691)
Net interest income after impairment losses		**(1,601)**	**6,887**
Net gains from foreign currencies			
- dealing		4,672	1,012
- translation differences		(2,174)	685
Net fee and commission income	17	332	346
Other operating income		77	–
Non-interest income		**2,907**	**2,043**
Personnel expenses	18	(8,547)	(7,285)
General and administrative expenses	18	(3,408)	(3,030)
Depreciation and amortisation	7, 8, 9	(3,219)	(1,525)
Other operating expenses		(2)	(641)
Non-interest expenses		**(15,176)**	**(12,481)**
Loss before income tax expense		**(13,870)**	**(3,551)**
Income tax expense	14	(375)	(98)
Net loss for the period		**(14,245)**	**(3,649)**
Other comprehensive income		–	–
Total comprehensive loss for the period		**(14,245)**	**(3,649)**

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 2020

(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 2019	**103,000**	**–**	**7,242**	**110,242**
Net loss for the six months ended 30 June 2019 (unaudited)	–	–	(3,649)	**(3,649)**
Total comprehensive loss for the six months ended 30 June 2019 (unaudited)	**–**	**–**	**(3,649)**	**(3,649)**
At 30 June 2019 (unaudited)	**103,000**	**–**	**3,593**	**106,593**
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**

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 2020

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2020 (unaudited)*	*For the six months ended 30 June 2019 (unaudited)*
Cash flows from operating activities			
Interest received		13,360	12,644
Interest paid		(5,923)	(2,477)
Fees and commissions received		700	603
Fees and commissions paid		(448)	(293)
Realised gains less losses from dealing in foreign currencies		4,672	1,012
Personnel expenses paid		(9,050)	(6,772)
General and administrative expenses paid		(4,205)	(2,581)
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**(894)**	**2,136**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		7,633	(11,369)
Loans to customers		17,203	(36,273)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(7,212)	24,046
Amounts due to customers		(26,328)	40,533
Net cash flows (used in) / from operating activities before income tax		**(9,598)**	**19,073**
Income tax paid		–	(457)
Net cash flows (used in) / from operating activities before income tax		**(9,598)**	**18,616**
Cash flows from investing activities			
Purchase of investment securities		(17,499)	(7,184)
Proceeds from redemption of investment securities		–	1,180
Purchase of property and equipment		(250)	(3,069)
Purchase of intangible assets		(729)	(1,032)
Net cash (used in) investing activities		**(18,478)**	**(10,105)**
Cash flows from financing activities			
Principal repayments of lease liability		(1,370)	(649)
Net cash (used in) financing activities		**(1,370)**	**–**
Effect of exchange rates changes on cash and cash equivalents		6,188	353
Effect of expected credit losses on cash and cash equivalents		(8)	–
Net (decrease)/increase in cash and cash equivalents		**(23,266)**	**8,215**
Cash and cash equivalents, beginning	3	88,951	46,503
Cash and cash equivalents, ending	3	**65,685**	**54,718**

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. 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 eight service offices in Georgia as of 30 June 2020. The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 30 June 2020 and 31 December 2019, 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 2020, 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 2019.

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 of 2020 many governments, including Georgian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as measures for its consequences' minimization may influence the business of the entities in wide range of industries. Since March 2020 significant volatility in stock, currency and commodity markets exists, including decrease in crude oil prices and decrease of GEL againstUSD and EUR.

In 2020, support measures were introduced by *the Government and the National Bank of Georgia* to counter the economic downturn caused by the COVID-19 pandemic. These measures include, 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.

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

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 2019. The nature and the effect of these changes are disclosed below. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(Figures in tables are in thousands of Georgian lari)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Amendments effective from 1 January 2020

Amendments to IFRS 16: Covid-19 – Related Rent Concessions

Accounting consequences of changes in lease payments depend on whether that change meets the definition of a lease modification, which IFRS 16 *Leases* defines as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease.

Amendment provided lessees with an exemption from assessing whether a COVID-19 – related rent concession is a lease modification. If lessee applies the exemption, COVID-19 – related rent concessions should be accounted as if they were not lease modifications. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The Bank applied the practical expedient to all rent concessions that meet the conditions in the amendment. The amendment did not have material effect on Bank's interim condensed financial statements.

