BASISBANK
Hualing Group Member

ANNUAL REPORT

2019

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Basisbank's Results Highlights

4th BY ASSETS

18% ↑

TOTAL ASSETS

	GELm
2019	1701
2018	1436
2017	1232
2016	904

LONG -TERM B+
SHORT - TERM B
FITCH RATINGS

6th BY LENDING

9% ↑

LENDING

	GELm
2019	1000
2018	916
2017	774
2016	609

66 ATMs
24 BRANCHES

5th BY LIABILITIES

19% ↑

LIABILITIES

	GELm
2019	1417
2018	1186
2017	1018
2016	754

510 EMPLOYEES

6th BY DEPOSITS

6% ↑

DEPOSITS

	GELm
2019	769
2018	727
2017	678
2016	562

132 000 CUSTOMERS

4th BY EQUITY

14% ↑

TOTAL SHAREHOLDERS' EQUITY

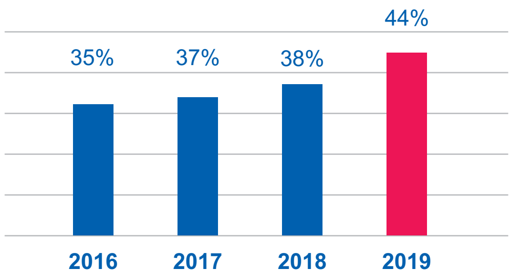
	GELm
2019	284
2018	250
2017	213
2016	186

INTERNATIONAL NETWORK

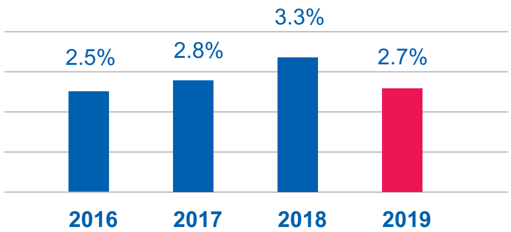
15 PARTNER INSTITUTIONS

$ 61M of international support raised in 2019

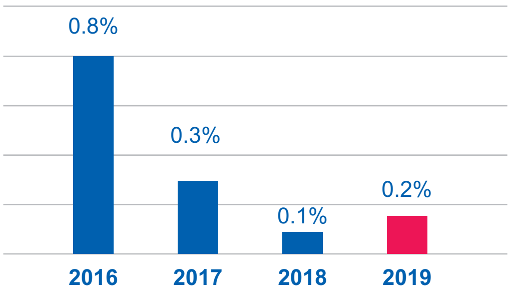
COST/INCOME



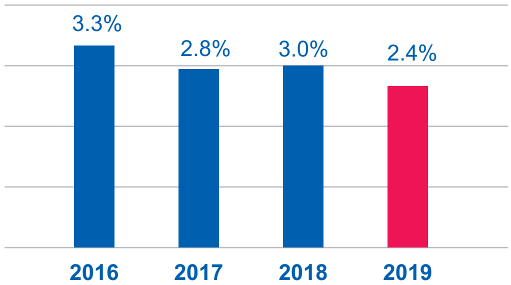
NPLS*



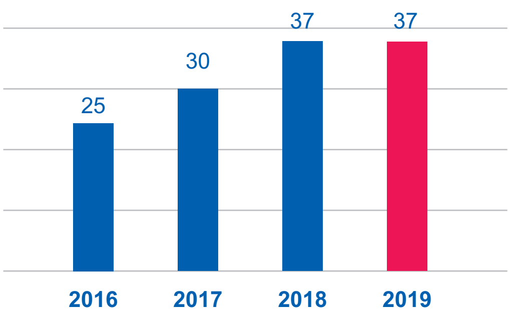
COST OF RISK**



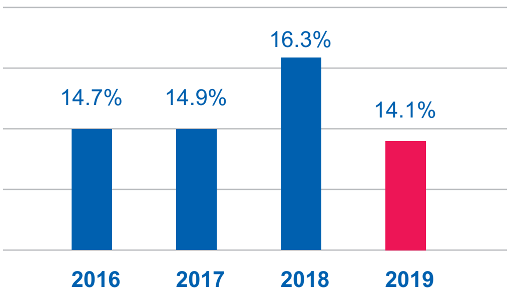
ROAA



NET PROFIT



ROAE



*Loan in arrears of more than 90 days and exposures whose repayment is dough full as per management assessment

** Impairment charges for average loan portfolio

Letter from the Executive Chairman of the Supervisory Board

Dear Shareholders,

We are delighted to see Basisbank delivering strong results, keeping its focus on the interests of its clients and keeping its promises to its stakeholders. We have been relentless in focusing on earning the lasting loyalty of our people, customer, shareholders and communities.

In 2019 we have had to face increasingly complex and challenging environment, full of political and social tensions, intensified by complicated economic conditions and political crisis fuelled by confrontation with Russia on political field. Political polarization was mostly pronounced in areas of electoral and judicial reforms, which led to dissatisfaction and mass protests among population and political establishment last summer.

Another challenge was related to the impact on the country through sanctions and bans imposed by Russia that has threatened some key areas related to touristic businesses with spill over effect on other sectors and macro prudential policies, putting further uncertainties and speculations to the development in Georgian-Russian relationship, mid-term impacts on Georgian payment balance, estimated time of recovery, etc.

Georgia once more has displayed resilience against a testing external environment. Despite Russian ban on air travel to Georgia, revenues from the international travellers began to increase again and money transfers grew at a higher rate; increased net exports had also supported to the improved macro parameters, reducing current account deficit at its historical minimum 5.1% of GDP. Although one off impact of the sanctions has made a pressure on FX, leading to increased pricing through tightened monetary policy rate by the National Bank of Georgia in the quest of combating increased inflationary pressure. Still Georgia has recorded higher than expected GDP growth of 5.1%, which led to improved estimations by rating companies Fitch and S&P at the end of 2019.

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Even in this increasingly challenging environment, there are many opportunities for the Basisbank group to scale up and reach. We have made a good work in capturing these opportunities. The year 2019 saw the Bank upgrading its position to 4th in the market by its size, being one of top performers in business financing; providing vital segments of the economy with affordable and responsible financial resources and services, we have achieved our targeted level and closed the year displaying once more our potential for growth and sound performance in earning, quality and capitalization.

The Hualing group is committed to support the group's financial standing and stable development, for this the Hualing group has provided the Bank with Tier 2 capital instrument during the year when the Banks' capitalizations has been placed under pressure due to strained economic environment and increased stress on capital and assets quality, after highly appreciated FX and external shock the county experienced during the summer.

The Bank managed to put its resources, along with proven stability, strong financial standing, widespread recognition, sound performance, and sustainable development path, to the best composition of its new identity - Basisbank Group. Synergizing strengths of its dedicated teams, the Group offers diversified services and successfully serves wider sectors of financial market, laying a foundation for conquering new heights.

Next big task is to sustain its success as a new identity and ensure/maintain the harmonic functioning of all three wings: banking, insurance and leasing. The Group has all necessary equipment to achieve this goal: the history of stable and steady growth, high standards in lending, internal control and management systems, and most importantly, its people. The Group's professionals put all their efforts to fulfill the ambition of remaining a top provider of comprehensive financial solutions from a single sales point, backed by in-depth financial expertise, extensive knowledge of industry sectors and long-term vision. We need to go further and faster to capitalize fully on our franchise, network and financial strength. We are intent on driving through the necessary change at pace.

To this accomplishment we have launched number of initiatives which should perfect our results and complement to our growth. In 2019 we have strengthened our governance structured and increased the responsibility and functionality of the Board and its subjected units: we established the Risk Management Committee on Supervisory Board level, enhanced the functions of audit committee and audit function subordinated directly to the Board. We reinforced our business and increased the management board with high professional leaders and initiated changes in the structure of the Bank, to enhance its capacities and focus on key strategic tasks: growth and quality. Two lines were separate from the structure of the Bank under new directors: Commercial Director and Chief Operating officer. These changes should support the business areas of our top priority: commercial business development and enhancement of the Bank's functions and digitization. We have increased our support to our smaller company subsidiaries. Increased the capital for BHL leasing and more is projected in 2020 for Leasing and Hauling insurance to gain their strength and position on the market as the companies profile and strategy suggests.

Georgia-China relationship

In 2019 trade relations between China and Georgia continued evolving, remaining one of the fastest growing for the last decade. There is an increasing number of tourists from China to Georgia and vice versa. Chinese investors demonstrate high interest in the Georgian market, which puts Basisbank Group in an advantageous position. The Group is well positioned to support the Georgian economy to embrace opportunities arising from China.

I confirm that the Bank has full support from its shareholder Hualing Group in its goal to be among top players in the market and further strengthen its unique role as a significant facilitator to the Georgian-Asian trade relations. The Bank has a special department to serve Chinese clients. The Basisbank Group has major role providing full financial services supporting the Chinese individuals and companies interested in doing business with Georgia. BHL Leasing opens a wide spectrum of alternatives for Georgian clients to benefit from the Chinese leasing products. This is complemented by insurance and banking services, making it more attractive to do business with the Group.

Our team of professionals demonstrated the ability to synergize their skills and make Basisbank even stronger in its new capacity as a financial services Group. As a result of this harmony, the Group showed excellent performance, stayed loyal to its corporate values, and continued delivering quality services and innovative products to customers in a timely and responsible manner. Let me convey my gratitude to the strong management team for their professionalism and devotion, as well as its highly professional, motivated staff, for their efforts in sustaining the success we all enjoy today. I am looking forward to sharing and celebrating more success stories in the coming years.

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Letter from the Chairman of the Management Board

David Tsaava
Chairman of the Management Board

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Basisbank has completed another successful year with remarkable achievements in its business development and financial performance. Basisbank upgraded to the fourth position on the market by its total assets and equity and reported impressive results, which has contributed greatly to the group's overall performance and underpinned strength and dedication of our team, from an ordinary employee to the executive team and top management, to excel in delivering our strategic goals to customers, stakeholders and our community. We seek to adapt to ever changing customer expectations in an evolving economic, political and digital landscape.

We have streamlined the internal processes and implemented necessary structural changes prompted by the growth pace the Bank is recording for already seven years, and immediate challenges which require from us swift, affective responses and prompted actions; we continued cooperation with prominent international financial institutions and started operating more efficiently as a financial services group of banking, insurance and leasing communion.

In 2019 we welcomed new members of the Management Board George Gabunia, as a Chief Commercial Officer and Rati Dvaladze, as a Chief Operational Officer. George Gabunia is an experienced commercial/corporate banker with over 15 years of sector experience. In his capacity of Chief Commercial Officer, George Gabunia supervises the development of key business directions in corporate, SME, Unique, etc. Rati Dvaladze is an experienced Project and IT manager, with broad work experience in commercial banking and international development institutions. He supervises the support of ongoing projects, back office work, proper functioning and development of the technical and technology areas. The new directors make an important contribution to the sustained effective functioning of Basisbank and achieving its short- and mid-term goals.

Our strategy

Basisbank group possesses a number of advantages that sets us apart from our competitors and we are going to strengthen our advantages, allowing to establish ourselves at unique position of strong envoy in market-leading services for business, master in full-scale retail banking, premier provider in digital solutions. We set clear goal to enhance our positioning and build a brand equity by bringing the Bank and the whole Group into greater focus and relevance, by building strong relationships with our stakeholders which helps enable us to deliver our strategy in line with long-term values, and operate the business in a sustainable way.

Our aim is to increase returns, invest in the future, and create a platform for sustainable growth and build a bank for the future that puts the customer at the centre. For this end we will be focusing on investments which would contribute to the growth in the nearest future, technology and innovation will be improving our services to customers and connecting them to opportunities and services we offer.

In 2019 for our customers we introduced new digital features to make everyday banking easier, including improved digital account servicing on mobile applications and internet banking, initiated automated loan and mortgage application and processing tools, enhanced money transfers tools and protection levels. We were first on local market who launched on-line dealing platform for our clients which enable them to make the deal execution process more efficient and use the tool to interact with the Bank's treasury function on-line and make decisions within the counted seconds and perform deals automatically. There are number of important new services and portals that our Digital Banking business launched during the year to give our customers more control over the service they receive, including new applications specifically designed and created for our Chinese clients and visitors.

Our Commercial Banking together with the support of our IFI partners has implemented a number of business projects and initiatives in lending to SME and larger businesses which helped the clients to get access to easier, cheaper credit facility in green lending, energy efficiency programs, targeting to the excellence of their business capacities, and bringing their production to the standards and requirements under the EU association agreement.

Our people

To live up to our purpose and achieve our strategic goals, we need to have the right talent on board and possibility to expand the potential of our employees. We continuously invest in our employee experience, transformation and leadership development. We regularly assess what critical skills are needed such as data and digital skills, risk and compliance awareness, service improvement and enable our people to develop their knowledge and expertise, supporting them in their personal and professional development through coaching, on-the-job learning, formal and mandatory trainings and various workshops. We have also brought into our culture systematic performance assessment through aligning the KPIs we use for performance appraisals with the Bank's overall strategy and purpose. The progress of the bank would not have been possible without the hard work and determination of our colleagues. Over the last couple of years we have faced significant economic challenges and tough competition on the market, despite these challenges our employee loyalty and engagement has been at its highest bringing outstanding results to the whole Group each and every year.

Business environment

The Georgian economy continued to cope with external shocks in 2019. Georgia's record of macroeconomic resilience against regional shocks supports its 'BB'/Stable rating, which Fitch Ratings affirmed on 16 August,

2019. The National Bank of Georgia (NBG) increased its refinancing rate by 100bp to 8.5% on 23 October, and 50bp rate hike in December to 9%. Inflation has overshot the NBG's 3% target, rising to 7% y/y in December, from 6.4% in September, 4.9% in August and 4.6% in July. This was partly due to sustained depreciation of the Lari, as well as one-off factors such as an increase in excise tax on tobacco. Pressure on the Lari follows the suspension of flights by Russia to and from Georgia from 8 July, 2019. The exchange rate weakened to US$ /GEL2.8677 in end-2019 from USD/GEL2.6766 at end-2018. This has prompted the NBG to tighten policy following a period of monetary easing since mid-2018.

Despite near-term headwinds Georgia recorded higher than expected growth and displayed some improvement in key macro parameters proving its resilience against recurring external shocks. In 2019 Georgia recorded 5.1% growth of GDP, and was able to overcome difficulties in external finances caused by sanctions initiated by Russia.

The banking environment continued to be marked by the strengthening of regulatory standards especially for new retail lending (tackling dollarization and excessive retail growth). The banking sector reached +19% of growth and remains sound and profitable, with robust capitalization, adequate liquidity and good asset quality.

Banks' credit and solvency metrics remained positive but sensitive to currency movements given high dollarization of loans (56% of sector loans were in foreign currencies at end-2019). Regulatory capital requirements already capture each bank's specific risks through Basel III capital buffers (Pillar 1 and Pillar 2). Solvency ratios were all above the regulatory minimum (including buffers) during the year, though banks endured some pressure on Capital Adequacy Ratio after abrupt depreciation of local currency in early July, but shortly were supported by the additional capital sources as was the case with Basisbank.

Financial performance

Fitch Ratings affirmed Basisbank's Long-Term Issuer Default Rating (IDR) at 'B+' with Stable Outlook. The rating reflected the Bank's reasonable asset quality, portfolio structure and profitability metrics, as well as solid capitalization. We are proud of this achievement, which urges us to keep up the good work.

I take this opportunity and thank my excellent team for their commitment and hard work to sustain the success for over a quarter of a century. Due to prudent internal control system and operational strength, Basisbank managed to keep its efficiency level up, expressed in cost optimization and stable asset growth. Further concentrating on our strength as a financial services group, we remain one of top business lenders, putting our lending technology and expertise to the best interests of our clients, offering them additional financial products and becoming a financial services hub.

We delivered good results and revenue growth in our targeted areas. The Basisbank Group ended the year with GEL 1.7 billion in total assets and GEL 1 billion in gross loan portfolio, with net profit recording GEL 37 million in 2019. During 2019, the Bank's regulatory capital increased by almost GEL 36.6 million, following which the capital adequacy ratio equalled to 19%.

We implemented a number of significant projects throughout the year, further improved our products and services, and intensified the successful cooperation with International Financial Institutions (IFI's) that indicate high level of trust towards our institution.

As the development of SME's remains a driving force for the private sector growth, which remains among the top priorities of the Georgian Government's economic policy, as they help create competitive jobs, in 2019 we continued to support development of SME segment with the increased focus on key strategic sectors. Among business loans, we actively financed tourism and hotels sector, agricultural, trade, energy, production and service sectors.

During 2019 Basisbank further strengthened international cooperation, also acquiring new partners. The total of US$ 61 was attracted from partner IFI's, including the new partner, the European Fund for Southeast Europe (EFSE). The loan facility provided by EFSE for Basisbank in the national currency designated for on-lending to Georgian households for home purchase and improvement will contribute to greater access to sustainable finance and increased living standards across the country. Basisbank signed a loan agreement with Black Sea Trade and Development Bank (BSTDB), directed towards the development of the Georgian small and medium enterprises. Basisbank partnered with ResponsAbility Financial Inclusion Investments 2019 to support the SME lending in Georgia. Basisbank and ResponsAbility have been enjoying partnership on another large project called Green Lending. OFID – the OPEC Fund for International Development supports Basisbank in meeting the international trade requirements of small and medium-sized enterprises (SMEs) and corporates in the region. To increase the value of energy savings and implement EU standards and measures across Small and Medium Enterprises in Georgia, we collaborated with our long-standing partner, EBRD.

I am proud that my team received an award for the Best energy efficiency and renewable energy projects from EBRD, under the EBRD's Energocredit program. It is a recognition of our contribution to building a green economy in Georgia, with the support of EBRD, and showcases the bank's continued commitment to financing green energy projects. Our cooperation continues with the EBRD's new Green Economy Financing Facility (GEFF) in Georgia. Through this facility, our bank will be able to continue supporting small and medium-sized enterprises (SMEs), corporations and residential households by making loans available for energy efficiency, climate adaptation and mitigation projects.

Basisbank, as a financial services mediator between the Chinese and Georgian businesses who helps Georgian businesses to benefit from Chinese investments and trade, is well positioned to efficiently serve both the Georgian businesses and the Chinese customers. During 2019 Basisbank Group further improved the coordinated functioning of all three areas of its business: banking, insurance and leasing.

The members of the Basisbank Group: Hualing Insurance and BHL Leasing made vital contribution to achieving the medium-term goal of becoming a financial services hub that delivers a full package of quality financial services encompassing banking, insurance and leasing, all from one sales point in a simple, responsible and flexible manner. Despite the fact that both Hualing Insurance and BHL Leasing are relatively new players in the market, they have managed to create a customer base and demonstrate the commitment to quality services. The customers who sign lease agreements for the equipment produced in China, provided through BHL Leasing, simultaneously use the insurance service offered by Hualing Insurance. We are proud of such comfortable and harmonized functioning of these two wings of the group.

I firmly believe that all our business divisions manage to have a positive impact on our clients, our staff, our investors and society at large. Basisbank continues to play an important role in contributing to economic growth and improvement of business environment. Recognizing this responsibility, we strive to remain a good corporate citizen, well equipped to continue pursuing our ambition.

Outlook 2020

In 2020 the key challenge for the businesses will be to withstand the environment which remains uncertain. As a result of the impact of the coronavirus outbreak, the expectations for growth in the economy in 2020 have been lowered, and development of the business environment will depend on duration and recovery period as well as measures taken by the government in support of key businesses, unemployment growth and stabilization of financial sector. The main impact will be in the first and second quarter, but we expect some improvement as the virus becomes contained.

The Government of Georgia presented a plan of economic incentives to support the businesses and society. Unti-crisis plan include subsidizing of most vulnerable sectors of the economy and social communities, targeting the key areas to reach quick recovery by supporting businesses with tax incentives, subsidizing interest rate on loans, creating grant programs and direct financing for most critical part of the sectors like agriculture, production, infrastructure constructions, healthcare, education, energy production, tourism, etc. The Government is receiving direct support from IMF, World Bank, ADB, EBRD and other donor organizations for financing anti-crisis program. Estimated support provided to Georgia is US$ 3 billion. We expect that the environment will start to recover in the second half of the year.

For Basisbank group our conservatively managed balance sheet, including a solid capital and liquidity position, leaves us even better prepared to withstand a tough environment.

Strategic overview

We are the 4th largest in terms of asset and equity size and one of the leading financial institutions on Georgian financial market represented through Commercial Banking, Insurance and Leasing businesses. Equipped with a strong loyal customer base gained through long-lasting collaboration with key sectors' leaders, SME entrepreneurs and our valued individual clients, reinforced by a long-term partnership with international financial institutions and our strong ally Hualing Group, our shareholder, which is committed to the sustainable and stable development of our Financial Group, we create a real economic value and perspectives for development to our customers, partners, our employees and stakeholders. With solid history of development, sometimes tested against adverse market conditions and stressful environment, but backed with strong corporate governance and responsible business culture, strong basis for financial standing and growth capacity, we maintain our advancement on financial market gaining more of our share and increasing our footprint and presence across country and among financial intermediaries.

The Group's fundamental aim is to be the best open financial services platform by acting responsibly and earning lasting loyalty of our people, customers, partners and shareholders. We shall achieve this by following our primary objectives as announced in our key strategic development document, revised and updated in 2018. Our mid-term objectives are outlined in the following statements:

- Obtain and increase a leading position and become one of top Financial institutions on the market through key strategic business lines - Commercial Banking, Insurance and Leasing - new directions under the Basisbank umbrella
- Enhance our image positioning and BRAND strength through three pillar qualities – SPEED, QUALITY and FLEXIBILITY.
- Move towards more automated and standardized business model and be at leading positions in financial services - cross selling of financial products to targeted clients using "Single window" principle in all business directions
- Increase our clients' outreach by business acceleration – Investing in our core banking platform and technology upgrade
- Improving and sharpening our client offerings, creating targeted value propositions and promotional campaigns, focusing on core regions, investing in frontline staff and senior corporate bankers to attract and service new business and retail customers

As a Group, we provide services in commercial and retail banking as well as in leasing and insurance to corporations, small and medium-sized businesses, and private individuals.

Today, we are equipped with all necessary resources to achieve our strategic objectives. The strong financial standing, clear capital structure, continuous support of our shareholder, adhering to the best Corporate Governance standards, disciplined risk management culture along with prudential internal assessment and control systems.

The successful reorganization of our key business divisions is one of the things we determined we needed in order to grow again. Recently refreshed composition of governing bodies backed by efficient management of business processes provide basis for sustainable expansion, increased speed of execution bringing the benefits of the Group to a broader set of customers. In 2019, we have reinforced our leadership teams at Group level by nominating new key positions to the Management Board to lead Commercial Business and Operations, equipping our Group with more focused perspectives and expertise for further development. We welcomed two new members on board, Chief Commercial Officer and Chief Operational Officer The changes across our organization have accelerated our performance and brought significant results.

Our main concept towards the integrated platform and digital services – one/united platform for the Group to cover banking, insurance and leasing businesses.

Our strategy is constantly evolving to address new challenges and capture new opportunities in the market as they arise. A new operating model as a Group with a joint infrastructure and product platform will help to pursue towards the achievements of our growth targets.

The trend towards digital banking continues to accelerate, across all segments of the market. Every product and service we offer today to our customers should be delivered digitally in most efficient and convenient way.
We acknowledge the importance of strong digital platforms, and we are building up and making necessary changes in the way we do business to keep up with the pace of innovation.
Our digital strategy is to establish integrated web platform that will bring together banking, insurance and leasing online services. A sales portal will be set up, allowing clients to simplify their daily financial tasks and needs by providing a new level of digital financial services.

Ensuring to retain sound financial performance and increase our market share, we will continue strengthening positions in our strategic segments: SME, corporate and retail. Improved service delivery channels and digitalization will ensure quality products/services are provided to customers through multichannel offerings and highly automated processes.

In achieving these goals and align our goals to three key strategic pillars of speed, flexibility and quality we implemented significant change across our organization which has accelerated our performance.

We have strengthened and reinvigorated our teams

We have also refreshed our governance, all of which bolstered our solid foundations

We have reinforced our leadership teams at Group level with new internal promotions for key positions in Commercial Business and Operations, equipping our senior management with more focused perspectives and expertise for excellence and development.

In 2019, we welcomed two new members on board, Chief Commercial Officer and Chief Operational Officer.

Over the course of 2019, we have continued to deliver progress despite a challenging operating environment have advanced to the list of Georgia's top four banks.

The strong positioning of the Group together with the new business directions – insurance and leasing, the use of complementary strengths backed by joint management will build the basis for significant cost and revenue synergies which we aim to fully realize by 2023 and beyond.