Several other amendments effective since 1 January 2020 were applied but do not have an impact on the interim condensed consolidated financial statements of the Bank.

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Cash on hand	6,242	4,608
Current accounts with the NBG	3,834	2,742
Current accounts with other credit institutions	28,798	17,203
Time deposits with credit institutions up to 90 days	26,827	64,406
Less: allowance for impairment	(16)	(8)
Cash and cash equivalents	**65,685**	**88,951**

As at 30 June 2020, current accounts and time deposit accounts with credit institutions denominated in EUR, USD and GEL represent 43.30%, 38.05% and 17.79% of total current and time deposit accounts, respectively (31 December 2019: EUR 9.08%, USD 61.38% and GEL 28.19%).

All balances of 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 2020 (unaudited)	*31 December 2019*
Mandatory reserve with the NBG	47,633	58,670
Time deposits for more than 90 days	8,990	–
Less: allowance for impairment	(7)	–
Amounts due from credit institutions	**56,616**	**58,670**

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)

Time deposits comprise of deposit in EUR placed with one resident commercial bank with maturity in August 2020 (31 December 2019: none of the time deposits were placed).

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the six months ended 30 June 2020 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2020	**–**	**–**
New assets originated	13,160	(81)
Assets repaid	(4,907)	73
Foreign exchange and other movements	737	1
At 30 June 2020	**8,990**	**(7)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the year ended 31 December 2019 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2019	**20,395**	**(291)**
New assets originated	575	(2)
Assets repaid	(21,057)	292
Foreign exchange and other movements	87	1
At 30 June 2019	**7,516**	**(3)**

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 2020 (unaudited)	*31 December 2019*
Corporate	148,382	158,850
Commercial	151,974	143,112
Consumer	8,175	1,615
Loans to customers	**308,531**	**303,577**
Less: allowance for impairment	(15,335)	(5,792)
Loans to customers	**293,196**	**297,785**

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

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 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)

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

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

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

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

As at 30 June 2020, the Bank introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. In particular, it has revised indicators of significant increase in credit risk and does not automatically consider the credit risk to have significantly increased in the case of a loan modification being part of the Government support measures. The Bank also updated forward looking information, including forecasts of macroeconomic indicators and scenarios' weights. The Bank applied additional sectoral overlays based on ratings shift or stressed parameters to reflect appropriately the uncertainty associated with the spread of COVID-19 pandemic. The Bank used the Guideline for COVID 19 special regime for impairment, approved by the Bank's Supervisory Board (SB), to adjust its ordinary impairment approach under IFRS 9. In particular, the ratings for exposures relating to "heavily affected" groups of customers have been downgraded 1 notch for corporate and commercial customers correspondingly, for exposures relating to "mildly affected" groups of customers no downgrade has been applied The LGD factors have been increased by 5pp across all credit risk exposure segments, including retail. Additional provisions were assigned to certain exposures based on thorough analysis and fair justification.

The special regime for impairment is expected to stay in force for the duration of the "period of uncertainty" estimated to last until the year end and to be prolonged by the decision of SB as may be dictated by development of situation with the life cycle of the pandemic. After the period of uncertainty, the special regime adjustments to the classic IFRS 9 approach are expected to be reversed.

The effect of the application of the special regime for impairment has translated into additional GEL 7,746 thousand of credit loss expenses for the six months ended 30 June 2020 due to the changes described above.

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 2020, the Bank has modified the terms and conditions of certain mortgage and consumer 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.

(Figures in tables are in thousands of Georgian lari)

5. Loans to customers (continued)

Modified and restructured loans (continued)

As at 30 June 2019, the Bank had a concentration of loans due from three major groups of borrowers with the total exposure of GEL 67,284 thousand that represented 21.80%of the total gross loan portfolio (31 December 2019: GEL 72,878 thousand that represented 24.00 of the total gross loan portfolio). An ECL of GEL (1,739) thousand (31 December 2019: GEL 551 thousand) was recognized against these loans.