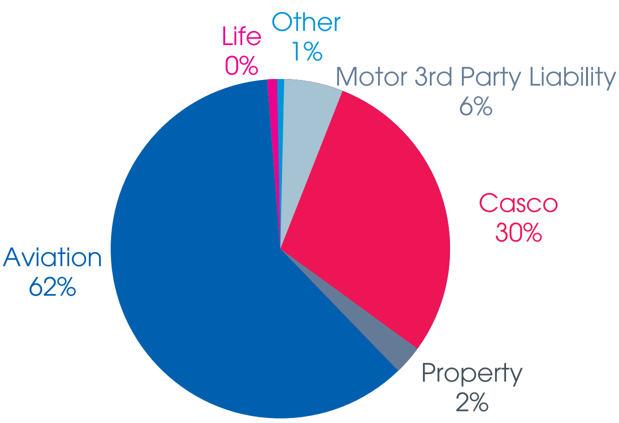
Basisbank's Group (the Group) operates as part of a financial services group, uniting Banking, insurance and leasing components in its operations. There are three subsidiaries operating under the Basisbank Group umbrella: Hualing Insurance, BHL Leasing and BAMH (Basis Asset Management Holding Company). The Group has made strides to successfully serve its medium-term goal of becoming a one of leading financial intermediary with full package of high quality products and services delivered all from one sales point in a speedy, responsible and flexible manner. Through coordinated functioning, all the three pillars one of the group allow for the synergy of resources and time saving and provides a greater accessibility to the products in the Georgian market.

Hualing Insurance

Established in 2017, Hualing Insurance (HI), is a rapidly growing subsidiary of Basisbank's Group and is the bank's main banc assurance partner. Hualing Insurance serves both individual and legal entities and provides a broad range of insurance products covering motor, property, life, travel and corporate packages. The company has set the following values: simplicity, fairness and innovation to guide its daily business operations and employees' aspiration to the values and spirit of the corporate culture. The company's vision is to become client's preferred insurer in Georgia.

Hualing Insurance services are available in all cities and regions where Basisbank Group is present through its branches. Despite being relatively new on the market, in 2019, Hualing Insurance managed to gain awareness and customer trust, ending the year with GEL 15.5 million in total assets and GEL 1.6 million of net profit.

Insurance Products Composition



To be distinguished on the market, Hualing Insurance focuses on digital sales, swift and easy claims settlement processes, highly reputable reinsurers, flexible and simple products, strong financial standing and solid professional staff. These advantages enable the company to maintain and increase flexibility and be accessible to clients across the country, with a simple governance structure and effective decision-making process.

Top priority of the company is to concentrate on developing remote services, enabling the clients to claim reimbursement in the most flexible way, saving their time. Some of the key novelties that were introduced to customers in 2019 were: 1) new website www.hi.ge which gives comfortable access to acquisition of insurance products remotely; 2) digital car rental partnership enabling customers to rent a car and automatically activate the HI car rental insurance policy remotely; 3) credit life insurance product launched and offered to the Group's corporate customers.

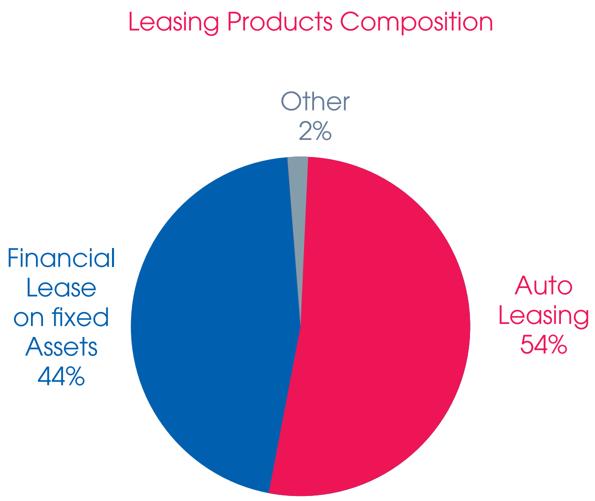
During 2019 all three wings of Basisbank Group provided services in close coordination. Customer-centric approach is a key factor in the success of Hualing Insurance's business. It is based on the membership of Basisbank Group and the ability to offer one-stop-shop financial services to clients in a single space.

BHL Leasing

BHL Leasing has started operations with clients in February 2019. As a subsidiary of the Basisbank Group, BHL leasing is committed to complement the group's operations and services with products provided under leasing arrangements. The company is focused on rapid development and intends to become a stable partner for businesses and individual entrepreneurs, a leader and innovator in this relatively new sector of financial market, which has just began to evolve in Georgia. BHL Leasing is guided by the following principles: to define clients' needs responsibly and create added opportunities for them.

BHL Leasing serves both individuals and legal entities and provides comprehensive leasing solutions and advisory services. By the end of the year BHL Leasing has GEL 3 million of issued leases where legal entities account for around 47% of total portfolio (with construction, auto and technology being the largest sectors of the portfolio) and retail portfolio accounts for 53% mostly comprised of new and used cars. BHL Leasing effectively uses the parent company's branches in the service process. Starting from 2020, the leasing officers will be available at all regions and branches were the Group is presented.

The users of leasing products vary from individuals to corporates with corporates to dominate the market mostly in such sectors as: agriculture, construction, manufacturing, mineral resources, trade, medical equipment, transportation and communication.



The need to set up a leasing company was driven by the reality of the Georgian economy, which was preceded by economic growth that prompted small and medium-sized enterprises to need more fixed assets. These enterprises were planning to grow, but did not have sufficient funds to invest in fixed assets. Leasing can play a major role in providing technical resources and material support for small and medium-sized businesses operating in Georgia. Businesses are growing faster than the collateral value of their assets. The main benefit of leasing is that the subject of the lease itself performs the function of collateral. Also, users of leasing services save administrative resources (lawyer, appraiser, accountant and so on). The leasing company takes over the technical part of the services completely.

BHL Leasing's special mission and competitive advantage is to mediate between Chinese companies and Georgian customers and to provide Georgian clients with a wide range of opportunities to use Chinese financial leasing products. Consequently, BHL Leasing, through its activities, plays an important role in bringing the Chinese and Georgian markets closer together and provides Georgian companies with new opportunities for expansion and business development. The company strives to increase awareness of leasing solutions to startup companies for whom leasing is an affordable and particularity convenient option to obtain needed equipment.

Next steps of BHL Leasing are development of supplementary services to the clients, enhancing management information and customer relationship management systems, cross-selling of insurance products.

BAM Holding

Established in 2012, BAM Holding is a property management subsidiary of the Bank. Main activities of the subsidiary include: development, realization, leasing and rental of properties.
The Group will continue effectively using its assets to further strengthen its brand identity as a one-stop-shop for financial services and become even more innovative in its service offerings.

Hualing group

BB is a member of Chinese conglomerate Hualing group - a Chinese private enterprise group with broadly diversified businesses in China and extending overseas businesses. Xinjiang Hualing Industry and Trade Group Co. ("Hualing Group") is in an ownership of BB since 2012. Being a major shareholder of the bank, keeping controlling stakes of above 90%, Xinjiang Hualing Industry and Trade Group Co. is committed to develop strong financial institution under the umbrella of Basisbank group with emphasis on integrated growth of business franchise and strong advancement on the market.

HUALING GROUP

Hualing group is presented on Georgian market since 2006. The areas of the Group's interests are broad and comprehensive included processing and mining of wood and forestry industry, construction of infrastructure facilities, a large-scale modern commerce market, Hotel and tourism, etc. Hualing Group's vision is to leverage the advantage of its presence in Eastern Europe and Asia, develop along with the "Silk Road" project initiative and reviving the historic role of Georgia as the trading hub between Europe and Asia, progressively making Hualing markets a bridge between the two regions.

The founder and owner of the Group, Mi Enhua, is a prominent Chinese businessperson, with extensive experience in business sector, awarded multiple times for his special contribution to China's economic development and charity work.

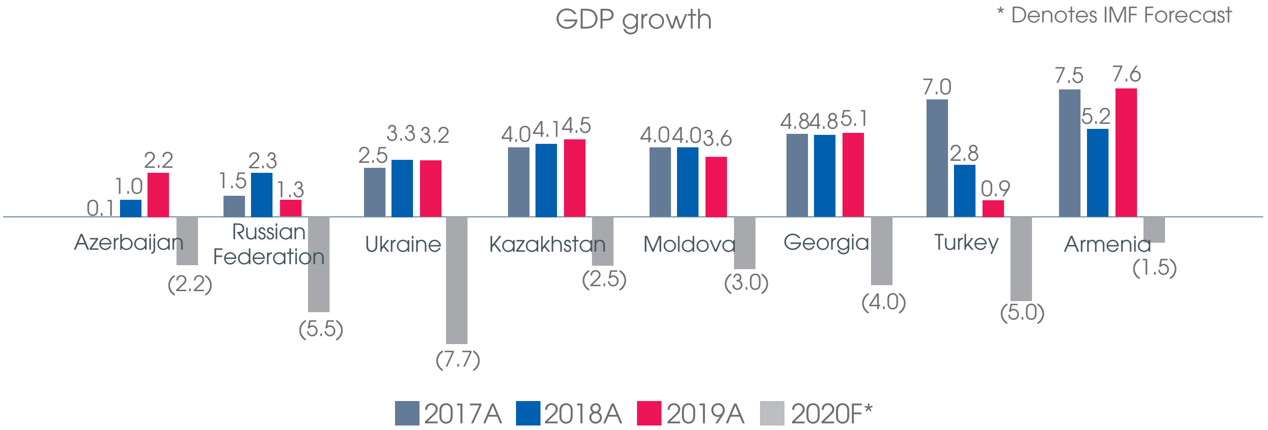
OPERATING AND FINANCIAL REVIEW

Economic environment

In 2019 the Group developed its business on a backdrop of general economic and political tension, which was intensified by adverse movements in the economies of regional partners and sanctions imposed by Russia. In 2019 Georgia has to face new external pressure after Russia suspended flights to and from Georgia in early July, hindering the flow of visitors from Russia which is the significant part of tourist arrivals in Georgia. This processes was accompanied by some tightening of trade terms for products exported to Russia in the mid of summer. Weaker economic growth in some major trade partners (e.g. Turkey, Azerbaijan, and Russia) was another challenge to retain stability of Georgia's net exports and hindrance to external demand growth.

Despite near-term headwinds Georgia recorded higher than expected growth and displayed some improvement in key macro parameters proving its resilience against recurring external shocks. In 2019 Georgia recorded 5.1%[1] year-over-year (y/y) real GDP growth up from 4.8% in 2018, while current account (CA) deficit continued to shrink to its historical minimum of 5.1% in 2019.

Regional peers



The 2019 annual growth was mainly driven by the increased external demand that was further promoted by the competitive effective exchange rate. Despite weak economic growth in major trading partners, net export continue to grow during 2019, mainly due to diverse nature of export markets and depreciated Lari; while reduction of import, due to lower demand on capital goods and petroleum products resulted from reduced prices on oil, has further supported the reduction of trade deficit.

The trade deficit was the main driver of the CA deficit, which reduced by 8.5% y/y, the surplus in current transfers (the second largest positive category of the current account), the net FDI's (5.6% of GDP) and portfolio investments (4.0% of GDP) were major funding sources of CA deficit in 2019. Despite of Russia's flight ban negative impact on tourism inflows and reduction of related revenues by around US$ 300 million in 2019, tourism revenues still remain the main source of external financing - in 2019, international visitors recorded +7.3% y/y, the impact of Russian sanctions were weaker than expected compensated by increased tourist inflows from other countries like EU, Azerbaijan, Turkey, other countries.

Amid improved external balances, Lari continued to depreciate against USD and EUR. Affected by the adverse impact of external factors and more by the higher-than-expected depreciation of local currency due to increased negative expectations on shortages in currency inflows Lari depreciated more than the Macro parameters suggested. It has increased pressure on FX demand and USD and EUR FX rates reached to their historical maximum 1$ =2.9808 Lari, 1€ = 3.3158 Lari. However increased external demand and still high tourist

[1] Geostat's preliminary estimates

flows have more than compensated the gap imposed by sanctions and impact was not as significant as expected.

In 2019, foreign currency inflows in the country were limited through FDI that negatively affected the US$/GEL exchange rate in the first half of the year. In 2019, Georgia attracted US$ 1.27 billion foreign direct investments (+0.2% y/y). The FDI flows were impacted by the completion of a pipeline project and transferring ownership of some companies from non-resident to resident units. In 2019, the highest indicator was recorded in reinvestments and amounted to 48.3% of total FDIs'. This is a result of the government's economic policy, namely corporate income tax reform, and improved business friendly environment that is positively perceived by investors as they decided to extend their business plans in Georgia. FDI remains as a solid source of external financing.

In 2019, Georgian Lari (GEL) weakened compared to the main trading partners' currencies. As of the end of December 2019, the GEL depreciated against USD by 7.1% y/y and depreciated against EUR by 4.5% y/y, while nominal effective exchange rate depreciated by 9% y/y. The mentioned depreciation created the pressure on the price level and pushed inflation above the target (3%).

Due to the heavily undervalued GEL and promoted inflationary pressure the NBG followed the tightened monetary policy throughout the 2019 year and increased policy rate to 9% (6.75% at the beginning of the year). NBG will continue to follow the tightened monetary policy until the pressure on the inflation from the depreciated nominal effective exchange rate will be eliminated. As a result, it is expected that monetary policy will remain tight and that it will decline to its neutral level only after inflation expectations sustainably go back down to the target level of 3%.

According to the Geostat's preliminary estimates the following sectors are keeping the leading position in GDP – trade, manufacturing, transportation and storage, hotels and restaurants sectors. Meanwhile, growth was down in construction sector.

Economic developments and structural reforms undertaken by the Government have been positively evaluated by international rating agencies. In October, the international rating agency “S&P” upgraded Georgia's sovereign rating to BB/Stable level (Fitch affirmed Georgia's sovereign rating at BB level with a Stable Outlook in August 2019). One of the main factors that positively affected credit ratings was a reduction of current account deficit at the historical minimum level that increases the economy's invulnerability with respect to external shocks. Improvement of CA deficit is strongly supported by a slowdown in consumer lending and pension reform (reduces disposable income, increases savings) that further ease pressure on imports.

Another factor that contributed to the rating update was a foreign currency reserve accumulation policy actively followed by the NBG (US$ 3.3 billion foreign currency reserves, as of December 2019).

Fitch was predicting further reduction of the CA deficit at 5.3% of GDP and the net inflow of FDI at 5.9% of GDP over 2019-2021 years;

These estimates were made before COVID-19 outbreak, which has changed expectations and estimations for 2020. Recently FITCH issued new outlook for Georgia changing it from "stable" to "Negative", affirming Long-Term Foreign-Currency Issuer Default Rating (IDR) at "BB". The negative outlook is based on forecasts of deteriorating some key macro parameters due to high dependence on external markets, lower internal production capacity, ramifications on fiscal accounts leading to contracting GDP by 4.8% in 2020. On mid-term, the prospects for 2021 are positive[2], growth projection hitting up to 4.3%. Still, forecasts are sensitive to the duration of virus outbreak and recovery of the economy, and risks related to the second wave of pandemic spread which could lead to second lock down measures

[2]See IMF forecast for 2020 and 2021 in Outlook

The reserve accumulation policy guarantees the stability of the economy with respect to external shocks. It should be noted that in 2019 Georgia was two steps away from the investment credit rating (BBB-). The rating upgrade reduces the country's risk premiums and increases the attractiveness of the investment environment for foreign investors that promotes long-term foreign investment inflows.

Still high level of CA deficit, high dollarization of banking sector (loans/deposits) as well as high dollarization of public debt (that makes the country's solvency vulnerable with respect to exchange rate fluctuations) were factors that hampered credit rating growth. The government of Georgia initiated a number of reforms (pension reform) to promote savings, increase investments (corporate income tax reform), increase exports and gradually close the saving-investment gap that means to achieve balanced current account in the medium-run.

To support economic development, the government of Georgia initiated the following structural reforms:

SME Development/ Innovations – The government of Georgia is actively supporting the development of the SME sector with an 'Enterprise Georgia' program. Together with a 'Good Governance Fund' and 'PwC' the government has implemented a project targeted at increasing the number of SMEs in Georgia. The program also involves linking local and international entrepreneurs.

Agriculture Development – Includes rehabilitation of infrastructure projects: increase Irrigation systems, certification of seeds and planting material, the identification and registration of cattle, creation of market information system.

Capital Market Development – The greatest progress is achieved in the development of a legislation framework. Which comprises harmonization of legislation with EU standards. According to the modified legislation capital gains are exempted from taxes. Also, a set of tax reforms was developed, which implies taxing various financial instruments according to the best international practices.

In addition, taxation of derivatives, repo and securities lending will be improved. Pension reform is also part of the capital market development plan. A pension fund created a large institutional investor that will increase demand on the capital market instruments.

Pension Reform – Guarantees accumulation of domestic savings that will close the saving-investment gap in the medium run. The pension fund has already accumulated GEL of 507 million (as of December-2019), which is totally deposited in commercial banks.

Deposit insurance system – The system is going to further enhance the trust of the financial sector, maintain sustainable development of the banking system, mitigate possibilities of bank runs and increase saving norms, which imply lower interest rates on the loanable funds and higher economic growth. From July 1, 2020 the maximum reimbursable amount of insured deposits increases from 5,000 GEL to 15,000 GEL.

Outlook – COVID 19

Covid-19 outbreak created a significant uncertainty on the worlds' markets. It also affects Georgia's economy through the various channels, as our economy is strongly dependent on external markets. As a result of the outbreak, the domestic consumption could decline significantly triggered by the people staying home as a precaution coupled with the uncertainty created in the economy and increased unemployment. The reduction of domestic demand will hinder economic growth and the size of the negative shock is depending on the length and severity of the outbreak and on the policy responses taken by the Government of Georgia. At the same time, the negative demand shock can spill over to supply-side activities as well. In addition to demand shock, supply-side activities can be affected by possible disruptions in international trade. Based on preliminary estimations of IMF and GoG Georgia's economic growth forecast at -4%or less for 2020 with positive recovery in 2021 up to 3%.

The Government of Georgia presented a plan of economic incentives - GEL 2 billion (4% of GDP) will be allocated to support the economy and entrepreneurs, in particular through the suspension of taxes, VAT refunds and interest-rates subsidies for qualifying borrowers. The support will be provided to households and businesses engaged in most vulnerable sectors. Additional incentives schemes and new products are offered to entrepreneurs engaged in targeted sectors in agro and production, under special programmes supported by the government "Produce in Georgia", types of activities and the state's participation in loan interest co-financing increases, the minimum threshold for loans/leasing will be reduced and funding for circulating assets will increase.

GoG has agreed with donor organizations of US$ 1.5 bln foreign financing, while the Georgian private sector will have additional access to US$ 1.5 bln foreign resources.

The effectiveness of the government's initiatives is depending on how it will reach the sizeable group of the population affected by the outbreak.

The Banking industry

In 2019 the banking environment continued to be marked by the strengthening of regulatory standards and supervision framework, NBG continued the process of tailoring current standards and requirements with international practices and principle in areas of corporate governance, Basel III framework, risk management and capital planning, reporting, and regulatory standards on lending, especially for new retail lending (tackling dollarization and excessive retail growth).

The banking sector reached +19% y/y of growth in 2019, remained sound and profitable, with robust capitalization, adequate liquidity and good asset quality; and at the backdrop of limitations put on retail ending by the current regulation still accounted for +20% of yearly growth in lending. In 2019 key focus was on business sectors (+30% y/y growth) contributing about 84% in total portfolio growth, acting positively as economic stimulator and enhancing growth potential and SME and corporate finances. Sustainable lending regulations enacted by the NBG affected the retail segment's growth considerably.

A responsible and sustainable lending policy is effective since January 2019 – In order to establish a responsible lending practices, the NBG launched a responsible lending framework in line with the best international practice. Within this framework, limits are introduced on PTI and LTV coefficients. This regulation also limits lending to the customers without verified income. The regulation also limits the list of guarantors, as well as placed some restrictions on real estate eligible for pledging. After this regulations become affective, as of December 2019, the share of the retail segment in the total loan portfolio declined to 40% from 45% in December 2018.

The high dollarization level remains one of the biggest challenges for the stability of the Georgian banking system. The “Larization” policy initiated in January 2017 and actively followed by the NBG considerably reduced loan portfolio dollarization. In January 2017, loan portfolio dollarization stood at 65%, while it gradually reduced to 55% by the end of 2019. Alongside loan portfolio de-dollarization, deposits portfolio dollarization decreases but with a lower rate. By the end of 2019, deposits dollarization amounted to 65% (2018: 63%)[3].

Still high level of individual deposits dollarization reveals that economic agents are more confident about the US dollar rather than local currency. The reduction of dollarization level promotes the effectiveness of monetary policy through empowering the monetary transmission mechanism that reduces exchange rate fluctuations. Generally, it lowers the foreign exchange risk that makes economy more resistant with respect to external shocks.

Banks' credit and solvency metrics remained positive but sensitive to currency movements given high dollarization of loans. Regulatory capital requirements captured each bank's specific risks through Basel III capital buffers (Pillar 1 and Pillar 2). Solvency ratios were all above the regulatory minimum (including buffers) supported by additional capital sources raised during the year.
The quality of the loan portfolio remained solid despite a significant depreciation of Lari. In 2019, the non-performing loans ratio was down compared to the previous year by 1.1pp and amounted to 4.4%. In addition, the high-risk unsecured consumer loans issued before the tightened lending standards are largely matured that is going to further lower systemic risks in the banking sector.

The banking sector maintains a stable outlook estimated by international rating agencies. But, ratings of commercial banks are highly sensitive to the performance of the domestic economy and stability of the local currency as dollarization of loan portfolio remains high and borrowers are largely unhedged.

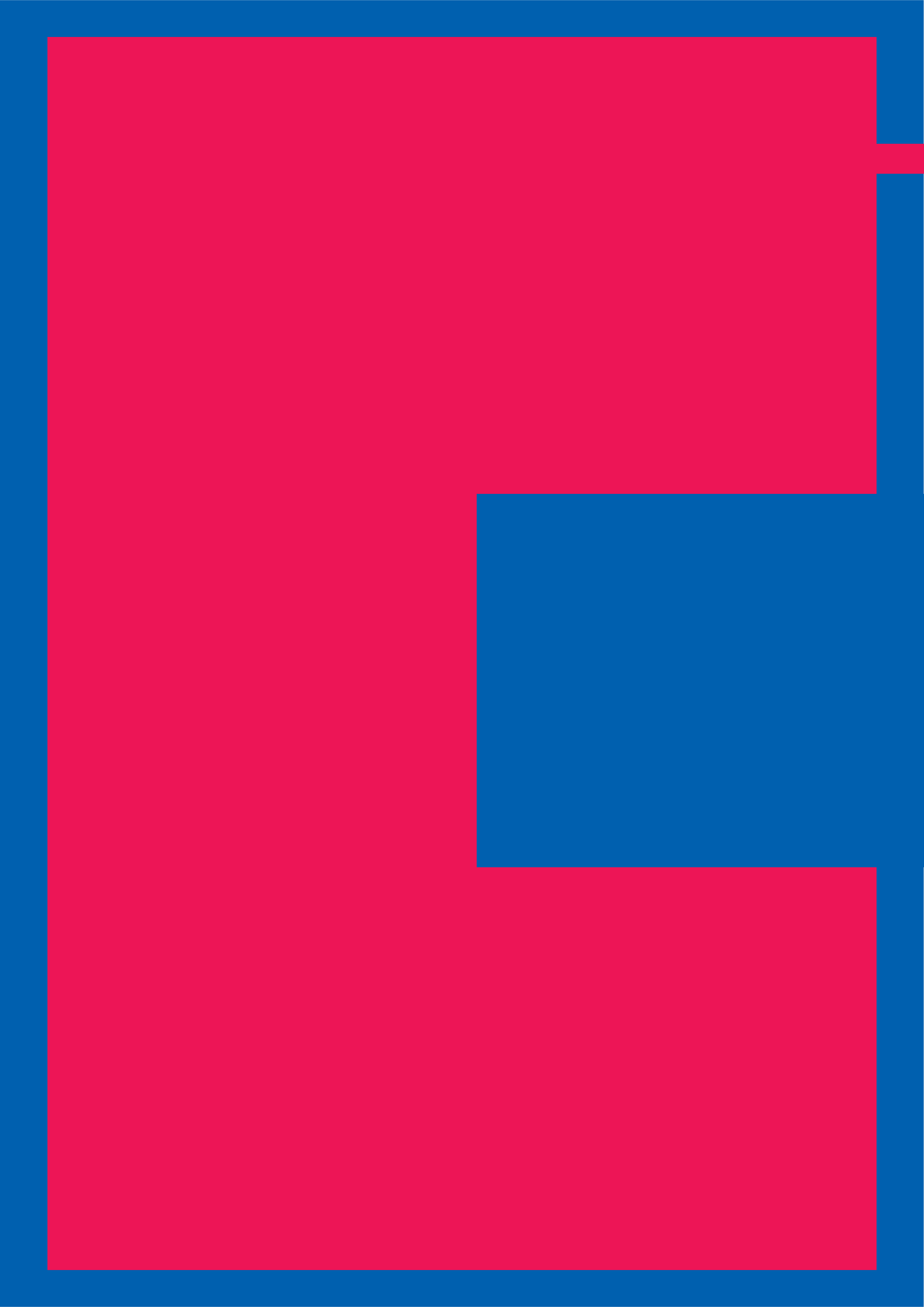
[3]Source NBG

The banking system incorporates further advanced technologies to provide more comprehensive and flexible products to customers. The market competition turned on innovations and advanced technologies, development of card business, etc. The tendency is there and competition in this area is expected to strengthen in the following years. Since stable macroeconomic development promotes the banking system growth. Sustainable lending regulations' effect on growth rates will continue, but the mentioned regulations aim to improve the resilience of the banking sector.

Outlook – COVID 19

In this time of emergency, the Banks operate in synergy with other representatives of the sector, The Government of Georgia (GoG) and The National Bank of Georgia (NBG) in attempt to elaborate consensual policies and approaches aimed at minimizing economic ramifications of the pandemic on our economy. NBG has introduced facilitating incentives and emergency plan for the banking sector which should support the banks to withstand the pressure and maintain liquidity, retain solvency and funding in case of significant pressure. Measures taken by NBG will ease regulatory requirements and prevents Banks from borrowers' pressure. In agreement with the NBG the borrowers were provided with the opportunity to defer loan payments for the next three months.

Latest depreciation of lari against dollar and expected deterioration of the portfolio quality could put pressure on the qualitative metrics of banks' financial positions. On capital requirements NBG Postponed the phasing in of additional capital buffer from CAR to CET1 requirements planned in March 2020, decreased regulatory demand for conservation buffer of 2.5pp on CET1 to 0, released 2/3 of additional Currency induced credit risk (CICR) buffer under pillar 2 covering FX risks. NBG would consider to release remaining Pillar 2 buffers of (HHI, 1/3 CICR, GRAPE) in case of significant impact on CAR levels. In regard with liquidity requirements increased criteria for security or repo pledging, introduced depo swap instrument to support GEL liquidity. As at the date of the report of impact on Capital and liquidity was not as significant as to increase concerns on the sector banks' financial standing - average CAR cumulative for banking sector amounted 17%, on year-end 2019 19.5%, liquid assets as of total assets remains stable at 20%, on year-end 2019 19.5%.



DELIVERING ON STRATEGY AND BUSINESS OVERVIEW

Progress on strategy implementation

The group expands its operations and provides variety of comprehensive financial services to its clientele enhanced by new initiatives in services and products offered through our unique service platforms and service delivery channels. Our strategic goals executed through three strategic pillars - qualified, flexible and fast services determines attraction and maintenance of customers. The main task of the group is to strengthen efficiency, remain among top local financial institutions grounded on strong financial standing, equipped with modern technologies, highest standards in corporate a risk management, expanding across country with the goal of upraising our franchise, brand equity and awareness among community by creating deep and lasting relationship with the clients and stakeholders.

Banking, insurance and leasing services, the business lines of the group have shown successful year and significant advancement on financial market in 2019, stimulating cross sales and offerings of complementary products and services tailored for retail and corporate clients and suited to the different groups' interests. Although the new business lines were established only a year ago or so, these companies have already contributed to the result of the group by using direct sale and active marketing campaigns, demonstrating deep and comprehensive knowledge of the sector, awareness of the financial market landmark and needs of the sector in sustainable progress; staffed with highly professional team they increased the value offered by the group, have contributed to the execution of strategy in increasing the customer loyalty by deepening customer relationship and increasing customer lifetime value and retention.

With assets of GEL1.7 billion we are among top 4 largest, leading financial institutions in Georgia. Today, we serve our 132 thousand business and retail clients covering all main regions (Central part of Georgia, Adjara, Imereti, Cartli, Kakheti, Samegrelo) through the network of 24 branches, digital channels and strong pool of more than 550 employees

In 2018 the group has announced new strategic priorities and business targets oriented in technological transformation, market expansion and improvement of long-term profitability and returns to shareholders. In accordance with the strategy, our business structure and operations were re-organized - Commercial Banking and Operational banking formed as separate business units in the second quarter of 2019, the near-term objectives were re-adjusting in line with the long-term strategy and goals.

Throughout our entire network, we offer a broad array of banking, leasing and insurance services that help corporate customers manage their companies, enable small businesses to grow, assist consumers to meet their financial goals and support the economic health of our communities.

With a long-standing history in banking and roots that go back more than a quarter century, we are synonymous to a rapidly progressive financial institution that is a respected and trusted partner to the top global Financial Institutions, commercial banks and investment funds such as IFC, EBRD, BSTDB, ADB, CDB, EFSE, BLUE Orchard, ResponsAbility and many others.

The Group has recently embarked on a new stage of corporate development. With a vision to become a robust financial services provider group, we combined the capacities of the full set of financial services. While the focus of the bank is to provide retail, corporate and SME clients with simple and transparent product offerings, the insurance and the leasing subsidiaries provide most user-friendly insurance and leasing solutions to all group of customers. Coordinated functioning of all the three pillars under one group enables the group to synergize the resources, save time and provide a greater accessibility to the products on Georgian market.

As we successfully match customers with products and services from our business lines that meet their specific needs, we create value for our services that translates into customer loyalty and appreciation.

Backed with strong capital base, accumulated superior expertise in doing business, most importantly with Asian companies balanced with strong financial support, we have gained competitive edge on the market in supporting and servicing all industry segment through:

- Specialized expertise in agribusiness, commercial real estate, construction, healthcare, wine and food production, energy and many more.
- Functional, team based organizational structure tailored for integrated customer experience.
- Strong loyal customer base gained through long-lasting collaboration with key sectors' leaders and SME entrepreneurs.
- Distinguished five business lines: Corporate, SME, Documentary Business and Factoring, Chinese Customer Service and Projects Department, and Unique banking unit serving high value VIP customers.
- Selected branch network - matched location of branches in most active business centers and regions
- Service standards across all the channels, enhanced software systems for greater agility and speed of the processes

Our focus on delivering the absolute best in customer service across every channel has been at the heart of our success. We have demonstrated impressive progress on the market over the past several years, turning the Group into billion worth stable Financial Institution.

Our strength and stability are measured by upgrading trend of Credit Rating Agency as a recognition of a strong balance sheet, consistent performance, capital strength and proven financial stand.

As we continue to grow, we remain committed to improving and expanding our model and customer experience.

International Cooperation

The year has been productive in terms of deepening our cooperation with international financial institutions and new partners acquisition. To enable our Group create greater agility in catalysing growth in business, we welcomed European Fund for Southeast Europe EFSE as our valuable and new partner and attracted in total of 61 million USD from our new and long-dated partners: European Bank for Reconstruction and Development, Black Sea Trade and Development Bank, ResponsAbility and OPEC Fund for International Development. We continued on a focused effort to increase the low cost and consessional funding, multicurrency alternatives by attracting borrowings as in local currency as well as in EUR and USD to provide our customers with flexibility and benefits of affordable financing.

Actively diversifying our borrowings portfolio and pool of international partners ensures our efficiency and flexibility to deploy attracted resources in the development of our lending business. In 2019 we prioritized promoting and partnering international financial institutions for such projects as: trade financing, mortgage financing, SME, energy efficiency and agribusiness development.
As a result in 2019, we received substantial support for our business development, in particular for projects involving cross-border trade, projects directed at energy efficiency contribution and projects directed at affordable housing.

EFSE provided a national currency loan equivalent of €10 million to Basisbank for on-lending to Georgian households for home purchase and improvement. Through the GEL investment, the partners aim to contribute to greater access to sustainable finance and increased living standards across the country. By joining forces, BasisBank and EFSE expect to expand the availability of long-term local currency financing for more than 600 homeowners throughout Georgia.

Basisbank signed a loan agreement with Black Sea Trade and Development Bank (BSTDB), directed towards the development of the Georgian small and medium enterprises. More specifically, BSTDB allocated US$10 million and €5 million loan facility to be used for further growth of the Bank's SME lending business.

Basisbank signed an agreement with ResponsAbility Financial Inclusion Investments 2019 on the US$ 9.4 equivalent in EUR loan facility for the term of 3 years to support the SME lending in Georgia. Basisbank and ResponsAbility have been enjoying partnership on another large project called Green Lending, initiated in 2018. As part of the project, US$10 million was allocated to promote energy efficiency and greater awareness of the benefits of energy saving.

OPEC Fund for International Development signed (OFID) signed a US$15 million agreement with Basisbank to support the international trade requirements of small and medium-sized enterprises (SMEs) and corporates in the region. The agreement built on a previous US$5 million term loan provided by OFID to Basisbank in 2016 to support the import and export of agricultural products and machinery, IT, and construction and consumer goods.

In addition, another successful project to support energy efficiency investments was initiated in multicurrency with European Bank for Reconstruction and Development by the end of 2019. EBRD allocated 10 million USD to support green lending in the country.

We will maintain and continue further discussions with international partner institutions to increase obtained credibility and reliance of the Group and receive long-term financial support for our further growth. Partnering reputable financial institutions will remain a priority for the Group as a significant tool to gain vast knowledge, competence and experience based on the best international practices

Our Digital Strategy

During the year, our digital banking platform was updated and customized to meet customers' demand. Basisbank Group digital business transformation is also influenced/driven by technology innovation, customer behavior and external environmental factors.

The Group is encouraging the customers to sign up for digital services by moving a majority of all banking transactions to the digital omni-channel platform.

Our digital strategic goals include:

- Reinventing Customer Journey to put the customer at the centre of everything we do
- Being an advisor for our customers to offer highly tailored solutions
- Keeping data safe to give insurance to our customers to feel themselves protected

Delivering on Strategy and Business Overview

To become customer-oriented bank is planning to offer omni-channel customer experience in all distance channels (Internet banking, mobile banking, branches). Bank is encouraging self-service for customers, therefore we are going to implement digital on-boarding process using AI powered tools and give them possibility to register online and use distance channels without visiting branches. To support all digital processes bank is optimizing and automatizing internal business processes.

To be a good advisor for customers', bank is planning to deploy AI powered tools. Such kind of tools help Bank to analyze customer data for better prospect and client targeting, analyze their behavior and offer the most suitable products and services.

In 2019 we made a progress toward our strategic agenda by improving and enhancing internet and mobile banking. We offered to our customer new UI/UX for particular pages which makes our internet and mobile bank app more user-friendly. Now customers can register online for internet and mobile banking without visiting branches. In case customer forgot his/her password he/she can online to reset password.

Last year Bank gave possibility to customers to apply for consumer loan from internet and mobile banking and get the decision automatically in less than 1 minute. Through this new project, we have simplified and streamlined the customer experience, giving our customers a rapid response, all the while supported by fast decision-making and quality service.

For legal customers fund transfers are now more protected with multi-level authorization which means that when one person initiates another person has to approve it, otherwise transaction won't be completed. Realization of that functionality was inspired by our customers, they request bank to implement that change to protect financial transactions from internal company frauds.

Chinese version of the mobile banking application was customized for our Chinese clients. This simple app allows the Chinese speakers to conveniently manage their finances using their mobile phones, making various transactions, such as currency exchange, money transfers, payments of utility services and other banking offerings. The app is user-friendly and simple. The app enables native Chinese speakers to manage their personal accounts and perform various banking transactions on their own language without visiting the bank. In 2019, the app was further upgraded with added functionalities for our Chinese customers.

As an alternative payment method bank also offered to Chinese customers to pay with UnionPAY cards by scanning QR codes in Basisbank merchants using UPI QR code mobile applicationThe customers simply need to install the app, add the credit or debit card in the application, scan the QR code at the merchant location and pay. We are also first to the market to enable acceptance of Chinese major payment brand - Union Pay on our credit and debit cards so that overseas visitors are able to make payments for goods and services through QR codes. This partnership with the world's largest payment system – China Union Pay, will facilitate tourist inflows from China to Georgia. Basisbank Group was the first financial institution to start partnership with Union Pay in Georgia.

Some of the new digital products were introduced to streamline and develop our Treasury business services. In this regards, we can safely say that the Group is a pioneer in adding best-in-class services and products. During the year, the Group has introduces new products and sharpened its digital propositions to customers striving to maintain high standards throughout all interactions with greater speed and accuracy. Product capabilities were reviewed and enhanced as the Group prepares to make the most of digital opportunities available for its customers.

Last year, the Group introduced innovative Personal Dealer's services which was first in kind proposition on the market. This is a special treasury application that enables customers to perform currencies conversions independently and conveniently. The time-saving, fully automated, simple process allows for direct contact with the Treasury Department professionals dedicated to ensure full support and value-added offerings.

To increase customer loyalty and engagement, Collect Gold loyalty program was introduced as another treasury project. So far, our clients have collected 2.5 kg of gold as a reward for their high activity in remote currency conversion operations. Collect Gold loyalty program gives our internet banking users, both individuals and legal entities, convert currencies, while at the same time collect gold points that subsequently translate into actual gold as a reward for choosing Basisbank Group for their currency conversion deals. While using the internet bank, clients can track collected points and their equivalent in gold throughout the year. The Group also offers mix of additional incentives and transparent reporting schemes for business representative individuals who make conversion transactions on behalf of their companies. Collecting gold under this program focuses on customer satisfaction stimulating clients to choose Basisbank Group's Treasury services.

In 2019 Bank launched web platform https://bank.ge where customers or non-cutomers can overview loan products, calculate personal offers, fill application for loan online and get the response from the bank maximum in 2 hours.

Last year, Bank's subsidiaries Hualing Insurance and BHL Leasing launched web platforms. https://hi.ge - Hualing Insurance website , where customers and prospect customers can choose the most suitable insurance product and fill the application online. https://www.bhl.ge- BHL Leasing website, where customers and prospect customers can choose different types of leasing, calculate loan's parameters and apply for leasing online.

The Group also became one of the key players in Georgia who will be engaged in standardization of Open Banking according to PSD2 regulation. We are the member of Open Banking standard setter committee in Georgia.

Open banking is the practice of sharing financial information electronically, securely, and only under conditions that customers approve of. It generally grants customers' possibility to authorize third parties to access their bank account data to either collect account information or to initiate payments. Open Banking is a new step in

- To have a greater control over their data
- Have a better experience in a secure, agile, and future-proof method
- To generate new revenue streams, and to create a long-term sustainable service model for the industry as a whole

digital business and ecosystems offered through APIs by the banks. This allows customers:
Nowadays Basisbank offers to its legal customers Open API, which gives possibilities to share account statements.

By moving toward digitalization bank implemented IT infrastructure projects to increase security of customer data we own. Our systems are fully secured from cyber-attacks which gives insurance to our customers to feel themselves protected.

To support digital processes lots of manually made work has been replaced by automated processes. Such kind of changes are directly impact customer service.

To continue growing in a sustainable and profitable way and to accelerate execution of upgrading our systems, we will remain focused on our digital transformation. Over the next several years, we plan to heavily invest into technology to keep improving our digital platforms and services, and to maintain our leadership position.

Improving Customer Experience

In today's reality, consumers are increasingly able to easily select the desired company through various channels, among which digital channels already play an important role. Users can easily compare the company / product and be more demanding, so day-to-day customer experience is crucial. We believe that sincerity, care, development and customer orientation are the guarantors of long-term relationships. Creating a great customer experience depends on each business area/employee within the bank directly or indirectly associated with it.

Based on the said importance, in 2019 Basisbank established a Customer Experience Management and Quality Assurance Unit, functioning in three key areas: Quality Development, Customer Experience/ Quality Measurement/Analysis and Functional/Competency-Based Training.

During the year 2019, the unit managed to create and update instructions and manuals on key products and services and introduced an important novelty - a centralized software Knowledge Base, containing all documents necessary for providing comprehensive and high-quality customer service and allowing for daily updates as needed.

The Customer Experience Management and Quality Assurance Unit designed a competence-based and functional training for BB staff. Both newly recruited and current sales staff were thoroughly trained in services, products, software, procedures and instructions to be able to provide professional service for customers.

The unit started assessing the calls made by call center staff, followed by group/individual feedback. Based on the assessment results, the staff went through refresher training and appropriate changes were made to the products/instructions for a better user experience. Periodic reports of call center/service centers based on key indicators will help the BB staff stay informed on an ongoing basis and subsequently will allow BB to make appropriate changes to ensure a higher work efficiency, resulting in improved customer experience. BB staff actively uses social networks to provide fast services. They get daily advice on how to communicate with customers in unusual untypical cases/circumstances.

Another important novelty is that all new products undergo the User Acceptance Test. Same applies to uncertainties related to active products. The Test ensures that a well-designed and flawless quality product is delivered to the customers.

A Relationship NPS study was conducted to identify the reasons for the customer recommendations/ criticism, and an analysis was carried out to plan important improvements, including for digital self-service channels.

The Customer Experience Management and Quality Assurance Unit continues to improve current practices to achieve and sustain superior customer experience.

Business Banking Overview

Basisbank's approach to serving its business clients encapsulates the link between relationship banking at its best and additional benefits offered by the Basisbank group setting. Our Commercial Direction under the supervision of Chief Commercial Officer serves a sizeable number of small, medium and large companies through strong domestic franchise and presence in all economically active regions of Georgia. The bank's efficient multichannel sales network, segment focus and expertise allows to support its Corporate, SME as well as high-net-worth client segment in all business.

With strong market position Basisbank Group serves more than 3,500 business clients across the country. In 2019, we made significant changes to our business banking direction by appointment of Chief Commercial Officer equipping our senior management with more concentrated perspectives and expertise to underpin business banking performance. Our strengthened and reinvigorated commercial direction under the supervision of Chief Commercial Officer will lead the necessary cultural change to make progress on becoming a flexible, quality services provider and to increase speed of execution and bring the benefits of the Group to a broader set of customers – corporate, SME, and high-net-worth individuals. With our reinforced team in commercial business direction, we continued to sharpen focus and invest into our core businesses.

Our Definition of Business Clients

MICRO, SMALL - loans up to 200,000 USD

MEDIUM - loans up to US$ 2,000,000

LARGE SME COMPANIES – loans from US$ 2,000,000 to US$ 3,000,000

TOP CORPORATES, strategic private and public companies – loans above US$ 3,000,000

UNIQUE – high net worth individual clients with high annual income and wealthy businesses

In order to efficiently align our value proposition in terms of products, services, and delivery channel offerings, Basisbank has set up five major business lines with several sub-business units in Commercial Direction. Commercial Division is organized into five business lines: Corporate, SME, Trade Finance and Factoring, China Related Clients and Projects and Unique banking units. Our Team brings vast expertise and efficient customer relationship in corporate and SME lending, international trade, project financing, syndications, as well as in servicing Chinese customers. We offer a broad range of products and services to our business customers, based on in-depth client and sector knowledge combined with innovation and digitalization. Our commercial direction is fully aligned with the Group-wide strategy.

Corporate unit includes West and East Georgia regional groups, working specifically with corporate clients in the vicinity of their business location. Similarly, SME Business unit consists of West and East Regional Groups of SME bankers, also working closely with their clients, serving their business needs on a daily basis.

SME Business unit includes a specialized Agribusiness Group, staffed with agribusiness bankers, who are presented in each our regional offices specifically to boost agribusiness lending, attract new agro clients and improve service quality for the existing ones.

Through its group of personal bankers, Unique Banking unit provides premium class services to the bank's high-net-worth client segment to individually address the needs of each VIP customer. Our VIP clients benefit from superior quality of service, personal attention and customized product solutions.

Trade Finance and Factoring group offers our clients involved in factoring and international trade business flexible, convenient and risk-free services in alternative financing solutions to address business specifics of the industry.

Formed in 2018, China Related Clients and Projects Division serves our business clients, helping them create new business opportunities and links with Chinese counterparties. Our professionals working in this division strive to build a bridge that connects our Corporates and SMEs with Chinese businesses, also supporting the Chinese clients living and working in Georgia, along with Chinese investors. The division is staffed with highly qualified Chinese language experts, trained in China. In 2019, clients continued enjoying Mobile Banking in Chinese language, a novelty project that allows Chinese speakers to manage their finances and day-to-day operations using their mobile phones in the most convenient way. The Department plans to continue working on developing products and services adapted to the needs and requirements of Chinese clients. Other goals are development of communication channels and working more actively on increasing the recognition of the Group as a whole. The Department will increase efforts to play a greater role in the success of the Group. As BHL Leasing and Hualing Insurance both work with Asian markets, the Department will do important work in this regard, helping the Group achieve its goals.

In 2019 the main focus of the Commercial Direction was on the following activities:
2019 was a year full of challenges where our commercial team often had to compete with other banks with their

- Ensuring effective structural changes to embrace the newly formed Group; that included the upgrade of the commercial department into a commercial direction under the supervision of the new commercial director;
- Improving the diversified products and services that included insurance and leasing
- Optimizing processes to meet the needs of the Group.

dumping prices and offerings to the customers, however we succeeded in almost all business lines growth as it was planned. Despite challenging environment, our business lending grew by 15% ending year with GEL 797 million in portfolio. As the Group strove to maintain a balance between growths, asset quality and pricing the most active sectors that we financed throughout the year were: trade, agribusiness, construction, hotels and restaurants sectors.

Our commercial bankers serve large companies in all industry segments. On this larger side of the corporate spectrum, commercial team worked on syndication of loans with bigger partner banks, and closed GEL 86.4 million of syndicated deals with recorded growth of 34% compared to the same period of the previous year.

Through Syndications consequently we got:

- Portfolio with shared risk
- Additional profit
- Increased awareness and reputation
- Increased market share

Leading our way in green financing over the past several years, a total of GEL 32 million was distributed into energy and resource efficient loans in 2019. Our cooperation with international partner organizations such as EBRD, Responsibility and Finance-in-Motion to promote green financing, ensures that our loan officers and commercial bankers are trained to identify green lending opportunities and offer customers safer and cleaner investments in their businesses. Another value added benefits introduced through our green lending projects include relatively low interest rates with longer repayment periods, technical assistance programs, free energy audits and various incentives in the form of cash-backs and grants. In cooperation with our partner institutions we are also developing new lending products that will further promote green lending in the country.

Basisbank Group among Top Companies in Georgia – recognized for special contribution in green lending efforts by EBRD.

David Nikolaishvili, Corporate Banker of Basisbank Group was also awarded as the best SME Banker for the special commitment to financing green energy projects.

In 2019, Basisbank Group was named among top financial institutions for its special contribution in energy efficiency and renewable energy projects development in Georgia under the EBRD's Energocredit program. Out of 6 successful green lending projects named at the Award Ceremony, 3 were financed by the Group through the Energocredit facility.

We stand strong in our commitment to SME business lending. Over the past year, we have grown small and medium business loans by 7% —reaching more than GEL 359 million — and significantly increased the number of our central and regional business bankers across our branches. In 2019 Basisbank Group continued to support SME businesses in Georgia by offering them tailored business loans, and by refining the products and services to help them grow further. We provided more than GEL 19 million in lending to our SME clients for investments aimed at modernizing Georgian MSMEs to meet EU standards of quality, with particular focus on their competitiveness and with special cash-back incentives representing our commitment to small and medium business owners across a diverse range of industries.

During the year the Group has initiated special projects to pick up SME activities in targeted segments.

Basisbank initiated a promo campaign for construction companies, who were offered flexible, concessional financing with the maximum loan amount of US$ 700 thousand on the condition that they would complete the construction works and deliver apartments on a turnkey basis to its owners. The promo campaign lasted for 1.5 months. The total financing disbursed under campaign amounted GEL 5 million. The purpose of the promo was to stimulate the prompt completion of the construction process and to help the Georgian families have comfortable housing.

Later in the year The Group offered another opportunity to Georgian businesses to grow in a shorter period of time. Business mortgage was a new product introduced in 2019 allowing for the loans with attractive interest rates to be disbursed to businesses, i.e. those applied for mortgages. This enabled businesses to realize their short- and medium-term goals by having an easy access to finance.

As an aftermath of the political tension with Russia in mid of 2019, the number of Russian tourists traveling to Georgia in summer drastically decreased. This adversely affected Georgian HoReCa business. The Group worked on offering restructuring schemes and grace periods to its business clients operating in tourism industry to allow them survive the unfavorable business period and move forward. As part of the Produce in Georgia nationwide program, the Group's 6-month interest was covered by the state.

Agribusiness is considered as one of the most significant direction for the country, this is where Basisbank Group sees further growth opportunities as well and strives to enhance its positions. Development of the agribusiness services remains a priority of the Group's SME strategy. It was our strategic decision to form separate team for agribusiness development. Today, our specialized agribusiness group functions at full capacity with a professional team of agribusiness bankers, who are presented in each our regional offices specifically to boost agribusiness lending, attract new agro clients and improve service quality for the existing ones.

The Monograph Hotel

The Monograph hotel project is an excellent example of our contribution to the green lending development. The company's main activity is hospitality business. Under our joint energy efficiency program with EBRD (CEEP), Basisbank Group allocated USD 3 million to the hotel to complete its construction activities. The Luxury Boutique Hotel invested in energy efficient, modern construction materials, fixtures, fittings and equipment to save energy consumption. The most energy intensive components of the site were heat and colling systems and elevators.

Located on the major tourist path in the center of Tbilisi, on a Freedom square with 37-40 furnished rooms, 3 luxury boutique rooms, 2 conference halls, a fine dining restaurant and a lounge bar with open café terrace, the 5-star hotel Monograph opened its doors to visitors in late 2019.

Elvare LTD

Elvare is a copper and aluminum cable manufacturing company that first launched its business under the brand name of NRG Georgia. Basisbank Group allocated total of USD 4 million facility to the company for further development and modernization of business. This fact has significantly contributed to the expansion and transformation of Elvare into high standard energy efficient producer company (total area - 17,000 square meters, production space - 7,000 square meters, warehouse space - 1,700 square meters). After complete re-equipment and modernization of the factory, the company was able to increase its business operations through German, euro standard production automation system, which guarantees the highest quality of manufactured products followed by the increase in product range and volume. The company has built up an efficient and stable distribution network. The main competitive advantages of the company so far are: Euro quality, competitive prices and wide range of products.