Loans are made in the following industry sectors:

	30 June 2020 (unaudited)	*31 December 2019*
Trade and service	144,954	147,837
Real estate management	60,911	57,375
Non-banking credit organizations	45,375	61,146
Construction	32,932	26,925
Energy	12,517	6,635
Individuals	8,175	1,615
Agro	2,404	1,442
Mining	162	208
Other	1,101	394
	308,531	**303,577**

The Bank takes collateral and other credit enhancements for the loans issued. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are charges over real estate properties and guarantees from the Parent. The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

6. Investment securities

As at 30 June 2020, investment securities mainly comprised of bonds of financial institutions, debt securities of financial institutions and other companies registered in Georgia.

	30 June 2020 (unaudited)	*31 December 2019*
Debt securities at amortised cost		
Bonds of financial institutions	20,714	6,656
Corporate bonds	20,350	20,221
Treasury bonds of the Ministry of Finance of Georgia	3,510	–
	44,574	**26,877**
Less: allowance for impairment	(419)	(397)
Total debt securities	**44,155**	**26,480**

As at 30 June 2020 investment securities pledged under loan from National Bank of Georgia were GEL 18,840 (31 December 2019: nill).

(Figures in tables are in thousands of Georgian lari)

6. Investment securities (continued)

An analysis of changes in the gross carrying value in relation to investment securities during the period six months ended 30 June 2020 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 2020	**6,656**	**20,221**	**–**	**26,877**
New assets originated	14,004	–	3,499	**17,503**
Assets repaid	–	–	–	**–**
Foreign exchange and other movements	54	129	11	**194**
At 30 June 2020	**20,714**	**20,350**	**3,510**	**44,574**

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

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

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 2019 is as follows:

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

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

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

(Figures in tables are in thousands of Georgian lari)

7. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Computers and equipment*	*Motor vehicles*	*Other equipment*	*Leasehold improve-ments*	*Total*
Cost						
1 January 2019	**2,130**	**3,918**	**525**	**579**	**2,070**	**9,222**
Additions (unaudited)	873	616	–	92	1,506	**3,087**
Disposals and write-offs (unaudited)	(982)	(293)	–	(264)	(1,921)	**(3,460)**
30 June 2019 (unaudited)	**2,021**	**4,241**	**525**	**407**	**1,655**	**8,849**
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**
Accumulated depreciation						
1 January 2019	**(1,846)**	**(2,609)**	**(247)**	**(467)**	**(1,917)**	**(7,086)**
Depreciation charge (unaudited)	(55)	(213)	(52)	(14)	(71)	**(405)**
Disposals and write-offs (unaudited)	978	292	–	261	1,919	**3,450**
30 June 2019 (unaudited)	**(923)**	**(2,530)**	**(299)**	**(220)**	**(69)**	**(4,041)**
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)**
Net book value						
30 June 2019 (unaudited)	**1,098**	**1,711**	**226**	**187**	**1,586**	**4,808**
31 December 2019	**1,882**	**1,922**	**192**	**466**	**4,414**	**8,876**
30 June 2020 (unaudited)	**1,716**	**1,732**	**164**	**428**	**3,909**	**7,949**

As of 30 June 2020 fully depreciated items amounted 3,319 GEL (2019: 3,225 GEL).

8. Right of use assets

The movements in right of use assets were as follows:

	Right-of-use assets
31 December 2018	**–**
IFRS 16 transition effect	6,264
1 January 2019	**6,264**
Additions (unaudited)	1,131
30 June 2019 (unaudited)	**7,395**
1 January 2020	**6,560**
Additions (unaudited)	7,796
Disposals and write-offs (unaudited)	(891)
30 June 2020 (unaudited)	**13,465**
Accumulated depreciation	
31 December 2018 and 1 January 2019	**–**
Depreciation charge (unaudited)	(721)
30 June 2019 (unaudited)	**(721)**
1 January 2020	**(1,320)**
Depreciation charge (unaudited)	(1,431)
Disposals and write-offs (unaudited)	261
30 June 2020 (unaudited)	**(2,490)**
Net book value	
30 June 2019 (unaudited)	**6,674**
31 December 2019	**5,240**
30 June 2020 (unaudited)	**10,975**

(Figures in tables are in thousands of Georgian lari)

8. Right of use assets (continued)

The movement in right-of-use assets and lease liabilities during the six months 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.