In 2019, Basisbank Group disbursed GEL 37 million in agribusiness lending which constituted around 4% of total business portfolio. Basisbank thoroughly analyzes the needs of this significant sector, including responsible financing and the importance for knowledge sharing. We are the only financial institution on the market that launched publishing of “AgroBasis” magazine to promote agriculture providing informative and educative content to guide agro clients on how to increase production, productivity and improve quality of agro products since 2015. This informative semi-annual magazine keeps agro companies and small farmers abreast of nationwide various agribusiness trends and projects existing in the country. We are making every effort to provide valuable information and fill part of the knowledge and skills gaps existing in the agribusiness industry.

Geowines” LTD - our agro client that benefited from Basisbank Group expertise in agribusiness lending.

“Geowines” LTD. Located in Kindzmarauli Micro Zone in Kakheti, where the Saperavi wine is cultivated, GeoWines is a producer of wine in the country. The company was founded in 2017. Basisbank Group has supported the company with preferential agro-credit line in the amount of GEL 150,000, which the company used to support its vineyard development: processed the land, planted the vine, and bought a vineyard irrigation system and high-quality security poles and wires.

Unique Banking

Through a group of personal bankers, Unique Banking unit provides premium class services to the bank's high-net-worth client segment to individually address the needs of each VIP customer. Our VIP clients benefit from superior quality of service, personal attention and customized product solutions.

Our Unique Banking business is built on listening to and supporting our customers' best interests. Our bankers are trained to respond to each individual's unique needs with the right blend of banking and consultancy services and digital solutions.

Given Unique Banking's exclusivity, Basisbank Group aims to capitalize on the existing segment of high-net-worth individuals in Georgia, increase existing customer loyalty and engagement, allowing to focus on maximizing the profit.

In 2020, Basisbank plans to offer Unique Banking members a variety of loyalty programs and even more tailored digital solutions - the Unique App.

By the end of 2019 our Unique Banking unit served 230 high-net-worth clients with loan portfolio of GEL 18 million and deposits of GEL 143 million. With unique approach to our clients we increased our unique customer base 11% y/y growth, strengthened our reputation and appreciation among clients for our best-in-class services 31% growth in deposits and 46% growth in loans since the last year.

Retail Business

In retail business BB strength relays on the quality of service – we are committed to building long-term relationships with customers, offering tailored, sophisticated products and services to help them reach their goals and aspirations.

BB is occupying relatively small market share, due to its limited access to the mass consumers owning to the specific network chain which is more adapted to regional business clients, rather than mass retail. Our access to remote locations is targeted through emphasis on transformation and grow of our franchise focusing more on integrated growth of new business lines in private customer services and continuing investments in digital capabilities across all business areas. This will be achieved by development of digital platforms for mass retail clients. We follow an omni-channel approach to optimize accessibility and availability of services for our customers. The expansion of digital capabilities remains a strong focus across all our businesses.

To ensure maximum efficiency, speed, flexibility and comfort while using quality services, the Group enhanced and optimized its online platform www.bank.ge – allowing prospective customers to apply for loans online. Website gives possibility to the non-customers to be identified online by face recognition system (with AI technologies), apply for a loan and be informed of the bank's decision online.

In cooperation with the Customer Experience Management and Quality Assurance Unit, Basisbank Group started assessing the calls made by call center staff, followed by group/individual feedback. Based on the assessment results, the staff went through refresher training and appropriate changes were made to the products/instructions for a better user experience. The Group's staff actively uses social networks to provide fast services.

Another important novelty is that all new products undergo the User Acceptance Test. Same applies to uncertainties related to active products. The Test ensures that a well-designed and flawless quality product is delivered to the customers.

The Retail Business is operating through the Service Support Division, Alternative Channels Management, Retail Sales and Retail Lending units.

The bank services its business customers through network of 24 branches spanned across central and regional parts of Georgia. Service centers are organized in the economically active regions and areas: within the capital and large economically active cities – large, multifunctional and universal service centers are formed in areas with a high concentration of population or organizations. The main task in is the creation of a solid network of branches. Main purpose of regional service centers is to provide services to businesses of agro, tourist and other dominant sectors.

In the first half of 2019, Basisbank continued to expand and upgrade its network of service centers. The bank took care of the growth of its network of service centers and selected the most locally active business locations. It added two new service centers in Kutaisi and Tbilisi (Nadzaladevi) and opened a customer service space in Mestia, Svaneti, an international tourism destination. Both in Tbilisi and Batumi the 3 branches of Basisbank were re-equipped and renovated to meet new customer service standards. The clients who will be provided banking services in the renovated

buildings with all modern conveniences, will also enjoy better quality of service rendered by their bankers, who went through intensive courses of specialized training during the year. The technical part of service improvement, the network of ATM's and terminals increased and relocated for better coverage of the areas of services and with increased focus on clients behavior.

To complete the quality service value chain, the bank took care of training its retail sales staff through a series of specialized training, so that they are able to provide quality service in all three areas: banking, insurance and leasing. The staff strengthening also included the staff promotions. The bank now has internally promoted new regional managers, who, along with relevant service center managers will be actively involved in monitoring the maintenance of highest standards of service. The round-the-clock call center staff is available on the phone, and respond to messages on the website, social media, internet bank, etc. The Call Center has been providing 24 hour service to both Basisbank and Hualing Insurance and Leasing customers, providing them with qualified assistance and connecting with relevant services as needed.

The bank introduced a new mobile application, allowing customers to pay with a QR code that delivers the promise of speed, ease and convenience. Since buying domestic appliances and electronic devices with instalments has proved to be an acceptable way of payment for the customers, the bank continued working with dealers and merchants to negotiate attractive terms and a wider range of choice for them.

Other novelties offered to retail customers

To improve customer services and be able to offer them profitable earning alternatives, the Group introduced daily rates on deposits, in addition to the traditional monthly rates. To give customers a wider range of choices and payment alternatives, the Group took care of adding merchants to its partner list, where customers can buy domestic appliances and electronics in instalments in a simple and easy manner. We also did a loan porting promo campaign, allowing the clients who opt to port their loans to Basisbank Group, enjoy a grace period of 3 months on their secured consumer loans.

Customers were offered to add life and property insurance components to other banking products they use. Our client advisors help customers make informed decisions and have good understanding of the benefits of the insurance component. Basisbank Group introduced convertible deposit allows customers to benefit from both exchange rate and interest rate changes. We continued offering car loans and car pawns during the year. To be fully prepared for the progressive retail business growth, we plan to continue working on enhancing our alternative sales, refining remote channels, recruiting, training and promoting efficient front-line workforce. Further improvements of service quality are crucial in sustaining competitive advantage and increasing client satisfaction and loyalty.

Our People

We maintain our people as our core value. One of cornerstones to our achievements lays in providing the personnel with the proper working environment for constant, targeted and tailor-made professional growth and development through investments in employee experience, agility and leadership skills development.

Our HR Department has been steering organization's efforts towards establishing efficiency-inducing improvement of working environment and structural upgrade through designating Human Resources Selection and Development Team - a new direction within the Department to expand the Group's capabilities and enhance its performance. The Team is responsible for identifying critical skill clusters that will be required in the years ahead, as well as outstanding skill gaps within organization through performance appraisal implementation and resource allocation for closing those gaps both inside and outside the Group by developing effective recruitment strategies and engaging onboarding processes.

The Bank fosters the culture of assisting its staff in unleashing their full potential through various learning and career advancement opportunities inside the organization: coaching, on-the-job learning, formal training (classroom and e-learning) and mandatory training. Employees are supported in their personal and professional development by continuous dialogues with their team and their manager.

In 2019, the Group Employees' Career Development Plan was formulated, training needs for staff development were identified and internal training policies were developed. To this end, we have also set up a training center that actively takes care of our staff's qualifications and skills development.

The topics of the trainings delivered to Banking Academy students included: prospects for banking business, how to run a bank in Georgia, insurance business and synergy with the banking business, corporate banking, business loan processing and analysis, retail segment in the banking business, customer outreach, treasury operations, currency management, fundraising processes, information security, IT project management, vendor and finance negotiations. By devoting its financial as well as human resources to tailor-made education programs, BasisBank has a long-term goal of nursing a whole new generation of well-informed citizens, as well as properly educated prospects for banking industry.

Student Competition

As competitive environment facilitates better an accelerated growth and development, BasisBank teamed up with Ivane Javakhishvili Tbilisi State University in delivering students new brainstorming and experience sharing opportunity. 51 teams from different faculties completed the assignment offered by the university. Then the five finalists selected by the jury received an assignment from Basisbank. In the process of creating the final paper, the contestants attend seminars and consultations designed for them to learn how to plan and effectively implement projects. Apart from the invaluable experience, the project had additionally yielded TOP-3 teams monetary prizes.

At the foundation of the initiative was to encourage talented students, strengthen the connection between the business and educational sectors, and facilitate the change towards business-tailored learning. During the year, the bank hosted the competition participants at the Hualing Tbilisi complex. The meeting was held in an informal environment and the students had the opportunity to exchange ideas with the project sponsors, ask questions and discuss education and business-related matters. As part of the student competition, other events were held both at the bank and at the university during the year.

Significant time was devoted to organizing vocational training, which contributes to the company's strategic goals. SMEs and corporate analysts, Projects and IT, HR, PR and accounting staff were trained in various specific areas, including Excel, UX.UX Design, KPI / TOT / People Management, Linux, personal branding and constructive feedback.

Over the past year, the Group focused on engaging our entire workforce in pursuing our purpose and implementing our strategy. Winning the hearts and minds of our people was a key component of our engagement strategy, a committed, engaged workforce brings definite benefits. We believe that creating the right culture and employee engagement is crucial to achieving our goal of accelerating the Group's development and better customer service. To support this, we launched Workplace a special Facebook platform that united different interesting topics for discussion giving possibility to employees to share news on recent achievements of the Group as well as bringing fresh ideas on the Group's overall performance improvement by addressing real business challenges. This initiative is geared to cultivating the employ involvement and leadership skills while mobilizing our employees to accelerate our strategy. Workplace platform also enables the Group to be more responsive – and to pinpoint issues as they arise within specific businesses or employee groups.
The Group's staff enjoyed various incentives and prizes celebrating their contribution to the company's goals during the year. Teambuilding outdoor events were organized in Kakheti and Borjomi aimed at exchanging information on the status and objectives of the holding.

Employees were given the possibility to enjoy a quiet environment and each other's company. Basisbank Group is the first runner-up in the chess championship among Georgian banks.

PEOPLE AROUND US

The Group values people, both inside and outside organization, above anything, thus the organization puts in proactive efforts to positively impact Georgian society and accelerate its development.

General Education

The Group cooperates with the country's top universities as well as secondary schools, providing scholarships and tuition for students and facilitating their interest in scientific research. For more than 10 years, we have been running an education support fund, through which many useful projects have been implemented.

The Banking Academy

BasisBank supports the Banking Academy that opened at the University of Business and Technology. The Academy offers engaging trainings to students in diverse relevant areas. The first course was conducted in partnership with the Group and covered different areas of banking. Training courses were delivered by the Group's top managers free of any charge.

Career Planning Center Project

Education alone may not prove efficient if not put in synergy with personal skills and not steered in correct direction. As part of endeavor targeting better and economically more effective society, on behalf of its Education Fund, the Bank has introduced the Career Planning Center. The center allowed students from different schools to attend a lecture on Banking and Insurance delivered by Hualing Insurance CEO, Kote Sulamanidze that overviewed opportunities offered by the industry to promising prospects.

FINANCIAL PERFORMANCE OF THE GROUP

BB group performance

The group succeeded to cope with the different challenges in a highly competitive and challenging business environment in 2019. Complicated conditions and uncertainties due to flight bans and sanctions imposed by Russia[4] in the mid of the year, also the changes in local regulations imposing new lending standards under the sustainable lending policy enacted by NBG early in 2019 were the challenge to deal with and master the business processes so as to retain sustainable progress and growth options in very tightening and compressed business environment.

Year 2019 was important to display the strength, expertise and relationship of three business lines combined under one unity and one purpose. The group improves and empowers its positioning on financial market in 2019. BB ended the year on 4th position by its assets (number 6th at the end of 2018), the group expanded business through the insurance and leasing services enlarging the business and assets in 2019 up to GEL 17 million and GEL 5 million respectively. Hualing insurance has gained 7th place on the market among top insurance companies, while BHL leasing operated on leasing market which is just begun to evolve in Georgia (and its contribution to GDP is limited to 0.7%) has ended the year with GEL 3.1 million of financial leases provided to retail and business beneficiaries, generated profit of new business lines in the group's financial statement amounted to 5%.

The group provides different services to as individuals as corporate and state owned companies. The Bank being the parent company of the Group is setting the targets for the business lines leading the initiatives and business strategies within the Group. The bank drives the performance of the Group, but the results are presented and discussed based on the Group's financials except when otherwise stated.

The Group Key Performance Indicators

Key Performance Indicators	2019	2018
Operating results (In million GEL)		
Net operating revenues	73.4	69.6
Pre-impairment operating profit	41.0	43.7
Income (loss) before income taxes	39.9	42.8
Net income (loss)	37.3	37.3
Profitability measurements		
Cost/income ratio	44.2%	37.2%
Pre-impairment operating profit on average equity	15.4%	19.1%
Pre-impairment operating profit on average assets	2.8%	3.5%
Pre-tax return on average equity	15.0%	18.7%
Return on Equity (Profit After Tax/ Tot. Equity)	14.1%	16.3%
Return on Assets (Profit After Tax/Tot. Assets)	2.5%	3.0%

Source: Internal calculations

[4] The details are discussed in section "Economic environment"

- The group's recorded net operating revenue of GEL 73.4 million with +6% of growth on y/y basis (2018: GEL 69.6 million) which is lower than in 2018 where absolute growth reached +31% y/y, (an increase of GEL +17 million from 2017). The biggest part of the operating revenues falls on interest bearing activities and similar income (including income generated from Loans, securities and leasing assets), composing 81% of Gross revenues, and other operating revenue benefiting from the insurance, FX and income related to customer services (reflecting y/y growth of 6%). Insurance and leasing operating revenues are significant contributors to the growth, recording above +102% y/y growth in results.

- Revenues growth from Interest income activities was not as strong as in 2018 due to ongoing economic uncertainty, lower increase of high yield assets in AIEA and spread compression negatively impacted by reduction of consumer lending base and increased finding cost of LIBOR compounded by increased demand on FX liquidity initiated by NBG early at the beginning of the year.

- Expected credit losses and other credit impairment charges (ECL) increased compared with a beginning 2018 by 11%, but mostly on increased exposures with banks and investment portfolio assets, Cost of Risk on average gross loans and credit related advances to customers was only 0.08% in 2019 (2018: 0.12%), amounting in total to GEL 704 thousand (2018: GEL 910 thousand) reflecting the lower risk profile and efficient management of the defaulted assets.

- Growing revenues were counterbalanced with the increased costs in administrative expenses that resulted into Pre-impairment operating profit of GEL 41.0 million (-6% y/y at y/e 2019). Accompanied with the growing capital and asset base, pre-impairment operating profit on average equity accounted for 15.4% at y/e 2019 (19.1% at y/e 2018) and pre-impairment operating profit on average assets – 2.8% at y/e 2019 (3.5% at y/e 2018).

- Strategic expansion of business operations should be supported by highly qualified personnel, technical support and increased demand for services and PR. Thus, increasing administrative expenses mainly were referred to increasing compensation by 30% and business development costs by 19%. Increasing operating expenses influenced on the cost to income ratio – 44.2% at y/e 2019 (37.2% at y/e 2018). The group is committed to retain the level of Cost to Income (C/I) ratio at reasonable 45% and maintain efficiency as the key strategic task.

- Net income of the group amounted to GEL 37.3 million (GEL 37.3 million at y/e 2018), which has recorded 14.1% of Return on Shareholder's equity (ROAE), and 2.5% on Average assets (ROAA), the same in 2018 was recorded as 16% and 3% respectively.

- Capitalization standing at 19%, well above reg. minimum, supported by Subordinated loan granted from the shareholder to increase the standing of the Bank challenged due to increased market risk and downturn of the economy in 2019.

Financial performance of the group

Reported results on Income statement

In million GEL	End of 2019		End of 2018		Change of Consolidated Results
	Bank Standalone	Consolidated	Bank Standalone	Consolidated	y/y pct.
Net interest income	58.5	59.4	55.2	55.7	0.1
Non-interest income (net)	10.7	14.0	12.3	13.9	0.0
Total net revenues	**69.2**	**73.4**	**67.5**	**69.6**	**0.1**
Operating expenses	(30.4)	(32.4)	(25.5)	(25.9)	0.3
Pre-impairment operating profit	**38.8**	**41.0**	**42.0**	**43.7**	**(0.1)**
Provision for loan impairment	(1.1)	(1.1)	(1.0)	(1.0)	-
Income(loss) before income taxes	**37.7**	**39.9**	**41.1**	**42.8**	**(0.1)**
Income tax expense (benefit)	(2.3)	(2.6)	(5.2)	(5.5)	NMF
Net Income	**35.4**	**37.3**	**35.9**	**37.3**	**-**

The group performs with the stable profitability figures and steady growth in 2019, results were in line with all 2019 near-term objectives.

The reported profit of the year is GEL 37.3 million for the group, the bank recording GEL 35.5 million of net income mainly driven by the revenues generated from Interest bearing activities, which remained flat for the year GEL 58.4 million recording but slights increase of 5% over 2018 results (GEL 55.7 million). Excluding the impact from specific revenue items, revenues in the Core Banking were stable year-on-year. Net revenues in non-interest income supported by the profits generated by the new business lines, mainly the Insurance has contributed to the growing of net operating income by 46%. As BHL leasing just started business operation, its contribution was moderate in 2019.

Net Interest Income (NII) and Net Interest Margin (NIM)

Net Interest Margin (NIM) *(in million GEL)*	**2019**	**2018**	**Change in pct.**
Total interest and similar income	115.5	98.8	17%
Total interest expenses	(56.0)	(43.1)	30%
Net interest income	59.5	55.7	7%
Average interest-earning assets[1]	1,352	1,108	22%
Average interest-bearing liabilities[2]	978	828	18%
Gross interest yield[3]	8.50	8.90	(0.4)ppt
Gross interest rate paid[4]	5.70	5.20	0.5ppt
Net interest spread[5]	2.80	3.70	(0.9)ppt
Net interest margin[6]	4.40	5.00	(0.6)ppt

[1]Average portfolio yield – interest and similar income from loans to monthly average portfolio for the period

[2]Average deposit portfolio yield – interest paid to monthly average portfolio for the period

[3]Gross interest yield means interest paid on average interest-earning asset for the period

[4]Gross interest paid means interest paid on average interest-bearing liability for the period

[5]Net interest rate spread is the difference between gross interest yield and gross interest paid

[6]Net interest margin is net interest income to average earning assets

Net interest income. Net interest income remained flat year-on-year primarily driven by a lower growth of average high yield assets (e.g. growth in average loan volumes reaching GEL 111 million, or +14% y/y, as against GEL 159 million, or +24% in 2018), leading to a lower share of 82% of high yield assets in average interest earning assets (AIEA) as compared to 88% in 2018, thus interest income generated for the reported period increased by +17% y/y (2018: +26%), while Interest expenses increased by same force +30% Y/Y (2018: +32%). Expenses were mostly increased on financing costs in in Lari due to increased refinancing rate of NBG and increased share of long term funding in total FX resources, reflecting increased demand on mandatory reserve on FX denominated liabilities in 2019.

Interest income has increased by 17% y/y accounting for GEL 115.5 million at y/e 2019 (GEL 98.8 million at y/e 2018). Growing interest income were generated from the higher interest income from loans accumulating 74% of interest income growth of which the business segment fuelled 67%. The bank holds securities portfolio including securities issued by the Government and corporate bonds. Securities had a positive effect on interest income generation in 2019; securities contributed 14% of interest income annual growth in 2019. The bank diversifies its interest income by investing in debt securities.

Financial performance of the group

Cost of funds. Gross interest paid increased during 2019 with significant +30%, the bank has attracted additional recourses from different international institutions. Equivalent of GEL 255 million new funds were gained from Black Sea Trade and Development Bank, EBRD, responsibility, The European Fund for Southeast Europe PLLC, Commerzbank, The OPEC Fund for International Development (OFID). 20% of the loans from IFIs disbursed in 2019 are denominated in GEL that are more expensive than FC loans. Besides borrowings, slight contribution to the growing interest expenses had from Deposits. Share of term deposits increased from 49% at y/e 2018 to 52% at y/e 2019. Both interest paid on deposits and on borrowings led to the gross interest paid 5.7% at y/e 2019 (5.3% at y/e 2018).

On the other hand, stable business operations needs to be supported with the stable funding. Strategic expansion of the banks business operations and well positioning were maintained on expense of growing funds. Total interest expenses enhanced by GEL 12.9 million y/y in 2019. On the one hand growing deposits and their changing structure and, on the other hand, more IFI borrowings led to the growing interest expenses. Interest paid on IFI borrowings contributed 74% to the total interest expenses annual growth.

The growth in interest income for was overlapped with the 30% y/y growth of interest expenses reaching GEL 56 million in 2019 (GEL 43 million in 2018). Therefore, net interest income amounted to GEL 59.4 million at y/e 2019 (GEL 55.7 million in 2018).

Net interest margin. Gross interest yield accounted for 8.5% at y/e 2019 (8.9% at y/e 2018). Despite growing interest income from loans and securities, gross interest yield on AIEA discloses slight reduction. Yields on Securities and GLP remained flat during 2019, while NIM has reduced to 4.4% in 2019 from 5% in 2018. In line with the declared monetary policy, NBG started to increase monetary policy rate on account of inflationary pressure on Lari resources, since September till the end of the year NBG has increased monetary policy rate from 7% up to 9%. Thus, the net effect on the system weighted average interest rate (WAIR) was negative.

BB lending policy is oriented on high quality portfolio thus bearing tighter margins, the revenues are compensated by lower cost of risk, and therefore, the declining market's WAIR has impacted the portfolio yield with less force than the market. The income generated from liquid assets (excluding Securities) is bearing yield of 1.4%. Increased share of lower yield interest earning assets has impacted the NIM and reduced it to 4.4% at the year-end.

Declining WAIR and increasing interest paid narrows the interest spread. Effect of Larization policy and increased liquidity requirement on FX denominated recourses in the first three quarters had a negative effect on Net Interest Margin (NIM). Still NIM remains sound to support the sustainable growth of net revenues y/y and while retaining healthier assets quality and low cost of risk ratio standing at 0.1% as at y/e 2019 (2018: 0.12%), the net interest income after impairment recorded +7% of increase amounting GEL 58.4 million as at y/e (2018: GEL 54.7 million).

Net Non-interest Income. Net non-interest income is another major driver of the group revenues. 19% of total net revenues are accumulated through the non-interest income. The insurance and leasing revenues considerably contributed annual growth of non-interest income. Revenue from insurance and leasing took 24% of net non-interest revenue at y/e 2019 (2018: 12%).

Operating expenses. Operating expenses increased by GEL 6.5 million reaching GEL 32.4 million or 44% of gross revenues (2018: 37%). Strong positioning on the market and accessing niche markets involves additional recourses referred to different activities. Majority of funds expensed on strengthening staff composition during 2019' as well on training existing and newly employed staff, marketing campaigns, operating expenses on running of branch network, and professional fees on consultancy to support various projects, etc.

Administrative and other operating expenses annual growth accounted 25% y/y. Subsidiaries significantly contributed to this growth (composing about 26% of net increase), mostly related to the formation of new units in Insurance and leasing, hiring staff and raising costs for PR campaigns to reach immediate awareness and brand knowledge. Recognition of right of use assets had a direct impact on growing depreciation, as well. Operating expenses have been closely managed, with the rate of growth in adjusted operating expenses lower than the previous year, while we continued to invest. This helped us to deliver positive results in 2019 in line with the group's objectives. C/I ratio stands at 44.2%, where 26.8% is allocated for compensation ratio and 17.3% for other costs in operating expenses (non-compensation ratio).

Cost of risk. The group bank closed the year maintaining high quality asset structure, stage 3 loans amounting to 5.4% (2018: 4.5%) reflecting the conservative nature of lending policy, strong underwriting standards, refined portfolio due to effective management of impaired assets. On one hand, internal policy of sustainable lending and on the other hand, the NBG regulations ensures maintaining of high quality asset profile. The GLP enhanced significantly by GEL 84million and Cost of Risk on GLP (gross loan portfolio) amounted to GEL 0.7 million (2018: GEL 0.9 million) reflecting the lower risk profile and efficient management of the defaulted assets. Consequently, cost of risk to GLP ratio remained quit low at 0.1% at y/e 2019 (0.11% at 2018). The Impairment provisions were further impacted by increased exposures to banks and increased exposures in investment portfolio of local securities (Gov. and corporate bond). Total allowances for risk exposures for the year were GEL 1.1 million (2018: GEL 0.9 million).