The movement in right-of-use assets and lease liabilities during the year ended 31 December 2019 were as follows:

	Right-of-use assets			
	Buildings	*Motor vehicles*	*Total*	*Lease liabilities*
As at 1 January 2019	**–**	**–**	**–**	**–**
Additions	6,183	377	**6,560**	6,787
Depreciation expense	(1,246)	(74)	**(1,320)**	–
Payments	–	–	–	(1,212)
As at 31 December 2019	**4,937**	**303**	**5,240**	**5,575**

The Bank recognised rent expense from short-term leases of GEL 1,474 thousand for the period ended 31 December 2019.

9. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
1 January 2019	**151**	**3,615**	**3,766**
Additions (unaudited)	–	1,432	**1,432**
Write-off (unaudited)	–	(1,258)	**(1,258)**
30 June 2019 (unaudited)	**151**	**3,789**	**3,940**
1 January 2020	**151**	**5,945**	**6,096**
Additions (unaudited)	–	729	**729**
Write-off (unaudited)	(2)	(487)	**(489)**
30 June 2020 (unaudited)	**149**	**6,187**	**6,336**
Accumulated amortization			
1 January 2019	**(77)**	**(1,176)**	**(1,253)**
Amortization charge (unaudited)	(7)	(392)	**(399)**
Write-off (unaudited)	–	626	**626**
30 June 2019 (unaudited)	**(84)**	**(942)**	**(1,026)**
1 January 2020	**(92)**	**(1,397)**	**(1,489)**
Amortization charge (unaudited)	(7)	(625)	**(632)**
Write-off (unaudited)	2	487	**489**
30 June 2020 (unaudited)	**(97)**	**(1,535)**	**(1,632)**
Net book value			
30 June 2019 (unaudited)	**67**	**2,847**	**2,914**
31 December 2019	**59**	**4,548**	**4,607**
30 June 2020 (unaudited)	**52**	**4,652**	**4,704**

(Figures in tables are in thousands of Georgian lari)

10. Other assets and liabilities

Other assets comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Other non-financial assets		
Prepaid expenses	756	451
Prepaid taxes other than income tax	214	20
Inventory	208	194
Prepayments for acquisition of property plant and equipment and intangible assets	53	35
Prepayments for operating lease	26	121
Other	113	253
	1,370	**1,074**
Other financial assets		
Derivative financial assets	358	422
	358	**422**
Total other assets	**1,728**	**1,496**

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 2020 (unaudited)			*31 December 2019*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards – foreign	123,934	–	847	76,175	15	3
Forwards – domestic	131,795	358	5,209	24,519	407	227
Total derivative assets/liabilities		**358**	**6,056**		**422**	**230**

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 2020 (unaudited)	*31 December 2019*
Other financial liabilities		
Derivative financial liabilities	6,056	230
Payables and accrued expenses	872	1,666
Funds in settlement	390	101
	7,318	**1,997**
Other non-financial liabilities		
Payable to employees	1,872	2,374
Deferred income	20	31
Taxes other than income tax	–	67
	1,892	**2,472**
Total other liabilities	**9,210**	**4,469**

(Figures in tables are in thousands of Georgian lari)

11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Time deposits and loans from non-resident commercial banks	75,673	77,905
Loan from the National Bank of Georgia	15,018	–
Deposits from the Ministry of Finance	10,432	7,013
Time deposits and loans from the Parent	8,922	8,341
Time deposits from resident commercial banks	3,003	10,196
Current accounts of the Parent	220	6,655
Overdraft from the Parent	10	20
Amounts due to credit institutions	**113,278**	**110,130**

As at 30 June 2020 time deposits and loans from non-resident commercial banks are comprised of USD and TRY denominated deposits of an entities under common control and other non-resident bank (2019: Time deposits and loans of non-resident commercial banks are comprised of USD, EUR and TRY denominated deposits and loans of entities under common control and other non-resident banks).

As at 30 June 2020 time deposit placed by a single resident commercial bank was denominated in GEL and matured in August 2020 (2019: time deposits placed by two resident commercial banks, were denominated in GEL and EUR and mature in January and February 2020).