Income Tax expenses. Income tax expenses as at y/e 2019 amounted to GEL 2.6 million (2018: GEL 5.5 million), reduced by GEL 1 million related to re-measurement of deferred tax assets/liabilities due to enacting of changes in tax legislation by removing attributable tax profit starting from 1 January 2023 on undistributed profit. (2018: included GEL 1 million charge in the recognition and re-measurement of deferred tax liabilities resulting from postponement of changes previously adopted by the parliament of Georgia. The difference between y/e 2018 and 2017 reflect shifts in differed tax liabilities' measurement).

Net results for the year. Growth of revenues compensated higher administrative and operating expenses leading to GEL 37.3 million at y/e 2019 (2018: GEL 37.3 million). The net results on consolidated basis give return on average equity (ROAE) of 14.1 on average assets 2.5% (2018: same were 16.3 and 3.0 respectively).

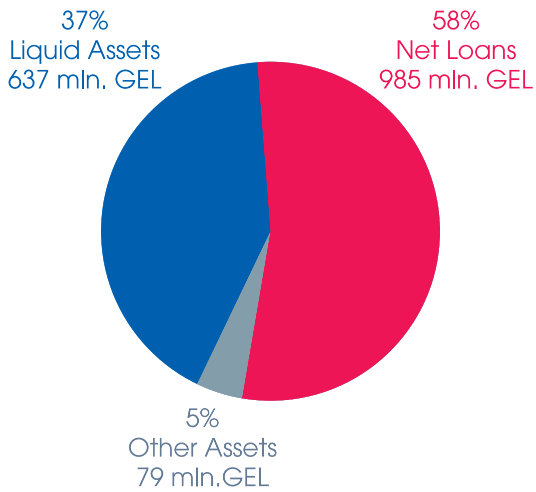
Financial performance of the group

Balance sheet position

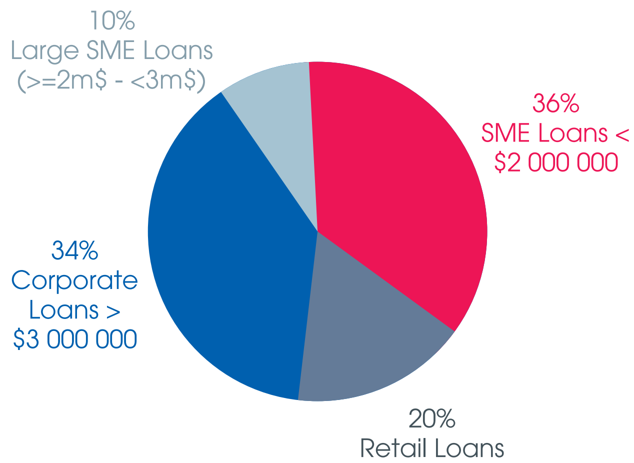
In million GEL	2019		2018		Change Y/Y 2019 of Consolidated results	
	Bank Standalone	Consolidated	Bank Standalone	Consolidated	Amount	In %
Securities	202	203	176	176	27	15%
Gross loan portfolio (GLP)	**1,000**	**1,000**	**916**	**916**	**84**	**9%**
thereof:						
Business loans	797	797	695	695	102	15%
Retail loans	203	203	222	222	-19	-8%
Loan Impairment provision	-15	-15	-16	-16	1	-6%
Net loans	**985**	**985**	**901**	**901**	**84**	**9%**
Total assets	**1,689**	**1,701**	**1,436**	**1,436**	**265**	**18%**
Gross Customer deposits	**770**	**769**	**734**	**727**	**42**	**6%**
thereof:						
Demand Deposits	368	368	376	374	(6)	-2%
Time deposits	402	401	358	353	48	14%
Borrowings from IFIs	429	429	346	346	83	24%
Total liabilities	**1,409**	**1,417**	**1,188**	**1,186**	**231**	**19%**
Total equity	**280**	**284**	**248**	**250**	**34**	**14%**

The group's stable financial performance is supported with the high quality assets. The bank performs with better positions, and moved to 4th position by total assets and shareholder's equity. It maintains 6th position in terms of GLP and 5th position with net income. Thus, the bank disposes sound place among its peers.

Asset Structure



Loan Portfolio Composition



Total assets enlarged by GEL 265 million or +18% y/y growth, as a result the total consolidated assets amounted to GEL 1.7 billion as at y/e 2019 (2018: GEL 1.4 billion). The growth mainly originated from expansion of GLP and securities portfolio and other liquid assets. Net loan portfolio growth contributed 32% and securities 10% to the total assets growth. While almost 47% of annual growth came from exposures with banks and mandatory reserves with NBG, assets were raised mostly due to increased IFIs projects by the end of the year which will promote higher growth figures of the bank in the following year.

Portfolios Generated by subsidiaries has increased by more than 177%, reaching GEL 8.8 million net insurance assets and GEL 3.1 million in Finance lease assets, same were GEL 4.2 million and 0.1 million in 2018 respectively.

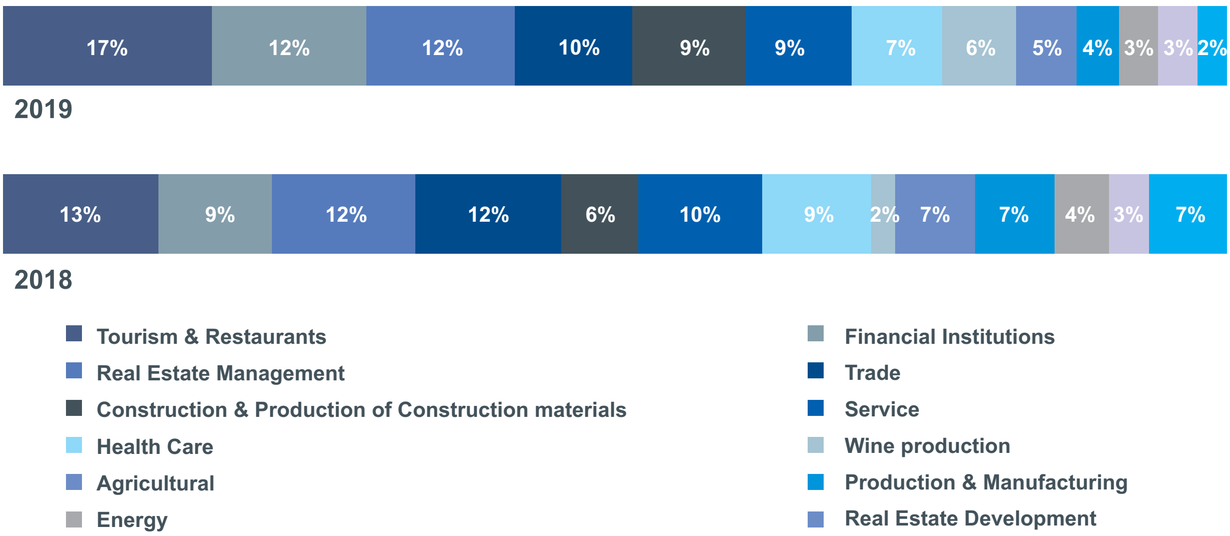
Gross loan portfolio. Gross loan portfolio reached to GEL 1 billion at the end of 2019. The growth originated from the business segment while the retail segment growth was constrained due to the sustainable lending policy. NBG has imposed the retail lending options tightening limits for “standard category loans” which limited conditions for extending loans to retail customers. These changes has demanded from the banks and financial institutions to re-adjust their standards and terms accordingly and look for other options for more stable growth. The changes resulted in moderate growth of banking sector in retail lending of 7%, while the bank experienced decreasing retail exposure by 8% y/y.

Historically, the bank outstands with its long-lasting relation with the business segment. The bank represents loyal partner to the business. As well large corporate, as small and medium sized enterprises build their business operations with assistance of their stable partner. The business segment maintains its importance to form the GLP in 2019, 81% of GLP consists of business loans. The business segment increased by GEL 102 million totalling to GEL 797 million.

Loan Portfolio Composition

The business portfolio remained well diversified in 2019. The greatest sectors the bank financed are tourism and restaurants sector, financial institutions, real estate management and constriction, trade, and service segments. The bank sets industry concentration limits under its risk management policy (limited to maximum exposure of 15% of GLP) which secures that our sectorial concentration remains low and is broadly stable.

Business Loans Structure



Despite of these challenges, the group improves its positioning on the market and the Bank ended the year with +18% of total growth in assets y/y and GLP +9% y/y (2018: 17% and 18% y/y/ respectively).

New rules to retail lending procedures impeded growth of the segment. For example, the NBG introduced PTI and LTV limits the amount of loans in accordance with the individual's personal income and real estate constraints. Therefore, the bank should examine individual's creditworthiness thoroughly. To access the wider group of individuals and to access more regional customers still remains the challenge for the bank.

The challenge of the retail segment attraction should be strengthened in the following years by providing high quality products and services. The bank elaborated different products to apply with the different needs of customers and to keep up with the evolving and continuously fine-tuning digital banking services. The bank builds long-term relationships with customers and it aims to strengthen PR campaigns to reach each individual to aware them about the existing products and services of the bank. During 2019, the retail segment share contracted in total portfolio to 20% as a result of new regulations enacted at the beginning of 2019. However, the reduction of the retail segment counterbalanced growth of the business segment.

Assets quality and provision for credit losses. GLP growth was accompanied with the sound performance of asset quality. The loan impairment provision ratio declined from 1.7% to 1.5% at y/e 2019. Internal risk appetite ensures sound composition of GLP. In addition, the NBG regulations affected performance of the retail portfolio during 2019. The loan impairment provision ratio of the retail portfolio reduced from 2.11% to 1.46%; while the ratio is relatively stable for business loans (from 1.58% to 1.56%).

Portfolio Quality	2019	2018
in million GEL		
Gross loan portfolio (GLP)	**1,000**	**916**
Stage 3 loans	54	41
Stage 3 loans as of GLP	5.4%	4.5%
thereof:		
NPLs[1]	27	30
NPLs as of GLP	2.7%	3.3%
Loan loss provision	**15**	**16**
LLP ratio	1.5%	1.7%
NPL coverage[2]	57%	53%

[1] NPL means – loan in arrears of more than 90 days and exposures whose repayment is dough full as per management assessment
[2] NPL coverage means Loan loss provision divided by NPL exposure

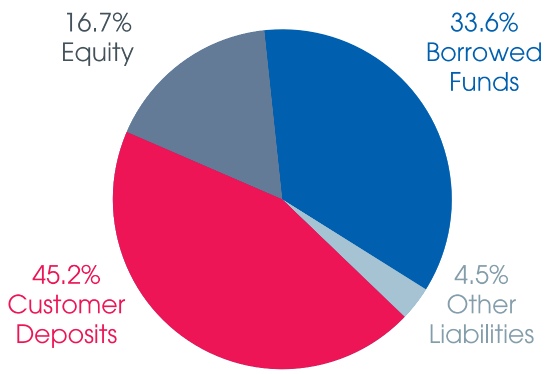
Total liabilities changes. The group supports it business operations with stable funding attracted from loyal customers and the long-standing funding from international financial institutions. The bank prepared sound base for further growth in the following years backed up with strong liquidity. The efficient use of attracted funds will support sustainable growth and stable profitability figures.

Total liabilities growth accounted for 19% y/y leading to GEL 1.4 billion at y/e 2019 (2018: GEL 1.2 billion). Such a growth resulted into 5th position on the market in terms of total liabilities and 4th position in terms of total liabilities annual growth.

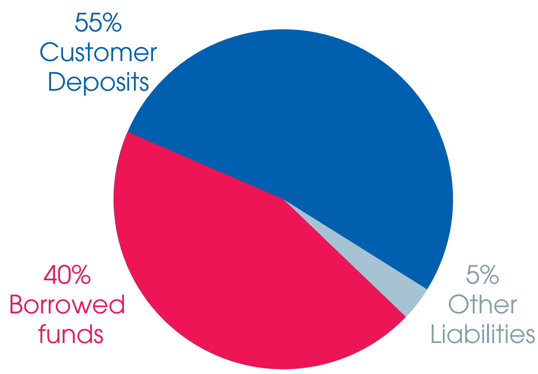
On liability side BB has retained its customer base and profile, improving the concentration structure and the maturity of funding base.

Financial performance of the group

Capital and Funding/Total Assets



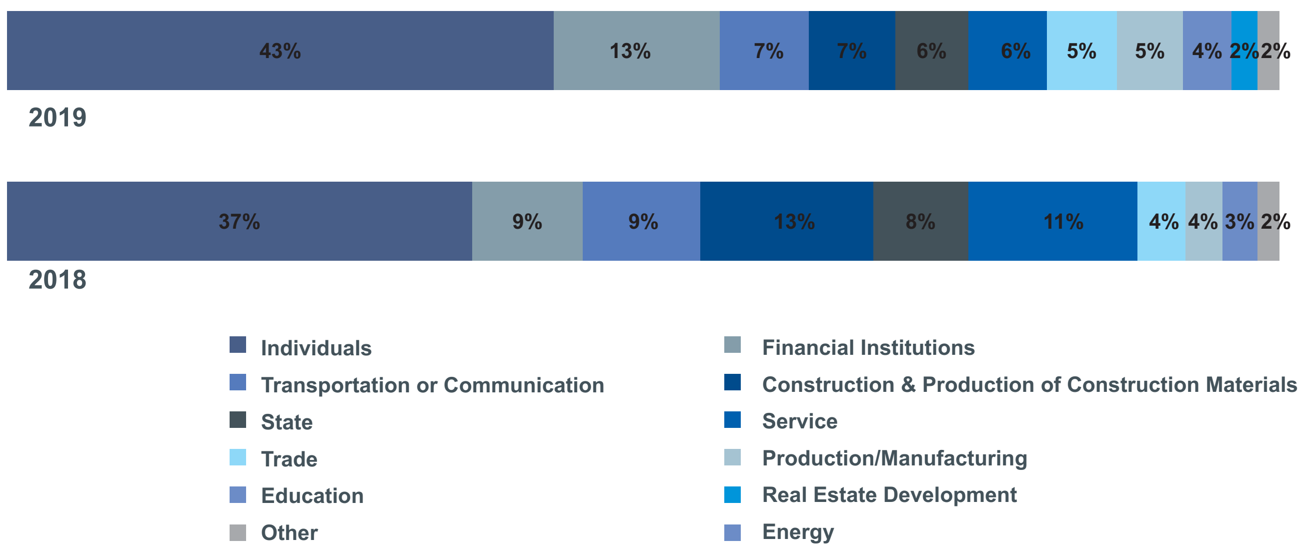
Liability Structure



Major source of liabilities are customer deposits followed by borrowings from IFI-s and other domestic financial institutions. Furthermore, customer accounts and borrowings fuel the annual growth of total liabilities, as well other banks accounts do.

Customer Deposits. Customer deposits gains increasing importance to form the stable funds for the bank. More clients express their loyalty to the bank as they place their money on the term and current/demand accounts. Customer deposits book value increased by 6% y/y amounting to GEL 769 million at y/e 2019. Notably, individuals increased placements within the banks accounts at y/e 2019. Individuals deposits increased by 25% y/y that resulted into increasing share into the deposit portfolio of individuals (43% - 2019; 37% - 2018). Individuals increase placing their money on the term deposits since the bank offers the most competitive benefits on the term accounts. Besides individuals, legal entities and state owned organizations play considerable role in structuring the deposit portfolio. Large corporations from leading industries of the local economy take considerable portion of the portfolio. Deposits are increased especially from financial institutions, real estate development and trade enterprises.

Deposit Portfolio Composition



Other funding. The major source of other financing constitutes term loans from international financial institutions with GEL 429 million and interbank borrowing supporting GEL 143 million of total funding in 2019. We have successfully conducted the implementation of our funding strategy, 7 new projects were completed in 2019, Attracted funds during 2019 to meet the growth plan – Total funding reaching US$ 61.2 million. Total borrowings increased by 24% y/y and it compensated 36% of the total assets growth from funding side.

The bank signs new agreements with EBRD, Finance in Motion, ResponsAbility, BSTDB to promote sustainable development of local large and SME businesses with implementing environmental friendly production practices like energy efficiency, green lending, housing projects, SME financing, etc. Business friendly atmosphere creates room for further development for the bank.

Composition of IFI Borrowings

The bank gained about GEL 208 million equivalent additional funds during 2019 from senior partners like European Bank for Reconstruction and Development (EBRD), Global Climate Partnership Fund (ResponsAbility), Commerzbank, the OPEC Fund for International Development (OFID). In addition, the bank connected to the the European Fund for Southeast Europe which supported the bank with about GEL 32 million resources.

Basisbank promotes local business development; helps then to ensure energy-efficient practices and implement international standards in their enterprises. Trade agreements with Europe (Deep and comprehensive Free trade Agreement (DCFTA) and China opens new opportunities for local based business. However, opening markets intensifies competitiveness for local firms that requires additional effort and significant finances to keep up with the trend. Acknowledging increasing need for funds, Basisbank will continue to work on new projects with reputable donor financial institutions, to Diversification and balancing of various longer and shorter-term funding, gaining better balance of short, medium and long term financial resources as well as revolving lines of credit in different currencies as well as sectoral and product combinations, Ensuring that the attracted financing is optimally cost effective at the margin, taking into account maturity characteristics and product flexibility as well. These projects are to support BB's short term liquidity needs under special arrangements and longer tenor projects directed to support the key economic sectors for SMEs in energy, production, construction, for retail in mortgages, etc.

Changes in equity. The shareholder's equity increased by GEL 34 million y/y contributing to total capital of GEL 284 million at y/e 2019. The capital has consisted of authorized capital of GEL 91 million that is enlarged with GEL 182 million of retained earnings. Notably, 97% of shareholders capital consist of tangible equity. Remaining 3% are formed of revaluation reserve for premises.

Key figures of financial position and performance of Hualing Insurance

In millions of GEL	2019	2018	Change in 2019	
Cash and cash equivalents	7.8	6.4	1.4	21.9%
Insurance Assets	7.3	4	3.3	82.5%
Total assets	15.5	10.5	5	47.6%
Insurance liabilities	7.7	4.3	3.4	79.1%
Total liabilities	8	4.6	3.4	73.9%
Total equity	7.5	5.9	1.6	27.1%
Net operating revenues	4.4	3.1	1.3	41.9%
Pre-impairment operating profit	2.3	2.3	0	0.0%
Income (loss) before income taxes	1.9	1.9	0	0.0%
Net income (loss)	1.6	1.6	0	0.0%

JCS Hualing Insurance (HI) accounts second year of operation. During the year, HI managed to double its insurance assets through different activities on the market, where key areas of operation are life, auto insurance, business continuity, construction risks and property insurance. HI reinsures its asset base that accounts considerable part of insurance assets. In addition, HI holds sufficient liquidity in order to support further growth in the following years.

HI closed the year with quite good performance. HI has raised its gross written by 78% y/y and net reinsurance premium by 31% over 2018 results. The company accumulated of 42% higher net revenue (GEL 4.4 million at y/e 2019 and GEL 3.1 million at y/e 2018), and tailored 47% of its net revenue into administrative expenses. Increased administrative expenses offset growth of net revenues leading to net operating income before impairment of GEL 2.31 million in 2019 (2.30 – 2018) as a result, HI generated GEL 1.64 million of net income after taxes by the end of 2019 recording 3.1% y/y growth over 2018 year GEL 1.57 million.

Pre-impairment operating profit accounted for 34.4% of average equity and 17.7% of average assets. Such an income ensured high profitability figures on AROE 24.4%, and on AROA 12.6% at y/e 2019.

Key figures of financial position and performance of BHL Leasing

In thousands of GEL	2019	2018
Cash and cash equivalents	1,655	2,002
Finance lease receivables	3,126	-
Total assets	5,027	2,002
Total equity	4,983	1,997
Net operating revenues	398	6
Administrative expenses	(412)	(5)
Net profit	(14)	(3)

2019 was the first operating year for the BHL leasing that was devoted to attract clientele with different PR activities and advertisements. The first attempts to reach the target market closed the year with GEL 3.1 million finance lease receivables. Notably, almost total activities are financed with shareholder's equity of about GEL 5 million. The first year operations accumulated net operating revenues of 398 thousand GEL. The following years will strengthen activities for reaching wider clientele base by providing advanced products to them.

Liquidity and capital

We maintain strong liquidity and capital buffers over minimum regulatory requirements and we keep close monitoring and daily supervision of our capital and liquidity positions. During the financial year, our overall performance have been in line with our Business Plan and the strategic targets that we had put forward in 2019. The Bank's capital adequacy ratios, funding and liquidity positions are strong and overall assets quality is sound enough to secure our resilience in the currently unfolding situation.

The bank ensures stable funding for its operations by providing competitive conditions on customer deposits as well communication with international partners. Major part of resources came from the banks customary.
The liquidity ratios declare the obvious improvement of liquidity positions.

Funding	2019	2018
loans/deposits	130%	125%
Liquid Assets/ Total liabilities	44%	40%
Liquid Assets/ Total assets	31%	32%

Liquid assets inlcude cash, interbank deposits (including mandatory balances with the NBG) and securities eligible for REPO

Liquid assets contributes 37% of total assets by the end of year. In addition, high quality liquid assets (HQLA) have grown as well at the end of 2019 from GEL 385 million to GEL 401 million. HQLA consists of cash on hand, cash equivalents and high liquid assets. That ensures stable liquidity coverage ratio standing at 164% at y/e 2019.

The bank reports liquidity coverage ratio (LCR) on daily bases to the BNG. The liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets held by financial institutions, to ensure their ongoing ability to meet short-term obligations. NBG sets different limits on liquidity coverage for local currency and FX. The ratio ensures better management of short-term liquidity risk under Basel III. The minimum requirement is set at 100% of liquidity coverage for 30 days expected cash outflows. The LCR calculated for the following month expected cash outflows.

Net stable funding ratio (NSFR) has been introduced by NBG in 2019 within the implementation of Basel III framework. NSFR defines funding needs for longer term financing supported by the stable sources to cover liabilities arising from required stable funding need for the assets. The limits set for the ratio is 100% defined as available amount of stable funding divided by the required amount of stable.

The LCR and NSFR positions of the bank are illustrated below:

Liquidity requirements in million Lari	2019	2018
High quality liquid assets	401	385
Gross inflows	26	9
Gross outflows	270	234
Net outflows	244	225
LCR ratio in %	164%	171%
Available stable funding	1,009	932
Required amount of stable funding	789	803
Net stable funding ratio in %	127.9%	116%

Credit rating

In November Fitch Ratings has completed rating review and affirmed Basisbank's Long-Term Issuer Default Rating (IDR) at 'B+' with Stable Outlook (last upgrade was in December 2017). The rating reflects financial standing of the bank in terms of quality, profitability and capitalization.

The rating is sensitive to the changes in quality metrics as they are key determinants of BB's current profitability and capitalization. The capital buffer decrease could draw the rating down, increase in rating would depend on significant improvements in volume (business franchise), changes in current risk appetite (decrease in borrowers and FX concentration), and profitable growth.

Recent COVID-19 outbreak results in rating outlook revision for Georgian Banks from "stable" to "negative" in light with the economic and financial market downturn and uncertainties for estimated time of recovery. In mid-term we do not expect decrease of credit rating for Basisbank or for the banks rated in the sector in general due to strong financial standing and significant support and backing from the Government of Georgia, National Bank and donor organisations, including financial partner IFIs. Deterioration of banking assets is expected but the measures taken by the Government and stimulating tools initiated by NBG, and measures taken by the banks should reduce pressure on borrowers and create basis for recovery.

Asset quality to weaken, albeit from rather moderate levels of impaired loans at the year beginning. However, we believe pre-impairment profits will remain sufficient to absorb moderate credit losses. Regulatory capital ratios would moderate exposed to asset quality pressures and a weaker lari, which could drive increases in risk weighted assets (RWAs).

Since the impact of crisis is not yet reflected on assets quality metric, we have made assessment of our portfolio based on forecasted macros economic scenarios. The provision calculations are based on scenario analysis for most vulnerable sectors and individual assessment of borrowers' financial health, calculation is made on a potential increase of defaults in next 12 months. Individually stressed sectors are Hospitality (Hotels, Restaurants, Cafes & Bars and Tourism service), Real estate development and Real estate management, Total Retail portfolio as per source of income of individual borrower.

Based on the results of stressed scenarios, the Bank has allocated additional provisions on gross portfolio under NBG standards, amounting to 2.17% of gross loan portfolio, which was booked as a general reserve on gross loan portfolio in anticipation of maximum possible losses which could arise on impaired portfolio if the crisis will continue and the sectors recovery is not expected on the short-term. The impact on capital adequacy ratio as per NBG regulatory requirements after this provision is estimated to decrease by 1.5 percentage points.

The bank has made assessment of Covid19 impact on IFRS9 ECL as of March'2020. For this purpose potential deterioration of payment capacity of the Bank's clients in the next 12 months has been forecasted via applying stressed scenarios to the most vulnerable sectors, as well as to individual borrowers in retail sector, depending on their source of income. On the other hand, forecasts of main macroeconomic parameters have been modified in order to reflect negative expectations due to global pandemic. Having very solid collateralized portfolio, the Bank doesn't expect current crisis to have significant impact on the ECL and would expect effect to be in the range of 0,6% -1,3% of the gross loan portfolio as assessed in March'2020, even with increased number of defaults. However given the total uncertainty about how the pandemic will develop, it is too early to estimate full possible impact on Bank's loan book. Re-assessment of the expected defaults and other economic variables will be done in the second quarter of 2020.