12. Amounts due to customers

The amounts due to customers include the following:

	30 June 2020 (unaudited)	*31 December 2019*
Current and demand accounts	97,266	100,324
Time deposits (including certificates of deposit)	134,700	141,384
Amounts due to customers	**231,966**	**241,708**
Held as security against guarantees issued (Note 16)	11,916	14,351

As at 30 June 2020, amounts due to customers included balances with three major customers of GEL 107,385 thousand that constituted 46.29%of the total of customer accounts (31 December 2019: GEL 122,338 thousand that constituted 50.61% of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

	30 June 2020 (unaudited)	*31 December 2019*
Insurance	87,424	63,831
Trade and service	77,019	104,123
Individuals	37,808	36,671
Construction	17,394	18,182
Non-banking credit organizations	8,672	14,570
Energy	1,021	1,489
Mining	657	700
Real estate management	213	760
Agriculture	53	773
Other	1,705	609
Amounts due to customers	**231,966**	**241,708**

(Figures in tables are in thousands of Georgian lari)

13. Subordinated debt

Subordinated loan consisted of the following:

	30 June 2020 (unaudited)	***31 December 2019***
Subordinated loan	29,492	27,589
Subordinated loans	**29,492**	**27,589**

On 19 December 2019 the Bank received a USD denominated subordinated loan with an 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 30,552 (31 December 2019: GEL 28,677).

14. Taxation

The corporate income tax (expense)/benefit for the six months ended 30 June 2020 and 2019 comprised:

	Six months ended 30 June 2020 (unaudited)	***Six months ended 30 June 2019 (unaudited)***
Deferred income tax expense	(375)	268
Correction of prior year income tax declaration	–	(366)
Income tax expense	**(375)**	**(98)**

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 2020 (unaudited)	***Six months ended 30 June 2019 (unaudited)***
Loss before income tax	**(13,870)**	**(3,551)**
Statutory tax rate	15%	15%
Theoretical income tax benefit at the statutory rate	**2,081**	**533**
Tax exempt income	31	38
Non-deductible expenses	(13)	(110)
Correction of prior year income tax declaration	–	(366)
Tax losses carried forward not recognised	(2,474)	(193)
Income tax expense	**(375)**	**(98)**

(Figures in tables are in thousands of Georgian lari)

14. Taxation (continued)

Deferred tax assets and liabilities as at 30 June 2020 and 31 December 2019 and their movements for the respective period of six months comprise:

	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)**

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

The Bank's accumulated tax losses as of 30 June 2020 equal GEL (16,493) thousand on which the Bank has tax loss carried forward GEL (2,474) which was not recognized.

15. Equity

The share capital of the Bank was contributed by the shareholders in GEL. The shareholder is entitled to dividends and any capital distribution payable in GEL. No dividends were declared or paid during the six months ended 30 June 2020 (2019: nil).

As at 30 June 2020 and 31 December 2019, the Bank's authorized, issued and fully paid capital amounted to GEL 103,000 thousand 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 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.

(Figures in tables are in thousands of Georgian lari)

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.

While the Georgian authorities' actions to fight the spread of the recent COVID 19 virus have been very efficient and are viewed as successful example worldwide, the negative effect of the pandemic on the Georgian economy has been severe. GDP shrank by 5.78% in the 6 months of 2020, the level of unemployment reached 12% and GEL devaluated against USD by 6.6% for the period from 1 January 2020 to 30 June 2020. The government has announced the anti-crisis economic recovery plan, which includes financial support to vulnerable groups of population and entrepreneurs, deferral of property and income tax payments for companies operating in the tourism sector, providing opportunity to borrowers to restructure their loans with commercial banks and other. The year-end projection is 4% reduction of GDP, 1.8 billion decrease in state budget revenues and additional resources required to implement the post COVID 19 anti crisis plan 3.9 billion GEL. Georgia's international partners have allocated 3 billion USD to aid the recovery of the country's economy.

As the COVID-19 outbreak continues and theuncertainty remains about further developments of pandemic duration and the extent of the possible economic recovery in the nearest future, the management of the Bank continues to closely monitor the situation to timely assess and respond to related challenges and risks.

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 2020 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Legal

During the year 2020 the Bank has had two ongoing litigations. In the first claim the Bank is jointly and severally liable defendant together with its employees. The amount of the claim equals GEL 883. The Bank is also involved as defendant in another litigation around one of its expired lease agreements, where the amount of claim against the Bank is GEL 1,605. 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 those litigations.