Risks for funding and liquidity are assessed as low. Deposits level have been stable during Q1 2020 retaining loans to deposit ratio of 131% about the same level as at year-end 2019, while liquid assets to total assets stand at 31% , and we observed no significant outflow; The bank maintains sufficient liquidity cushions to withstand significant stress.

Capital adequacy and regulatory compliance

The capitalization of the Bank remains strong at 19.0% as at y/e 2019 versus 18.1% of y/e 2018. The capital requirement is calculated based on the new “Regulation on Capital Adequacy Requirements for Commercial Banks” of NBG has become effective on 31 December 2017. The principals of the regulation are based on capital framework established by the Basel Committee on Banking Supervision under Basel 3 and directives and regulations of European Union N 575/2013 approved on 26 June 2013.

The Minimum Capital requirements are defined under two pillars: Pillar 1 – sets Minimum requirements for regulatory capital; Pillar 2 – Supervisory Review Process - Regulation on Capital Buffer Requirements for Commercial Banks.

Pillar 1 of the regulatory framework determines the risk-weighted assets which comprise credit risk, market and operational risks.

In accordance with a current regulation for calculation of credit risk positions the Bank applies standardized approach. Operational risk capital requirements are calculated using Basic Indicator Approach and allocates 15% on average amount of total income generated from net interest and non-interest income for previous three consecutive years.

RWAs as at year end 2019 and 2018 are as follows:

In million GEL	2019	2018
Risk Weighted Assets for Credit Risk	1,244	1,125
Balance sheet items	1,151	1,032
Off-balance sheet items	93	93
Risk Weighted Assets for Market Risk	3	2
Risk Weighted Assets for Operational Risk	112	101
Total Risk Weighted Assets	1,359	1,228

The Pillar 1 framework sets the minimum capital requirements as follows:

- Common Equity Tier 1 (CET 1) ratio of 4.5%
- Tier 1 Capital ratio of 6%
- Regulatory Capital ratio of 8%

In addition to the minimum capital requirements under pillar 1 the bank is required to meet a requirements comprising three components:
- The capital conservation buffer is defined as 2.5% of risk-weighted assets, and is designed to provide for losses in the event of stress;
- The countercyclical capital buffer - was introduced within the Basel III framework and represents one of the

main macro-prudential policy instruments. Its goal is to limit excessive credit growth that leads to the build-up of systemic risks. In determining the countercyclical capital buffer, an analysis of a number of factors is taken into account, including the credit-to-GDP ratio and indicators describing its deviation from the long-run trend; trends in lending; other indicators and characteristics of the country's macro-financial environment and etc. at the year end of 2018 and 2017 countercyclical capital buffer was set at 0% by NBG;
- Systemic buffers - are set separately for each commercial bank considered to be systematically important, it is not relevant for Basisbank and is set at 0% at the year end of 2018 and 2017.

Pillar 2 – refers to the Supervisory Review and Evaluation Process within which the NBG reviews the arrangement, strategies, process and mechanisms implemented by banks and evaluates adequacy of these measures to the risks to which the institution might be exposed. In addition to the minimum capital requirements defined under pillar 1, the banks should held further capital buffers for risks which are not covered under pillar 1 framework (including, market risks not included in pillar 1, concentration risk, Interest rate risk, liquidity, strategy, reputation and etc)

- Unhedged currency induced credit risk buffer;
- Credit portfolio concentration buffer, which entails name and sectorial concentration buffers;
- Net stress test buffer, which set in accordance with stress tests administered by the NBG;
- Net GRAPE buffer, set in accordance with the NBG's General Risk Assessment Program and the assessment of banks' internal capital

Capital Adequacy	2019	2018
RWA (in million GEL)	1,360	1,228
Total CAR	19%	18%
Tier 1 Ratio	17%	17%

Increase of CAR is attributable to the increase of retained earnings and transfers to the reserves during the year of GEL 31 million in tier1 capital and attracting of a subordinated loan of USD 4.9 million attracted from the Shareholder as a tier 2 capital instrument. The measures taken by the bank to reduce the impact of FX denominated assets on RWA a CAR was also essential to sport Car level - During the year the bank improved concentration structure on segment level as well as in FX. Concentration of FX loans in business loans is down from 71% in 2018 to 62% in 2019, which has contributed the improvement of CAR demand on business segment reducing concentration buffer requirement by 0.63%.

Dividend policy – The bank distributes 10% of its IFRS profit as a dividends every year. Due to increased market risks and pressure on Bank's capital, the decision was made not to distribute profit of 2019 but to reinvest it totally into general reserves.

COVID_19 – would create a pressure on CAR of risk increased in RWAs weightings due to FX appreciation of non-hedged items and deterioration of assets quality in certain sectors, as a result capital could moderate which may lower the business expansion. At the first estimations it is expected to have impact of regulatory capital adequacy level decrease by 1.5 percentage points.

RISK MANAGEMENT

Risk management and control system

Risk management and control systems are key in ensuring stable and robust development of the bank and the group in pursuit of delivering its strategic goals aligning risk, capital and performance targets with interests of customers, shareholders, employees and stakeholders.

The Risk Strategy, reviewed and approved on the Board level, is derived from the business strategy and is defining key priorities and targets setting for the execution and dealing with changes in economic, social and regulatory environment; ensures a medium-low risk profile as defined by the risk appetite framework of the bank, taking into account the principles of market best practices and regulatory expectations. Risk Strategy is approved by the Supervisory Board and is modified at any time when strategy is revised, but at least annually and it is essential to be available for the whole institution.

The Risk Strategy defines the group's approach to risk management including general methodologies to identify, assess, control, report and manage / challenge relevant risks; and the risk governance structure built to support these activities within the everyday operation of the Bank.

Risks are managed via a framework of principles formalized in policies and procedures, and the organizational structure with clearly delegated authority levels and measurement and monitoring processes that are closely aligned with the activities of divisions and business units. This dedicated governance framework ensures that all inherent risks are controlled in a proper way within the everyday operation of the Bank.

Risk Governance

The group follows strong risk governance framework which pursues effective control and management of risk profile as defined by the Board.
At a strategic level, risk management objectives supported by the risk governance structure are:

- To define Bank's strategy based on the Group's Risk Appetite and Capital Plan
- To optimize risk return decisions by taking them as closely as possible to the business;
- To ensure business growth plans are property supported by effective risk infrastructure;
- To manage risk profile so that financial soundness remains stable under a range of adverse business conditions.

This governance framework is underpinned by the distribution of roles among the three lines of defense, a robust structure of committees, and risk sharing responsibility from top Management level down through to each business line, unit manager and/or risk officer.

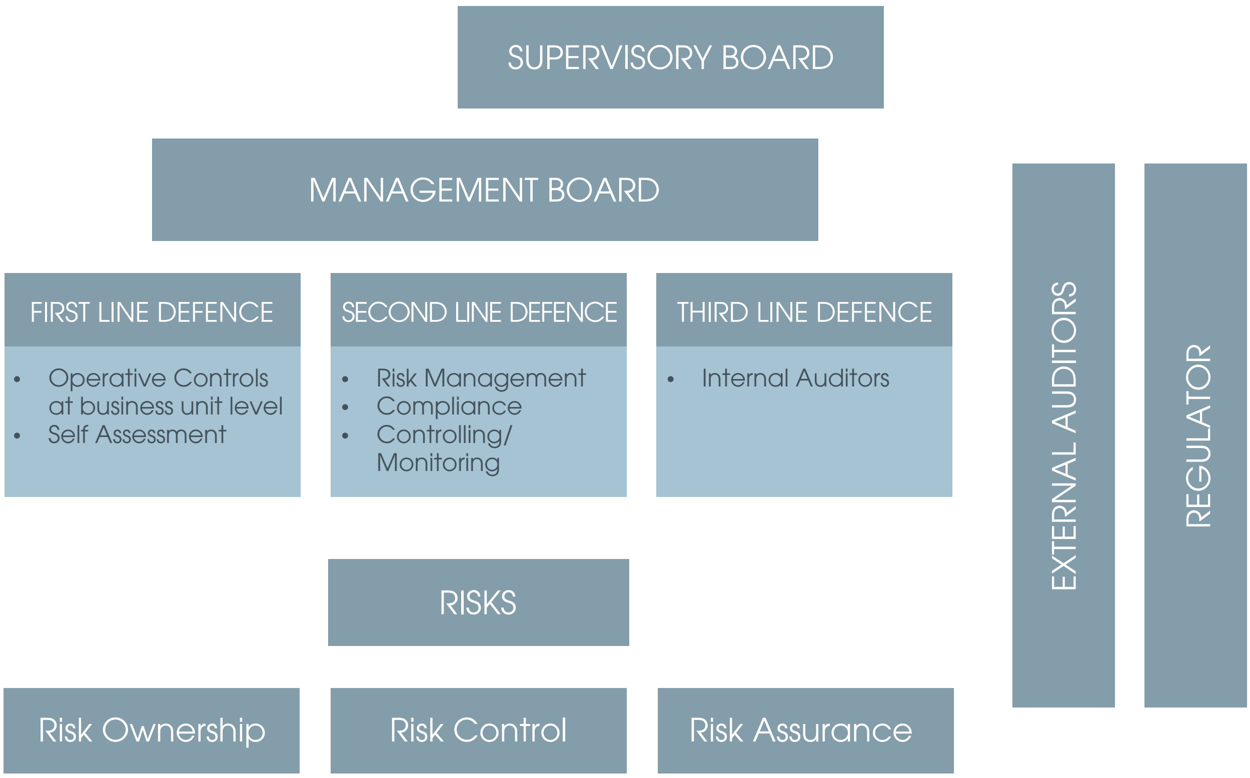
Lines of defense

In Basisbank risk control is organized across three lines of defense:

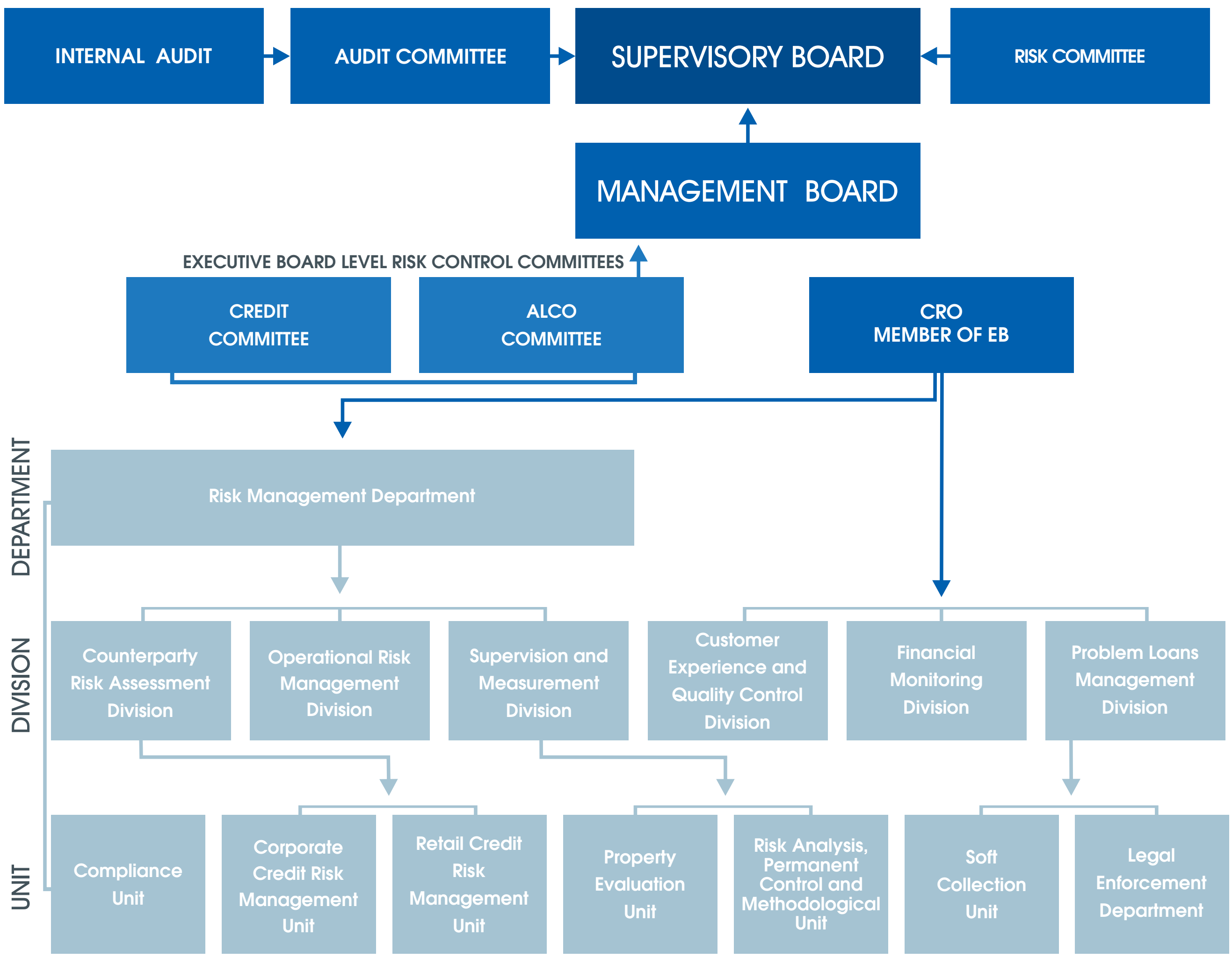
- Business unit level - operational day-to day management of risks are the task of business units and back support functions that originate risks, and have primary responsibility in the management of those risks. Each risk owner establishes and reviews the risk management tools and structure for the risks generated as a part of their activity, ensuring that daily risk management is regulated in accordance with the policies of the Bank and executed according to the detailed operational level regulations of the Bank.

- Risk Department level – internal control and compliance oversight is the responsibility of this function, identify and challenge the risks. The limit system is operated by Risk Management who has to report the result to the Executive Board on a regular Basis. In case of limit breaches, mitigation actions need to be defined by the Executive Board. The risk management also monitors activities of the first line of defense. These functions ensure that risks are managed in accordance with the risk appetite, fostering a strong risk culture across our organization. They also provide guidance, advice and expert opinion in risk-related matters.

- Internal audit level - for assurance to senior management and the board that the first and second lines' efforts are consistent with expectations, Internal Audit function controls and regularly checks that the policies and procedures are adequate and effectively implemented in the management and control of all risks, consistent with the bank's risk appetite statement, internal regulations and monitors compliances with the all regulatory and all mandatory requirements.



Risk governance structure within Basisbank



Risk Governance Structure in the Bank ensures effective segregation of duties from the senior management through managerial units to the front line personnel; responsibility for risk management resides at all levels within the Group, from the Supervisory Board and Management Board (The Executive Management) level down through to each business unit manager and risk officer.
Core risk management responsibilities are embedded in the Management Board responsibilities and delegated to senior risk managers and senior risk management committees responsible for execution and oversight. Cross-risk analysis and regular reviews are conducted across the Group to validate that sound risk management practices and a holistic awareness of risk exist.

Risk Oversight function and risk management systems is split between following risk management units:

- The Supervisory Board,
- The Management Board,
- Audit Committee,
- Risk Committee,
- Assets and Liabilities Management Committee (“ALCO”),
- Risk Management department,
- Treasury department,
- Credit Committees.

At Supervisory Board level - the independent Audit Committee and Risk Committee, which report directly to the Board and give unbiased information about adequacy of existing policies and procedures, adherence to the group's risk strategy, risk appetite and risk positions, regulatory compliance and other internal and external regulations;

At Management board level - an Independent Risk Management unit, and risk-profile committees in credit, assets & liabilities management committees level, to ensure sound risk management practices and decision making process; Risk management analytical and decision making tools; Comprehensive system of financial and managerial reporting to meet regulatory requirement and needs of Management Board; Detection and classification of different types of risks which the group potentially faces; Policies, procedures and guidelines, which govern management of risks across the organization.

Supervisory Board - is setting “the tone on the top” by establishing and fostering a high ethical and responsible culture in the bank. The Supervisory Board has overall responsibility for the oversight of the risk management framework. As a top governing body of the Bank, the Supervisory Board approves and exercises control over the implementation of the Bank's strategy and its budget, sets the general approach and principles for risk management by assessing the Bank's risk profile, the adequacy and effectiveness of the Bank's risk management framework, approves individual risk strategies, setts risk appetite and the risk control framework.
The Risk Management policies are approved by the Supervisory Board of the Bank aim to identify, analyze and manage the risks faced by the Group. They assign responsibility to the management for specific risks, set appropriate risk limits, set the requirements for internal control frameworks, and continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, emerging best practices, products and services offered.

Audit Committee - is an independent control function, which regularly reviews internal controls and processes; reviews bank's internal control system, evaluates its objectivity and correctness; provides oversight of the bank's internal and external auditors' recommendations; approving, or recommending to the Board on monitoring the financial accounting process; provides oversight of the effectiveness of the risk management system, particularly of the internal control system and the internal audit system. The audit committee reports to the Board on quarterly basis on key risk portfolios, on risk strategy and supports the Supervisory Board in monitoring the implementation of this strategy; monitors the Management Board's measures that promote the company's compliance with legal requirements, regulations and internal policies.

Risk Committee monitors the Bank's risk profile, evaluates adequacy requirements for principal risks, including evaluation, monitoring and limits of the risks; debates and agrees actions on the risk profile and risk strategy across the Bank; discusses all risk policies and related documents proposed for approval to the Supervisory Board prior to their submission; evaluates effectiveness of the bank's internal control and risk management systems together with the Internal Audit Committee; reviews test results of risk management environment conducted by external audit and develops corresponding recommendations; periodically reviews existing limit system.

Management Board is responsible for managing the Bank in accordance with the law and its' Terms of Reference in performing its activities in accordance with the goals and objectives of the Bank. Management Board is responsible for establishing effective business organization and adequate segregation of duties and subordination; structuring the business to reflect risk, ensuring existence of adequate procedures, including approval of all policies prior to submission to the Board, reviewing and approval of procedures before implementation.

Management oversight and control culture involves inclusion of key items of internal control into the regular tasks of the Management Board. The scope of Management Board's control function includes review of performance to streamline the progress toward the strategic goals, control activities at division and departmental level, regular reviews of the bank's strategy and risk and capital limits to ensure compliance with exposure and capital limits; follow-up on non-compliance to ensure that management at an appropriate level is aware of the transaction or situation and to establish accountability; requiring approval and authorization for transactions above certain limits; review of evaluations of internal controls, ensuring prompt follow-ups on recommendations and concerns expressed by auditors and supervisory authorities related to internal control weaknesses.

An effective internal control system requires that significant risks are identified and assessed on an ongoing basis. This process should cover all risks assumed by the banks and operate at all levels within it. Individual policies for Credit, Operational and AML policies enable the Bank to measure, aggregate and report risk internally, as well as use this information for regulatory purposes. Further, Bank's internal methodologies and manuals provide description of processes from credit decisions - granting, pricing and approval, to portfolio management and capital adequacy.

The Management Board establishes committees and functional units within the bank to ensure overall oversight and management of risk.

ALCO Committee Reviews current and prospective liquidity positions and monitors alternative funding sources; reviews maturity/re-pricing schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing; develops parameters for the pricing and maturity distributions of deposits, loans and investments; develops alternative strategies which take into account changes in interest rate levels and trends, deposit and loan products and related market/banking regulations, etc.; performs an independent review of the validation and reasonableness of the inputs, assumptions, and output of the ALM model(s) and procedures; approves limit structure on counterparty risk.

Credit Committee acts in the best interest of the Bank and in compliance with internal policies and procedures; evaluates potential clients' financial condition and their ability to repay the loan; reviews applications for loans and makes decisions within the authority delegated to the committee; reviews credit loan collection practices to improve loan underwriting and collection efforts.

The Chief Risk Officer (“CRO”), who is a member of the Management Board, is a top-level executive responsible for overall risk management in credit, market and operational risks, who provides overall leadership, vision, and direction for Enterprise Risk Management (ERM) and develops a framework of management policies, including setting the overall risk appetite of the Bank. Responsibilities of CRO include comprehensive control of risk and continuing development of methods for risk measurement; quantifying risks and setting risk limits, developing the requisite risk systems, and communicating a clear vision of the firm's risk profile to the board and to key stakeholders. CRO has unimpeded direct access to Supervisory Board, regularly reports to SB about the Bank's risk profile, its adherence to defined risk appetite, significant internal and external developments, which could have material effect on bank's risks.

Risk Management Department evaluates credit, market and operational risks related to various transactions or operations and draws up suggestions about modifications necessary in structure, procedures and provisions; manages and evaluates credit, market and operational risks; elaborates ICAAP (internal capital adequacy assessment process) and GRAPE (General Risk Assessment Program) framework, by coordinating them with the risk owners; elaborates and introduces methods of risk mitigation, specifically related to credit risk management; evaluates bank's lending performance and compares it to the past periods; reviews all policies and procedures prior to submission for approval to the Management board.

Treasury department – responsible for daily control and management of A&L structure, liquidity and funding position, interest rate gap exposures and management of foreign exchange risk exposure, reporting directly to CFO and ALCO committee for approval; Treasury department maintains appropriate limits on risk taking, adequate systems and standards for measuring risk, standards for valuing position and measuring performance, a comprehensive risk reporting and management review process, as well as effective internal controls.

Risk strategy

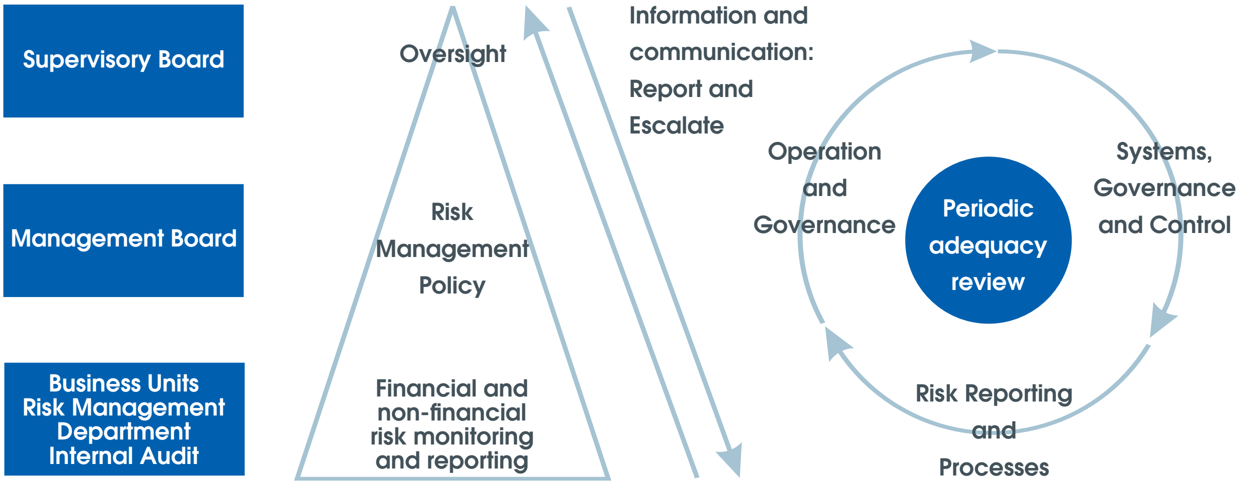
At a strategic level, risk management objectives supported by the risk governance structure are:

- To define Bank's strategy based on the Group's Risk Appetite and Capital Plan
- To optimize risk return decisions by taking them as closely as possible to the business;
- To ensure business growth plans are property supported by effective risk infrastructure;
- To manage risk profile so that financial soundness remains stable under a range of adverse business conditions.

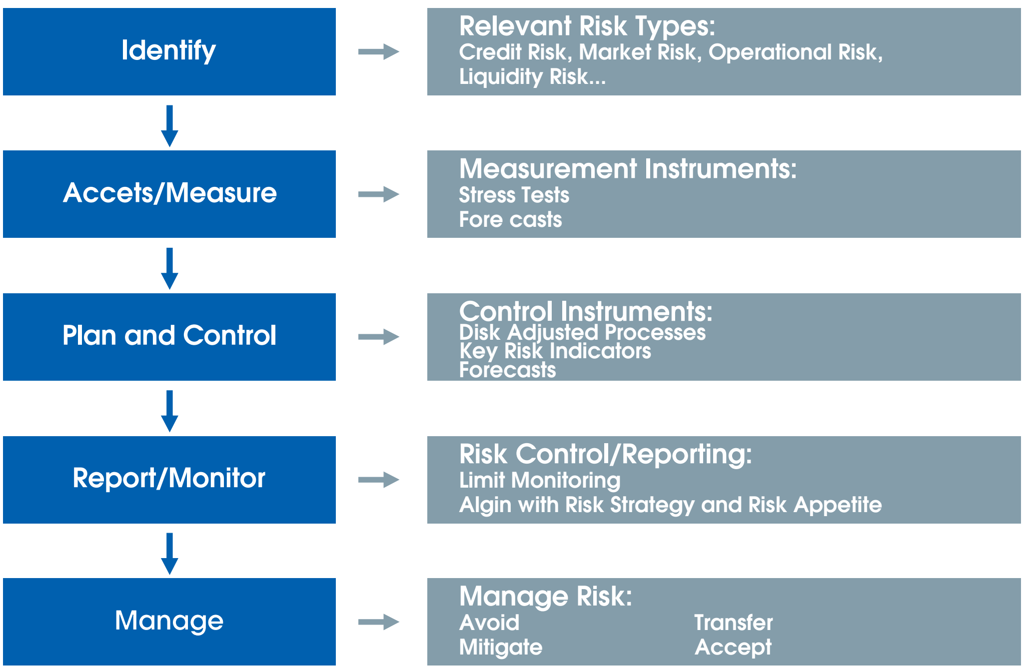
Information and communication is essential for effective Risk Governance. In Basisbank it involves inclusion of key types of data in the record keeping process, such as internal financial, operational and compliance data, as well as external market information on events and conditions relevant to decision making. An effective internal control system requires that significant risks are identified and assessed on an ongoing basis.

Individual policies for Credit, Operational and Anti-Money Laundering (AML) policies enable the Bank to measure, aggregate and report risk internally, as well as use this information for regulatory purposes. Further, Bank's internal methodologies and manuals provide description of processes from credit decisions - granting, pricing and approval, to portfolio management and capital adequacy.

Continuous Risk Governance



Management reporting system is build up to serve as an effective tool for risk governance. Risk management processes are constructed in a way that they support the execution of the risk strategy in the daily activities, so that risk management becomes a continuous process of creating transparency and risk mitigation. In pursuit of its objectives, risk management is segregated into five discrete processes: identify, assess, control, report and manage/challenge. All material risk types, financial, as well as non-financial risks: including credit risk, market risk, operational risk, liquidity risk, regulatory risk and reputational risk, inherent in the financial business, are managed via dedicated risk management processes. Modeling and measurement approaches for quantifying risk and capital demand are implemented across all material risk types.



Risk Appetite and Capacity / Key Risk Metrics

Risk appetite is the amount of risk that an organization is prepared to accept, tolerate, or be exposed to at any point in time. As it is evident that risk inherent in the operations of the Bank cannot be reduced to zero, based on careful cost-benefit analysis, the Bank has to elaborate its risk tolerance framework.

Both external and internal risk factors are identified and managed throughout the Group's organizational structure. Particular emphasis is placed on developing risk maps that are used to identify a wide range of risk factors and serve as a basis for determining the level of comfort over the current risk mitigation procedures.

Management of each material risk types are defined within the Risk framework of the Bank. Basisbank aims to stabilize and increase its current long term rating “B+” with conscious portfolio and risk monitoring in line with the business strategy. Fitch has affirmed Long Term Issuer Default Rating (IDR) “B+” in 2019 to reflect the Bank's so far reasonable asset quality and a solid capital cushion.

Risk appetite of Basisbank has been set as a limit system which enables the Bank to continuously monitor the exposure to the relevant risk factors. The limit system considers all relevant risk types identified during the ICAAP processes.

The limits are defined by the Management Board and have to be in line with strategic planning and external requirements (legal requirements on capital and liquidity; Group level/owner requirements). The Bank considers risk assessment in a systematic way, which is achieved via different stress tests and Internal Capital Adequacy Assessment Process (ICAAP). Capital adequacy ratio, Liquidity Position, market risk are assessed within the regularly performed benchmark analysis and under more severe stress tests conditions.

The risk map of the institution shows the complete picture of all risk types evaluated in Basisbank under the ICAAP. For each type of risk its relevancy is assessed and the methodological approach to measure and mitigate the risk is outlined in the ICAAP policy document.

If the risk is considered significant and it is quantifiable, the Bank defines internal methodology to calculate the respective capital needed to cover the risk. Other relevant risk types that cannot be quantified are treated through appropriate internal processes.

Internal processes aim to minimize potential losses arising from non-quantified risk types. If the risk is found irrelevant, no special treatment is available.

However, the regular review of ICAAP ensures that at least yearly all risk types are assessed, and risk types that are irrelevant and became relevant over time are addressed in an appropriate manner.

Key Risk Types / Identification and Assessment

The Group is committed to have a comprehensive risk management process in place that effectively identifies, measures, monitors and controls all risk exposures, as the Group wants to avoid high volatility in its earnings and net value due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions. The Group is committed to mitigate potential risks by the adequate, well-elaborated business strategy and manage inherent risks via developing systems of early risk detection and internal policies and procedures to ensure risk-aware decisions and actions in its day-to-day business activities.

On bank level the group monitors the following risk exposures:

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet its obligations. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments. Credit risk is obviously the most important type of risk for banks and banks' supervisory authorities. The Bank's credit strategy is to create diversified and profitable loan portfolio while maintaining maximum quality.

Credit risk management - The estimation of credit risk for risk management purposes is complex and involves use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, associated loss ratios and default correlations between counterparties.

Management of Credit Risk in Basisbank includes different activities embedded in the daily activities.

Establishment of an appropriate credit risk management environment - In Basisbank this is achieved through written Credit Policy and Credit Manual related to target markets. In this formalized documents portfolio mix, price and non-price terms, the structure of limits, approval authorities and processing of exceptions and management reporting issues are addressed and outlined.

The Group structures the levels of credit risk it undertakes by placing concentration limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a regular basis and are subject to an annual, or more frequent, review.

Credit risk, both at portfolio and transactional levels, is managed by a system of Credit Committees to facilitate efficient decision-making. A hierarchy of credit committees is established depending on the type and amount of the exposure. Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit.

Sound credit-granting process - In Basisbank this involves the consideration of a number of factors in credit granting. Depending on the type of credit exposure and the nature of the credit relationship, these could be the purpose of the credit and sources of repayment, the current risk profile of the borrower or counterparty and collateral and its sensitivity to economic and market developments, the borrower's repayment history and current capacity to repay, historical financial trends and future cash flow projections. During the credit analysis, consideration is given to the borrower's business expertise, the borrower's economic sector and its position within that sector. These elements are part of scoring models developed for both, Retail and Corporate business lines. Corporate and Retail Credit Risk Management Departments (under Risk Management Division) take part in credit risk assessment of the client. For Individual borrowers the bank has developed simplified scoring model, which enables the Bank to assess the credit repayment capacity of the borrower, based on the analysis of financial standing of the borrowers and their past repayment history. The scoring for retail and corporate is used primarily in the credit approval process for pricing purposes: pricing of each loan is risk adjusted, based on the scoring of the client and riskiness of the product.

Credit risk grading system - For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies an Internal Rating System for legal entities, or risk grades estimated by external international rating agencies (Standard & Poor's - “S&P”, Fitch, Moody's) for Central Governments, Interbank exposures, International Financial Institutions (IFIs) Securities and other financial assets, when applicable.

Risk Mitigation and Residual risk - Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees to mitigate the credit risk. The limits for collateral coverage are different depending on product type and borrower segment. To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. The Group obtains collateral valuation at the time of granting loans and annually re-evaluates real estate properties pledged for the loans which are included in top 100 borrower group list by carrying amount as at reporting date. Apart from top-100 borrower groups, for the loans with carrying amount more than GEL 100 thousand, the Group requests re-evaluation of the pledged real-estate collaterals if a new loan is disbursed under the pledge of the given collateral or in case of restructuring of the given commitment in case the last valuation is more than 1 year ago. Legal Department regularly (at least yearly) reviews the collateral contract template and modifies if necessary based on new regulation environment or experiences on the execution of collaterals. Minimum collateral coverage (maximum amount of unsecured portfolio) using discounted values are defined for each customer types by the Credit Policy.

Maintenance of appropriate credit administration, measurement and monitoring processes - involves regular monitoring of a number of key items related to the condition of individual borrowers. These items include the current financial condition of the borrower or counterparty; compliance with existing covenants, collateral coverage and contractual payment delinquencies. Also it involves the monitoring of share of exposure in the total loan portfolio to specific types of borrowers to avoid risk concentration. Such concentrations occur when there are high levels of direct or indirect loans to a single counterparty, a group of interrelated borrowers, or a particular industry or economic sector.

Basisbank carried out IFRS 9 implementation with the involvement of internal Financial Reporting and Risk Divisions and together with Deloitte & Touche LLC consultancy team. The implementation of specific processes and business controls included, among others, changing existing and establishing new business processes to support ECL assessment process. Governance over the Expected Credit Loss (ECL) calculation process is shared between Financial Reporting and Risk functions. Validation and back-testing of all applied parameters has become an inherent part of ECL assessment process.

Maintenance of appropriate portfolio quality reporting. Portfolio quality and lending limits determined by Credit Policy are regularly followed by the Credit Risk Management in its control function and presented to the management of the Bank via portfolio reporting. Portfolio report contains information about the distribution of the portfolio over the rating classes, amounts in delays, exposures by sectors and HHI index, dynamics of PD, LGD figures, etc.

- Residual risk. To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. Legal Department regularly (at least yearly) reviews the collateral contract template and modifies if necessary, based on new regulation environment or experiences on the execution of collaterals. Minimum collateral coverage (maximum amount of unsecured portfolio) using discounted values is defined for each customer types under the Credit Policy.

- Stress testing. The bank performs regular stress tests to monitor impact on regulatory capital buffer of adverse macroeconomic as well as bank specific events on various levels of aggregation. Stress tests amongst others cover events of broad economic crises with recession, impact of currency movements, decrease in employment levels, sector specific stress tests, closing of export markets (political risks), and default of several large exposures. No additional provision has been created in financial year 2019 for credit losses based on the results of regulatory stress testing.

- Specific stress testing are conducting of the total portfolio in order to estimate the possible impact of COVID-19 lock down on the portfolio. The Bank's capital adequacy ratios, funding and liquidity positions are strong and overall assets quality is sound enough to secure our resilience in the currently unfolding situation.

In order to monitor exposure to credit risk, regular reports are produced by the dedicated staff of Financial Reporting and Risk departments based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Risk Committee, the Management Board and the Supervisory Board.

Stress testing - The bank performs regular stress tests to monitor impact of adverse macroeconomic, as well as bank specific events on regulatory capital buffer and on bank's performance as a whole or at different levels of aggregation. Stress tests are used as an effective tool of risk assessment and management, in order to assess its capital adequacy and in case of need create additional capital buffer for adverse changes. Stress tests amongst others cover events of broad economic crises with recession, impact of currency movements, decrease in employment levels, sector specific stress tests, closing of export markets (political risks), and default of several large exposures.

In order to determine stressful scenarios, the Bank uses the NBG's stress-test methodology manual. According to the manual, the slowdown of the global economic activity causes recession to our region, the US dollar appreciates against all currencies and pushes interest rate raise resulted from the increased risk premium. The change in macroeconomic parameters occur in line with recession in the region, in particular: 5% reduction in gross domestic product, reduction of commodity (gold and other) prices; depreciation of national currency by 20%; a 30% reduction of real estate prices in USD; the interest rate increase by 2 percentage points, to assess credit losses on interest gap revaluation and variable lending rates; reduction of the number of employees by 5%; reduced employee revenue by 5%.

Additionally, micro and retail portfolios are divided into sub-portfolios of loans issued with the analysis of borrowers' solvency performed and of those issued without performing such analysis. An additional 20% default is assigned to

As a response to the global COVID-19 pandemic, the National Bank of Georgia has introduced number of initiatives with the aim to limit the negative financial and economic impacts of the current lockdown due to the global pandemic. Among the measures with immediate effect focused mainly on capital and liquidity requirements are the specific stress testing of the total portfolio, done at the beginning of 2020 in order to estimate the possible impact of COVID-19 lock down on the Bank's loan portfolio. The results of stress tests have 1.5% effect on regulatory capital adequacy ratio at the moment. Stress test includes individual scenarios per most vulnerable sectors like hospitality, deterioration in asset values, decrease or loss of income probabilities for individual borrowers, FX devaluation stress as well increase in probability of defaults as a result of diminished payment capacity of individual and/or corporate borrowers due to total or partial loss of their income. . Uncertainty over the full impact on economy and individual sectors remains high and stress scenarios will be updated in the second quarter of 2020 and provisions set aside for the covid-19 related impairment of portfolio will be adjusted accordingly.

each loan in the portfolio of the loans issued without performing the borrowers' solvency analysis. The Bank calculates the financial and loan service ratios and the loan loss reserves for relevant stress scenarios for the selected loan portfolios (it is inadmissible to improve the reserve category after stress) and the subsequently results are applied to the rest of the portfolio. No additional provision has been created in financial year 2019 for credit losses based on the results of regulatory stress testing.

Market and liquidity risks - are managed by the Asset and Liability Management Committee (ALCO) in coordination with the Treasury Department and the Risk Management department. The Treasury Department performs monitoring by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, interest rate exposures, and controls and manages foreign exchange risk exposure.

Liquidity Risk – The bank relies on Basel III liquidity management methodologies and on other internal assessment models developed in line with best international practice and manages liquidity risk according to the internal policies of Anti-Money Laundering (ALM) and Liquidity Management, with detailed definition of processes and limit systems connected to liquidity management (cumulative maturity mismatch limit, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR)).

Liquidity management process includes establishment and regular re-assessment of liquidity requirements based on the bank's asset and liability structure and general market conditions; development and control of corresponding liquidity risk limits; addressing funding structure and mismatch volume, fund raising capacity, etc.; developing and monitoring liquidity and fund management principles; liquidity forecasting under normal business conditions and for stressed scenarios; developing contingency plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations.

Market Risk - The most likely sources of market risk are interest rate risk and foreign exchange rate risk.

Interest rate risk is the current or prospective risk to both the earnings and capital of institutions arising from adverse movements in interest rates. From a credit institution's perspective, an interest rate risk may occur for both its trading book portfolio and banking book transactions (traditional credit/deposit and investment transactions).

Types of interest rate risks relevant for the Bank are:

- Re-pricing risk, i.e. risk deriving from the different maturity structure of receivables and payables and from pricing that is based on different interest rates or different periods;

- A re-pricing risk is generated when there is a mismatch between the maturity structure of assets and liabilities and if pricing takes place at different intervals or at differently based interest rates (e.g. receivables at a fixed interest rate and liabilities at a variable interest rate).

- Yield curve risk, i.e. risk originating in changes of the shape and steepness of the yield curve.

Foreign exchange risk rises from an open or imperfectly hedged positions in a particular currency as a result of unexpected movements in the level of exchange rates (that may lead to losses in the local or reporting currency of the market participant).

Oversight and control of market risk is set out to ensure that the bank's policies and procedures for managing interest rate risk and FX risk on both, long-term and day-to-day basis are adequate and that clear lines of authority and responsibility for managing and controlling market risk are maintained. The Bank maintains a comprehensive interest rate risk reporting and review process, as well as effective internal controls, sets appropriate limits on risk taking, establishes adequate systems and standards for measuring risk and performance, valuing position, repricing maturity gap.

Operational Risk - Operational risk is defined as the risk of financial loss occurring from inadequate internal policies, system and control failures, human errors, fraud or management failure and natural disasters. The operational risk management exists on three levels in the Bank: business unit/department level, Operational Risk Management level and Internal Audit level. In order to effectively measure and manage operational risk, appropriate operational risk management environment is developed through internal reporting of operational risk as a distinct risk category related to the bank's safety and soundness on one hand, and by effective and comprehensive internal audit function on the other hand, carried out by operationally independent, appropriately trained and competent staff.

The Bank's Operational Risk policy provides a comprehensive framework for operational risk identification, measurement and management. The policy defines the principles for how operational risk is to be identified, assessed, monitored, and controlled or mitigated. A system of checks to identify strengths and weaknesses of the operational risk environment is defined and contingency and business continuity plans are in place to ensure the ability to operate as going concern and minimize losses in the event of severe business disruption.

Although the Bank calculates capital requirement for operational risk using the Basic Indicators Approach (BIA approach), some qualitative elements of more advanced risk quantification are used, which serve as a basis of more comprehensive operational risk management.

Within the scope of ICAAP framework, the Bank assess other risks to which the bank can be exposed, some of these risks are described below:

Business Risk means current or prospective risk of earnings and capital decrease arising from changes in the business environment and from adverse business decisions, or from the overlooking of changes in the business environment, inadequate implementation of decisions or poor reactions to changes in the competitive environment.

Regulatory Risk: banking sector is highly regulated and the environment continues to evolve in an unpredictable way, therefore the bank is exposed to regulatory risk, i.e. of non-compliance with regulatory requirements. In addition to mandatory capital adequacy ratios, the regulator (National Bank of Georgia) sets lending limits and other economic ratios, including, lending, liquidity and investment ratios. The Bank is required to comply with minimum reserve requirements and provide regular periodic reports.

The bank is also regulated by respective tax code and number of other laws in Georgia, which are relevant for the Bank through its everyday business activities. Additional regulatory requirements arise among others through: the Law of Georgian on Anti-Money Laundering (AML) and Counter-Terrorist Financing, the Law of Georgia on Personal Data Protection (PDP), the Tax Code of Georgia, the Labour Code of Georgia etc.

In line with the Bank's integrated control framework, the bank carefully evaluates the impact of each legislative and regulatory change as part of its formal risk identification and assessment processes. It has established systems and processes to ensure full regulatory compliance, with the Compliance Unit of Risk Management Department in charge of these processes.

Operational Risk Department identifies potential breaches of PDP law via analyzing customer complaints, the operational risk event databases and introduces changes in operational practices to improve personal data protection and avoid leakage of personal information in the environment of rapidly increasing automation.

Financial Monitoring Department on the other hand enhances compliance to regulatory requirements via creating operational framework for regulations imposed by the Financial Monitoring Service of Georgia (FMS), with the main objective of preventing illicit income legalization and terrorism financing.

The management of environmental and social risks - includes, on the one hand, efficient consumption of natural resources and responsible waste management in the daily business activities of the bank, and integration of responsible financing principles in the bank's lending activity on the other.

In order to effectively implement responsible financing principles, on 2018 Basisbank made significant changes in its environmental and social risk management policy by developing the Due Diligence and E&S Risk Assessment procedures. The bank also introduced the exclusion list. It specifies the types of the activities that the bank does not finance. The activities on the exclusion list can be, in some way, linked to production/trade of weapons and military materials, forced and child labor, illegal pharmaceuticals, production/trade of certain pesticides and herbicides, gambling and casinos, etc. These documents are based on the Georgian legislative framework, best practice and recommendations of the international financial institutions.

As part of the environmental and social risk assessment process, all business loans are subject to standard procedure of verifying the project in the exclusion list. At a later stage, based on the data and documents provided by the client, assessments after the onsite visit, and information received from independent sources, the responsibility of the potential client is assessed, along with the client's degree of environmental and social risk management. The bank refers to the IFC's Environmental and Social Performance Standards for its assessments. The bank is also empowered to set covenants for the client for the purpose of enhancing the client's environmental and social responsibility (e.g. improvement of the fire safety system and upgrade of working conditions).

Country Risk refers to potential losses that may be generated by an (economic, political, etc.) event that occurs in a specific country, where the event can be controlled by that country's government but not by the credit grantor/investor. The Bank introduced a limit system by implementing Country Risk Management Policy in order to measure its exposure to country risk based on the external rating of the countries.

Reputation Risk may originate in the lack of compliance with industry service standards, failure to deliver on commitments, lack of customer-friendly service and fair market practices, low or inferior service quality, unreasonably high costs, a service style that does not harmonize with market circumstances or customer expectations, inappropriate business conduct or unfavorable authority opinion and actions.

Anti-Money Laundering and Counter Terrorist Financing (AML/CTF); Anti-Bribery and Anti-Corruption (ABC); Potential Conflict of Interest: Basisbank has adopted a holistic approach to Financial Crime and created the group-wide anti-financial crime (AFC) framework, which sets the control requirements in the following key risk areas: AML/CTF, ABC and avoiding potential conflict of interest. This combined approach allows the Bank better to understand of their risk exposure and prioritize the management focus. In line with its AFC framework, Basisbank takes a zero-tolerance approach to intentional facilitation of money laundering and terrorist financing, as well as to bribery, fraud and corruption.

For preventing money laundering and terrorist financing across the Bank, there is established the Financial Monitoring Unit. While AML/CFT control, there are used following measures/tools: Know Your Customer, Customer Due Diligence and Enhanced Due Diligence measures; ML/TF Risk assessment/reassessment;

Information renewal according to the risk level; black and PEP List screening; red flag control etc. Part of monitoring measures are automated, incl. black and PEP list screening, red flag control, reveal of suspicious transactions etc.

The Bank does not tolerate any form of corruption, bribery or fraud, or any other type of illicit, fraudulent or unethical behavior. All employees are personal accountable to protect the Bank, its reputation and themselves from the risks arising from bribery and corruption and avoid consequences of non-compliance. Anti-Bribery & Anti-Corruption Policy defines main principles, rules and standards of behavior upon which are based Bank's everyday activities, in order to reasonably prevent, detect and report bribery and corruption incidents enterprise wide. Internal audit, Financial Monitoring Division, Compliance and Operational Risk Management Units are responsible for ensuring compliance with the AFC framework, making sure that the internal regulations and working principles are integrated into all of the Bank's activities.

Corporate Compliance Risk: is a risk of sanctions, financial or reputational losses and legal litigations which could be affected by ignoring current legislation and standards of conduct. Compliance risk management system comprises of compliance policy, description of legal and statutory acts regulating the banking activity, regularly revising of compliance with specified requirements as well as reporting to Supervisory Board and Directorate and facilitating in making informed decisions by the Management. For enforcement of compliance policy as well as for effective functioning of compliance risk management, the Bank established the Compliance Unit. Among other duties, the unit is anticipating, detecting, assessing and controlling significant/potential risks related to non-compliance.

The Bank wants to avoid high volatility in its earnings and net value due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions. Therefore, the Bank is committed to mitigate potential risks by the adequate, well-elaborated business strategy and manage inherent risks via developing systems of early risk detection and internal policies and procedures to ensure risk-aware decisions and actions in its day-to-day business activities.


LADY CARD

CORPORATE GOVERNANCE

Corporate Governance

Effective corporate governance is crucial to the proper functioning of the banking sector and the economy as a whole. We believe that implementation of good corporate governance in the bank, as well as the industry as a whole, should adhere to basic principles, such as transparency, accountability, independence and fairness. In order to establish these basic principles, the bank shall be guided by the various regulations and minimum requirements and guidelines related to the implementation of good corporate governance.

Responsible and transparent business management in order to maintain and strengthen trust-based relationship with its stakeholders remains a top guiding principle for Basisbank and for the Group. The group has established a robust system of corporate governance based on international standards and local legislation, which ensures effective allocation and clear separation of roles and responsibilities between shareholders and management.

The shareholder exercises its rights and responsibilities through the General Meeting. The General Meeting of Shareholders is the supreme governing body of the bank, by participating in the Meeting, the shareholders exercise their rights of bank membership in compliance with the legislation of Georgia and the Bank Charter. General meeting takes decisions on the most important issues - approves the bank's charter, makes decisions on issuance of shares, distribution and usage of earnings, on changes in the bank's capital, elects the Board and makes decision on appointment and / or dismissal of the Board members.

In line with regulatory changes, in 2019 it was amended the corporate governance structure of the bank, namely: there was established the Risk Management Committee on Supervisory Board level (instead of the Management Board level Committee), the functions and responsibilities (and respective charters) of Management Board, Supervisory Board, Internal Audit and Audit Committees were amended and adjusted to the new regulatory requirements as well.

Supervisory Board

The Supervisory Board (the Board) is the body supervising the Group's activities, exercising its functions through the Board Meeting and Board-level Committees. The Board appoints and works closely with the Management Board, supervises and advises on important issues and is directly involved in fundamental decisions.

The key functions of the Supervisory Board are supervision of the Basisbank Group's activities, Corporate Governance and Risk Management. Within the framework of these functions, the Board makes decisions on establishing the group's values, organizational structure and generally, ensuring that the group is governed in full compliance with the principles of fairness, competence, professionalism and ethics; establishes the group's strategy and oversees management's implementation of the bank's strategic objectives; ensures that the group is in compliance with all regulatory and supervisory requirements; establishes the risk appetite of the company along with Management Board and the CRO (Deputy General Director on risk and IT). The Board also oversees Management Board's activities and evaluates Management Board's decisions, ensuring independence and effectiveness of control functions, and conducts Management Board's performance evaluation in line with its long-term succession plan. The Board is responsible to oversee transactions with related parties and ensure existence of effective procedures and policies within the group in line with the requirements of law and regulatory framework.

The Board members. The General Meeting of Shareholders elects members of the Board. The rules for recruiting of Board members are regulated by the law of Georgia, the Bank's Charter and the terms of reference. The Supervisory Board is responsible for the Corporate Governance of the bank. The bank should ensure availability of the wide range of skills and experience of the SB members, the presence of independent members and protection of the balanced plurality of opinions. In other words, the SB should be staffed with the members of different skills, experience and expertise.

In line with the new Corporate Governance Code for Commercial Banks, two independent members of the Supervisory Board were elected by the annual General Meeting of Shareholders in 2018, so the Board has five members, two if which are independent. It was adopted renewed charter for the Supervisory Board (adjusted to new legal requirements prescribed by NBG) as well.

The members of our Supervisory Board are:
Mr. Zhang Jun – the Executive Chairman of the Board, Mr. Zhou Ning – Vice Chairman (an independent member), Mr. Mi Zaiqi - Vice Chairman, Mr. Zaza Robakidze – Member (an independent member), Ms. Mia Mi – The Board Member.