(Figures in tables are in thousands of Georgian lari)

16. Commitments and contingencies (continued)

Legal (continued)

Commitments and contingencies

As at 30 June 2020, the Bank's commitments and contingencies comprised the following:

	30 June 2020 (unaudited)	*31 December 2019*
Credit related commitments		
Unused credit lines	34,775	41,543
Letters of credit	–	980
	34,775	**42,523**
Operating lease commitments		
Not later than 1 year	90	112
More than 1 year but less than 5 years	–	–
	90	**112**
Performance guarantees issued		
Performance guarantees issued	43,613	37,255
	43,613	**37,255**
Less: ECL for credit related commitments	(511)	(414)
Commitments and contingencies (before deducting collateral)	**77,967**	**79,476**
Less: deposits held as security against guarantees issued (Note 12)	(11,916)	(14,351)
Commitments and contingencies	**66,051**	**65,125**

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)**

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

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

(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 2020 (unaudited)	*Six months ended 30 June 2019 (unaudited)*
Guarantees and letters of credits issued	471	447
Settlement operations	140	130
Plastic card operations	80	10
Cash operations	31	50
Fee and commission income	**722**	**637**
Settlement operations	(221)	(153)
Plastic card operations	(164)	(87)
Guarantees and letters of credits issued	(3)	(50)
Cash operations	(2)	(1)
Fee and commission expense	**(390)**	**(291)**
Net fee and commission income	**332**	**346**

18. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	Six months ended 30 June 2020 (unaudited)	*Six months ended 30 June 2019 (unaudited)*
Salaries	6,630	5,701
Bonuses and other employee benefits	2,005	1,650
Personnel expenses	**8,635**	**7,351**
Professional services	1,284	1,390
Advertising costs	752	192
Operating leases	452	631
Communication	147	79
Utilities	141	64
Office supplies	114	149
Transportation and business trip expenses	68	105
Insurance	65	43
Corporate hospitality and entertainment	33	57
Membership fees	32	29
Maintenance and exploitation	31	118
Taxes other than income tax	28	8
Security expenses	21	13
Charity costs	12	4
Recruitment costs	10	17
Deposit insurance fee	5	2
Other	125	63
General and administrative expenses	**3,320**	**2,964**

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 2020	***Level 1 (unaudited)***	***Level 2 (unaudited)***	***Level 3 (unaudited)***	***Total (unaudited)***
Assets for which fair values are disclosed				
Cash and cash equivalents	65,685	–	–	**65,685**
Amounts due from credit institutions	–	–	56,616	**56,616**
Loans to customers	–	–	293,196	**293,196**
Investment securities	–	–	44,873	**44,873**
Assets measured at fair value				
Other assets – derivative financial assets	–	358	–	**358**

	Fair value measurement using			
At 30 June 2020	***Level 1 (unaudited)***	***Level 2 (unaudited)***	***Level 3 (unaudited)***	***Total (unaudited)***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	113,278	**113,278**
Amounts due to customers	–	–	231,966	**231,966**
Lease liabilities	–	–	12,020	**12,020**
Subordinated debt	–	–	29,492	**29,492**
Liabilities measured at fair value				
Other liabilities – derivative financial assets	–	6,056	–	**6,056**
Other financial liabilities	–	1,262	–	**1,262**

	Fair value measurement using			
At 31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets for which fair values are disclosed				
Cash and cash equivalents	88,951	–	–	**88,951**
Amounts due from credit institutions	–	–	58,670	**58,670**
Loans to customers	–	–	297,785	**297,785**
Investment securities	–	–	26,668	**26,668**
Assets measured at fair value				
Other assets – derivative financial assets	–	422	–	**422**

	Fair value measurement using			
At 31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	110,130	**110,130**
Amounts due to customers	–	–	241,708	**241,708**
Lease liabilities	–	–	5,575	**5,575**
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	230	–	**230**
Other financial liabilities	–	1,767	–	**1,767**

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 value of loans to customers is estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial assets. The majority of loans to customers outstanding as at 30 June were issued within 12 months period ended 30 June 2020 at market interest rates, while the contractual interest rates of those loans issued in 2019 approximate market interest rates as at 30 June 2020. Hence their carrying value approximates their fair 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 2020 investment securities represent fixed rated financial assets carried at amortized cost. The fair value is derived by discounting the future cash flows using current market rates for newly issued similar financial assets.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2020 (unaudited)			***31 December 2019***		
	Carrying value	***Fair value***	***Unrecog-nised gain***	***Carrying value***	***Fair value***	***Unrecog-nised gain***
Financial assets						
Cash and cash equivalents	65,685	65,685	–	88,951	88,951	–
Amounts due from credit institutions	56,616	56,616	–	58,670	58,670	–
Loans to customers	293,196	293,196	–	297,785	297,785	–
Investments securities	44,155	44,873	718	26,480	26,668	188
Other financial assets	358	358	–	422	422	–
Financial liabilities						
Amounts due to credit institutions	113,278	113,278	–	110,130	110,130	–
Amounts due to customers	231,966	231,966	–	241,708	241,708	–
Other financial liabilities	6,056	6,056	–	1,997	1,997	–
Lease liabilities	12,020	12,020	–	5,575	5,575	–
Subordinated debt	29,492	29,492	–	27,589	27,589	–
Total unrecognized change in fair value			**718**			**188**

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 2020 (unaudited)				*31 December 2019*			
	The Parent	*Key management personnel*	*Entities under common control*	*Other*	*The Parent*	*Key management personnel*	*Entities under common control*	*Other*
Cash and cash equivalents	709	–	402	–	265	–	3,343	–
Loans to customers	–	3,123	–	–	–	7	4,266	–
Amounts due to credit institutions	(9,152)	–	(15,944)	–	(15,015)	–	(14,838)	–
Amounts due to customers	–	(9,056)	(108,785)	(33)	–	(7,923)	(80,352)	(30)
Other liabilities	–	–	(284)	–	–	–	(265)	–
Subordinated debt	(14,746)	–	(14,746)	–	(13,794)	–	(13,794)	–

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

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Interest income	114	25
Fee and commission income	6	1
Fee and commission expense	(2)	(78)
Interest expense	(2,988)	(1,547)
Professional fees	–	(67)

Compensation of key management personnel was comprised of the following:

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Salaries and other short-term benefits	1,357	929

Key management personnel as at 30 June 2020 and 31 December 2019 comprised of 5 members of the Supervisory Board and 3 members of the Board of Directors of the Bank.

21. Capital adequacy

During the six months ended 30 June 2020, 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 2020 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. These alleviations have been put in effect for an indefinite period of time and their reversal will be carried out only within reasonable time frames that will be further suggested by NBG.

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 14.38%, Tier 1 Capital ratio of 7.70% and Core Tier 1 Capital ratio of 5.77% of risk-weighted assets, computed based on Basel III requirements. As at 30 June 2020 the Bank's capital adequacy ratio on this basis was as follows:

	Notes	*30 June 2020 (unaudited)*	*Adjustments*	*30 June 2020 Per the NBG*
Share capital	17	103,000	–	103,000
Retained earnings		(1,818)	(1,969)	(3,787)
Less: intangible assets, net	11	(4,704)	–	(4,704)
Current period loss		(14,245)	(2,417)	(16,662)
Core tier 1 capital		**82,233**	**(4,386)**	**77,847**
Tier 1 capital		**82,233**	**(4,386)**	**77,847**
Tier 2 capital		30,552	–	30,552
Supplementary capital		16,288	(10,347)	5,941
Total regulatory capital		**129,073**	**(14,733)**	**114,340**
Risk weighted assets				**506,657**
Capital adequacy ratio				22.57%
Core Tier 1 capital / Tier 1 capital adequacy ratio				15.36%

	Notes	*31 December 2019*	*Adjustments*	*31 December 2019 Per the NBG*
Share capital	17	103,000	–	103,000
Retained earnings		7,242	(2,821)	4,421
Less: intangible assets, net	11	(4,607)	–	(4,607)
Current period loss		(9,060)	852	(8,208)
Core tier 1 capital		**96,575**	**(1,969)**	**94,606**
Tier 1 capital		**96,575**	**(1,969)**	**94,606**
Tier 2 capital		28,677	–	28,677
Supplementary capital		6,604	(929)	5,675
Total regulatory capital		**131,856**	**(2,898)**	**128,958**
Risk weighted assets				**495,111**
Capital adequacy ratio				26.05%
Core Tier 1 capital / Tier 1 capital adequacy ratio				19.11%