All members of the Supervisory Board are selected in observance of the compliance criteria set by the National Bank of Georgia. In addition, the independent members of the Board meet all requirements, set for considering a person as an independent member.

Different experiences, qualification and skills of the Board members allow for reviewing various issues in depth and from various angles, while keeping the balance in decision-making. When performing their functions, the Board considers the interests of the bank, its depositors, shareholders and other stakeholders. When performing their functions, the Board should consider the interests of the bank, its depositors, shareholders and other stakeholders.

Zhang Jun

Chairman of the Supervisory Board

Zhang Jun holds an MBA. 2010 to present: Deputy General Manager in finance and foreign investments at Xinjiang Hualing Trade and Industry (Group) Co., Ltd. 1998 to 2010: worked as Sales Department General Manager, Assistant to the Chairman of the Board, HR Director in Urumqi City Commercial Bank. 1992 to 1997: Deputy Director in Chengxin Credit Union of Urumqi. Mr. Zhang held senior managerial positions at Urumqi Branch of the People's Bank of China, Urumqi City Commercial Bank and other financial institutions for many years. He has extensive practical experience in the operation and management of commercial banks, hence the profound and clear view of the strategic development of small and medium-sized commercial banks

Zhou Ning

Vice Chairman of the Supervisory Board, Independent Member

Zhou Ning holds an MBA from Fuqua School of Business in USA, MS in Engineering from Virginia Polytechnic Institute, and BS in Engineering from the University of Science and Technology of China. 2005 to present: Managing Director in Tuhong International Co. Having implemented a number of financial advisory projects at Urumqi City Commercial Bank, Bank of Deyang, Yantai Bank, Hang Seng Bank, Wing Lung Bank, Xiamen Bank, Hong Kong Fubon Bank and Bank of Tianjin, Mr. Zhou has an in-depth understanding of strategy and business development of domestic and foreign small and medium banks.

Mi Zaiqi

Vice Chairman of the Supervisory Board

Holds a BA from University of California. 2011 to present: Deputy Director of GM Office in Xinjiang Hualing Trade and Industry Group Co., Ltd and Director of GM Office in Georgia Branch Office of Xinjiang Hualing Trade and Industry Group Co., Ltd. 2010-2011: worked as an assistant to GM in Xinjiang Hualing Real Estate Development Co., Ltd. 2005 to 2006: worked as an assistant to GM at Xinjiang Hualing Grand Hotel Co., Ltd.

Mia Mi

Member of the Supervisory Board

Holds a Bachelor's Degree in Business Administration from University of Southern California, Los Angeles. Director of International Development at Hualing Group International Special Economic Zone in Georgia. Extensive experience in assisting Chairman of JSC Hualing International Special Economic Zone in 2 crucial actions: acquisition of Basisbank in 2012 and each year (2011-2015) organizing international construction materials fair, connecting buyers and sellers from across Central Asia. 2015-2017, Mia Mi held various positions in key departments at Basisbank, analyzing loan portfolio, communicating with Chinese corporate and retail clients as well as Banks shareholders, organizing major corporate events and assisting HR in recruiting talents.

Zaza Robakidze

Independent Member of the Supervisory Board

Zaza Robakidze, a proficient banking expert with over 24 years of sector experience, accepted the position of the Member of Supervisory Board in late 2018. He has also been serving as Chairman of Basisbank's Audit Committee since 2012. Zaza Robakidze spent several years working at the National Bank of Georgia on various positions, from Economist to Head of Supervision Department. Zaza Robakidze holds a Master's Degree in Economics.

Supervisory Board - level Committees. The Board exercises its functions through its meetings, as well as through Board-level Committees: the Audit Committee and the Risk Management Committee, the latter was established early in 2019.

Audit Committee. The Board exercises its power and performs audit, compliance and compensation through internal Audit Committee, which is established by the Supervisory Board members and two of the three members are independent. It oversees the implementation of the supervisory functions and provides the objective information on the effectiveness of financial, risk and internal control systems, performance and compliance with established standards and requirements. Audit Committee of the Board has been in operation for many years, as a function which supports the Board to ensure the effective system of internal control in the bank.

In the course of the past year, the Audit Committee convened five times, and among others, was responsible for:

- Ensuring the adequacy and efficiency of the functions of the bank's internal and external auditors; within that, setting of the scale and scope of the internal audit;
- Ensuring that the Management Board takes necessary steps to correct the identified control weaknesses, incompliance with the legislation and other deficiencies;
- Ensuring the framework of the risk management and efficiency of internal controls;
- Review of the annual consolidated and separate financial and non-financial statements of the banks, discussion of the audited reports with the auditors, the pre-audit and post-audit processes and key issues and findings, and preparing of reports and recommendations for the Supervisory Board.
- Review of all internal documentations, the appropriateness of internal processes and control function, monitoring of the financial reporting process, data validation process, etc.

The current members of the Audit Committee are:
Zaza Robakidze (the Chairman of the Audit committee and an independent member of the Board), Mi Zaiqi (The Board Member), and Zhou Ning (The Vice Chairmen and an Independent Member of the Board).

Risk Management Committee - According to the Corporate Governance Code of the National Bank of Georgia, in 2019 the Supervisory Board-level Risk Committee was set up, composed of three Board members. The Chairman of the Committee and one of the members are independent members. The primary responsibility of the Risk Committee is to oversee the Bank's risk strategies and policies and their effective implementation, to oversee and ensure the availability of a risk management framework and the proper functioning of internal control systems. Thus, through the Risk Committee, the Supervisory Board is actively involved in the risk management process, has the proactive information and recommendations on risk limits, monitoring and evaluation results, and observes the level at which the risk management strategies and policies are integrated in the daily activities of the bank management and other business units, and also whether they are acting in compliance with the laws and internal policies.

The current members of the Risk Management Committee are:
Zhou Ning - Vice Chairman of the Supervisory Board, Independent Member, Mia Mi - Member of the Supervisory Board and Zaza Robakidze - Independent Member of the Supervisory Board.

Management Board

The primary function of the Management is to effectively run the group's activity, ensure the uninterrupted growth and development of the bank and the group, ensuring sustainable positioning on the market in line with the objectives set by the Supervisory Board. The SB appoints the members, their functions, the structure and the role in governance and responsibilities in line with the applicable law and terms of reference. The remuneration is clearly defined by the SB. The accountability of the management, meetings, decision making framework is defined by the Regulation on the Directorate adopted by the Supervisory Board.

The management recognizes the importance of good corporate governance and risk management culture as well as its role in these processes. The management runs operations of the Bank and is responsible for managing its activities in accordance with the Bank's objectives, in compliance with applicable laws/guidelines as well as internal regulations. The Management Board works closely together with the Supervisory Board and reports to the Supervisory Board on all issues with relevance for the Bank concerning strategy, the intended business policy, planning, business development, risk situation, risk management, staff development, reputation and compliance, on systematic basis but at least quarterly.

The management is responsible for delivering business objectives in line with the group's strategy, ensuring the Bank's capital and liquidity planning, and that management policies and procedures are communicated and implemented throughout the bank and are supported by sufficient authority and resources. The management is also responsible to ensure that the bank operates consistently with the processes and procedures set out in its internal and external regulations, allocations of resources, planning, managing, accounting and reporting of financial and risk position, properly executing the management and control functions.

Management Board consists of General Director and his Deputies, in charge of their respective areas.
In 2019 Basisbank Directorate welcomed new members: George Gabunia, Chief Commercial Officer, and Rati Dvaladze, Chief Operational Officer, to complement and bring important contribution to the Board.

Directorate of the Bank consists of:
David Tsaava, General Director; Lia Aslanikashvili, Deputy General Director, Finance; Hui Li, Deputy General Director, Lending, David Kakabadze, Deputy General Director, Risk Management, Levan Gardapkhadze, Deputy General Director, Retail; George Gabunia, Chief Commercial Officer and Rati Dvaladze, Chief Operational Officer.

David Tsaava

General Director

General Director of Basisbank since 2011. 2015-2018: Member of Basisbank Supervisory Board. Since December 2017 David Tsaava has been serving as Supervisory Board member of BHL Leasing and Hualing Insurance, the subsidiaries of Basisbank Group.

David Tsaava has 15 years of experience in banking. He started his career at Basisbank as a loan officer in 2004. Later, till 2008, he headed the Corporate Loan Division. In 2008-2010 David Tsaava was appointed as Corporate Director. In 2010-2011 he was an acting General Director.

After obtaining a Bachelor's Degree in Banking and Finance from Tbilisi State University, David Tsaava got a Master's Degree at Sokhumi State University. Later, he obtained a PhD in Business Administration from Technical University of Georgia.

Lia Aslanikashvili

Deputy General Director, Finance

Basisbank's Deputy General Director, Finance since 2012. 2017-2018: General Director of BHL Leasing, the subsidiary of Basisbank Group. 2017-present: Deputy General Director, Finance at BHL Leasing and Hualing Insurance, the Basisbank Group member companies.

Lia Aslanikashvili has 20 years of experience in banking. In 1999-2002, she served as Manager at International Operations Department of Basisbank. In 2002-2005, she headed the same department. In 2005-2008, headed the Settlement Department. In 2007-2008, Lia Aslanikashvili led the Treasury Department. In 2008-2012, she was a CFO of Basisbank.

Lia Aslanikashvili holds a Master's degree in International Economic Relations from Tbilisi State University.

Li Hui

Deputy General Director Lending

Basisbank's Deputy General Director, Lending since 2012. 2015-2018: Member of Basisbank's Supervisory Board. Supervisory Board member of BHL Leasing and Hualing Insurance, the Basisbank Group member companies, since 2017. Li Hui has been working in the financial sector since 1993. In 2005-2012 she was in charge of loan approval in Credit Management Department of Urumqi City Commercial Bank. At different times, she held the position of Deputy Manager of Credit Department and Deputy Director in Urumqi Chengxin Credit Cooperatives.

Li Hui holds a Bachelor's Degree in Accounting from Financial University of China.

David Kakabadze

Deputy General Director, Risk Management

Basisbank's Deputy General Director, Risk Management since 2019. 2017-2019: General Director of Hualing Insurance, the subsidiary of Basisbank Group. 2017-2018: Deputy General Director of BHL Leasing, the Basisbank Group member company.

David Kakabadze has 17 years of experience in banking. He has been with Basisbank since 2003, initially serving as an IT developer/ programmer. In 2005, he was appointed as Head of IT Programming Division. In 2008-2012 David Kakabadze became Director of IT and Risk Management. In 2012-2019 he served as Basisbank's Deputy General Director, Risk and IT Management.

David Kakabadze holds a Master's Degree in Finance from Caucasus Business School.

Levan Gadrapkhadze

Deputy General Director, Retail Business

Basisbank's Deputy General Director, Retail Business since 2012. 2017-2018: Deputy General Director of BHL Leasing and Hualing Insurance, the Basisbank Group member companies.

Levan Gardapkhadze has 17 years of experience in banking. He started his career at Basisbank as International Operations Department Manager. In 2005 he was appointed as Head of Plastic Cards Department. In 2007-2008 he chaired the Development and Project Management Committee. In 2008-2012 Levan Gardapkhadze was a Retail Banking Director.

Levan Gardapkhadze holds a Master's Degree in Business Management from University of Georgia, a Master's Degree in law from Tbilisi University of Economics, Law and Information and a Bachelor's Degree in International Economics from Technical University of Georgia.

George Gabunia
Chief Commercial Officer (CCO)

Basisbank's CCO since 2019 has 15 years of experience in the sector. In 2012-2019 George Gabunia headed the bank's commercial department. In 2010-2012 he led the corporate department. In 2008-2010 he headed the Corporate Regional Group, in 2006-2008 George Gabunia was a corporate banker. In earlier years, he worked in Basisbank's marketing and sales areas.
George Gabunia holds a Master's Degree in Banking from Tbilisi State University and a Bachelor's Degree in Finance and Banking form the same university.

Rati Dvaladze
Chief Operations Officer (COO)

Basisbank's Chief Operations Officer since 2019. In 2014-2019 he headed Basisbank's Project Management and Business Analysis Division. In 2008-2014 he worked in the areas of credit risk system and analysis. Rati Dvaladze also is an educator, delivering lectures.
Rati Dvaladze obtained a Master's Degree in Information Technology Management from Free University and a Master's Degree in Physics and Mathematics from Tbilisi State University. He also holds a Bachelor's Degree in Mathematics.

Conflict of Interests

Based on the Group specifics, the Supervisory Board, the Management Board and other control functions strictly control the possible sources of the conflict of interest, including the following tools: the bank records the related parties and sets controls on the transactions with the related parties. The Supervisory Board periodically revises the policies developed and approved by it, in order to ensure compliance with the underlying challenges. In addition, the bank closely cooperates with the National Bank of Georgia to take into consideration the regulator's instructions for the creation of the robust control system.

The transactions with the related parties are subject to compulsory review and approval by the Management Board/Supervisory Board (based on the amounts). The bank strictly adheres to the arm's length principle and ensures the conformity of the related party transactions with these principles.

E&S

In 2018, Basisbank's new environmental and social risk management policy came into force, under which the Bank undertook to manage the environmental and social risks characteristic of the organization's activities. In 2019, the Bank took solid action steps in both environmental and social risk management as well as in green financing.

For responsible lending purposes, the Bank refuses to fund projects that may have anything to do with gambling, the production or trade of weapons and ammunition, child or forced labor, environmentally harmful activities, as well as any activity prohibited by law or those on the IFC Exclusions List.

In evaluating the projects to be financed, the Bank examines the borrower's approaches and problems to environmental and social issues, assigns a risk category according to the EBRD Environmental and Social Risk Categorization List, ensures monitoring and takes care of borrowers' awareness within its competence.

Anti-Financial Crime (AFC) framework

Basisbank has developed a holistic approach to combating financial crime and has established a Group-wide Anti-Financial Crime (AFC) framework. This framework consists of the following key issues: anti-money laundering and counter-terrorist financing (AML/CTF), anti-bribery and anti-corruption (ABC) and the avoidance of conflicts of interest.

In view of the policies outlined above, as well as in line with current practice, it should be noted that Basisbank uses a zero tolerance approach to intentional involvement in activities that are in some way or may be related to: money laundering, terrorism financing, bribery, fraud, corruption, insider trading and conflicts of interest.

The Supervisory Board and the Directorate explicitly require all employees (including any level employees, middle and senior level managers, permanent and temporary staff), consultants, outsource service providers and any other bank-related entity, to manage their own business fairly and in accordance with the law, adhere to the fundamental values of integrity, transparency and accountability and foster a culture of compliance where financial crimes will never be acceptable.

The Bank encourages the use of a whistleblowing system that allows both employees and customers and third parties to report violations and possible actions that are contrary to the Bank's stated policies, applicable laws, and standards of ethical conduct.

Possible incidents will be analyzed and investigated with the participation of the Audit Committee as soon as possible, applying the principles of confidentiality and personal data protection to all those involved in the investigation process.

Internal Audit, Financial Monitoring Service, Compliance and Operational Risk Management Functions Responsible for Financial Offenses.
Internal audit, Financial Monitoring Service, Compliance and Operational Risk Management Units are responsible for ensuring compliance with the AFC framework, making sure that the internal regulations and working principles are integrated into all of the Bank's activities.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENT OF BASISBANK GROUP

Consolidated and Separate Financial Statements and Independent Auditor's Report
BasisBank Group

31 December 2019

CONTENTS

Independent Auditor's Report

To the Shareholders and Management of JSC Basisbank

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of JSC Basisbank (the "Bank") and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2019;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Management Report (but does not include the consolidated and separate financial statements and our auditor's report thereon).

Our opinion on the consolidated and separate financial statements does not cover the Management Report.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing;
- the information given in the Management Report includes the information required by paragraph 8 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of management and those charged with governance for the consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group’s and the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s and the Bank’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Georgia LLC

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

20 March 2020 except for Reporting on other information, for which the date of our report is 10 June 2020
Tbilisi, Georgia

In thousands of Georgian Lari	Note	31 December 2019 Bank Separate	31 December 2019 Consolidated	31 December 2018 Bank Separate	31 December 2018 Consolidated
ASSETS					
Cash and cash equivalents	7	246,711	248,700	130,272	132,500
Mandatory cash balances with the NBG	8	177,989	177,989	170,443	170,443
Due from other banks	9	-	7,186	-	-
Investments in debt securities	10	202,269	202,569	175,690	175,690
Investments in equity securities	11	63	63	63	63
Investment in subsidiaries	44	13,097	-	10,096	-
Loans and advances to customers	12	984,994	984,994	900,803	900,803
Finance leases to customers	13	-	3,126	89	89
Insurance receivables	14	-	8,798	-	4,194
Investment properties	15	367	959	1,037	1,572
Current income tax prepayment	35	1,472	1,472	-	5
Other financial assets	16	1,157	1,204	720	783
Other assets	17	28,293	30,615	15,031	17,449
Premises and equipment	18	26,948	27,016	26,421	26,457
Intangible assets	18	2,033	2,199	1,364	1,382
Right of use assets	19	3,536	3,536	-	-
Non-current assets held for sale	20	291	486	4,016	4,360
TOTAL ASSETS		**1,689,220**	**1,700,912**	**1,436,045**	**1,435,790**
LIABILITIES					
Due to other banks	21	183,984	183,984	100,196	100,196
Customer accounts	22	770,050	768,870	734,262	727,421
Other borrowed funds	23	428,926	428,926	345,782	345,782
Lease liabilities	19	3,737	3,737	-	-
Insurance Liabilities	24	-	8,828	-	4,531
Other financial liabilities	25	2,151	2,557	1,822	1,822
Current income tax liability	35	-	-	1,374	1,647
Deferred income tax liability	35	1,848	1,855	1,664	1,671
Provisions for liabilities and charges	40	1,010	1,010	374	374
Other liabilities	26	2,638	3,097	2,410	2,812
Subordinated debt	27	14,410	14,410	-	-
TOTAL LIABILITIES		**1,408,754**	**1,417,274**	**1,187,884**	**1,186,256**
EQUITY					
Share capital	28	16,057	16,057	16,057	16,057
Share premium		74,923	74,923	74,923	74,923
Retained earnings		178,499	181,671	146,558	147,931
Share based payment reserve		1,822	1,822	1,339	1,339
Revaluation reserve for premises		9,165	9,165	9,284	9,284
TOTAL EQUITY		**280,466**	**283,638**	**248,161**	**249,534**
TOTAL LIABILITIES AND EQUITY		**1,689,220**	**1,700,912**	**1,436,045**	**1,435,790**

Approved for issue and signed on 20 March 2020.

David Kakabadze
Deputy General Director, Risk Management

Lia Aslanikashvili
Deputy General Director, Finances

		31 December 2019		31 December 2018	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Consolidated**	**Bank Separate**	**Consolidated**
Interest income calculated using the effective interest method	31	114,884	115,468	98,708	98,803
Interest expense	31	(56,394)	(56,031)	(43,509)	(43,085)
Net margin on interest and similar income		58,490	59,437	55,199	55,718
Credit loss allowance		(1,064)	(1,075)	(966)	(966)
Net margin on interest and similar income after credit loss allowance		57,426	58,362	54,233	54,752
Fee and commission income	32	8,473	8,399	6,695	6,630
Fee and commission expense	32	(3,368)	(3,368)	(2,490)	(2,490)
Net insurance revenue		-	3,132	-	1,883
Net insurance claims incurred		-	(284)	-	(281)
Finance income from leases		-	474	-	-
Gains less losses from trading in foreign currencies		4,644	4,644	4,467	4,467
Foreign exchange translation gains less losses		(372)	(372)	(283)	(283)
Provision for credit related commitments		(552)	(552)	206	206
Other operating income	33	1,924	1,938	3,712	3,739
Administrative and other operating expenses	34	(30,358)	(32,442)	(25,470)	(25,858)
Profit before tax		**37,817**	**39,931**	**41,070**	**42,765**
Income tax expense	35	(2,288)	(2,604)	(5,195)	(5,473)
PROFIT FOR THE YEAR		**35,529**	**37,327**	**35,875**	**37,292**
Other comprehensive income / (loss):					
Items that will not be reclassified to profit or loss:					
Revaluation of premises and equipment	18	-	-	1,052	1,052
Other comprehensive income / (loss) for the year		**-**	**-**	**1,052**	**1,052**
Total comprehensive income for the year		**35,529**	**37,327**	**36,927**	**38,344**

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for premises	Retained earnings	Total equity
Balance at 1 January 2018		**16,057**	**74,923**	**851**	**8,233**	**113,629**	**213,693**
Profit for the year		-	-	-	-	37,292	37,292
Other comprehensive income	30	-	-	-	1,052	-	1,052
Total comprehensive income for 2018		-	-	-	1,052	37,292	38,344
Share Based Payment accruals	29	-	-	488	-	-	488
Dividends declared	36	-	-	-	-	(2,989)	(2,989)
Balance at 31 December 2018		**16,057**	**74,923**	**1,339**	**9,284**	**147,931**	**249,536**
Profit for the year		-	-	-	-	37,327	37,327
Other comprehensive income	30	-	-	-	-	-	-
Total comprehensive income for 2019					-	37,327	37,327
Share Based Payment accruals	29	-	-	483	-	-	483
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(119)	140	21
Dividends declared	36	-	-	-	-	(3,729)	(3,729)
Balance at 31 December 2019		**16,057**	**74,923**	**1,822**	**9,165**	**181,669**	**283,638**

In thousands of Georgian Lari	**Note**	**Share capital**	**Share premium**	**Share based payments reserve**	**Revaluation reserve for premises**	**Retained earnings**	**Total equity**
Balance at 1 January 2018		**16,057**	**74,923**	**851**	**8,233**	**113,672**	**213,736**
Profit / (loss) for the year						35,875	35,875
Other comprehensive income	30	-	-	-	1,052	-	1,052
Total comprehensive income for 2018		-	-	-	1,052	35,875	36,927
Share issue	28	-	-	488	-	-	488
Dividends declared	36	-	-	-	-	(2,989)	(2,989)
Balance at 31 December 2018		**16,057**	**74,923**	**1,339**	**9,284**	**146,557**	**248,162**
Profit for the year					-	35,529	35,529
Other comprehensive income	30				-	-	-
Total comprehensive income for 2019		-	-	-	-	35,529	35,529
Share issue	28			483			483
Transfer of revaluation surplus on premises to retained earnings					(119)	140	21
Dividends declared	36					(3,729)	(3,729)
Balance at 31 December 2019		**16,057**	**74,923**	**1,822**	**9,165**	**178,497**	**280,466**

		31 December 2019		31 December 2018	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Conso-lidated**	**Bank Separate**	**Conso-lidated**
Cash flows from operating activities					
Interest income calculated using the effective interest method received		114,256	115,872	93,462	93,557
Interest paid calculated using the effective interest method		(55,536)	(55,173)	(42,129)	(41,705)
Fees and commissions received		8,473	8,399	6,695	6,630
Fees and commissions paid		(3,368)	(3,368)	(2,490)	(2,490)
Income received from trading in foreign currencies		4,644	4,644	4,467	4,467
Other operating income received		1,924	3,753	3,712	5,341
Finance income from leases		-	474	-	-
Proceeds from disposal of foreclosed properties		5,425	5,425	6,543	6,543
Staff costs paid		(17,275)	(18,912)	(13,818)	(14,144)
Administrative and other operating expenses paid		(10,414)	(10,774)	(8,963)	(9,044)
Income tax paid		(3,625)	(4,215)	(2,343)	(2,343)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**44,504**	**46,125**	**45,136**	**46,812**
Net (increase)/decrease in:					
- due from other banks		7,594	408	(20,780)	(20,778)
- loans and advances to customers		(41,859)	(44,996)	(134,031)	(134,375)
- Insurance receivables		-	(4,604)	-	(4,194)
- other financial assets		(41,198)	(41,680)	(26,374)	(26,437)
- other assets		(22,367)	(22,184)	(843)	(422)
Net increase/(decrease) in:					
- due to other banks		(9,081)	(9,081)	18,003	18,003
- customer accounts		2,211	2,212	40,110	37,767
- other financial liabilities		1,219	1,625	(6,003)	(6,003)
- insurance liabilities		-	4,297	-	4,530
- other liabilities		81,943	87,669	19,827	20,258
Net cash from/(used in) operating activities		**22,966**	**19,791**	**(64,955)**	**(64,839)**
Cash flows from investing activities					
Injection of cash in subsidiary		(3,000)	-	(2,000)	-
Proceeds from redemption of debt securities		14,542	14,542		
Acquisition of premises and equipment	18	(2,524)	(2,524)	(5,164)	(5,195)
Acquisition/disposal of investment properties	15	670	606	(637)	(494)
Acquisition of intangible assets	18	(907)	(907)	(742)	(760)
Proceeds from disposal of intangible assets	18	(92)	(92)	15	33
Net cash from/(used in) investing activities		**8,689**	**11,625**	**(8,528)**	**(6,416)**

		31 December 2019		31 December 2018	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Conso-lidated**	**Bank Separate**	**Conso-lidated**
Cash flows from financing activities					
Proceeds from other borrowed funds	23	290,934	290,934	262,622	262,622
Repayment of other borrowed funds	23	(217,290)	(217,290)	(195,944)	(195,944)
Proceeds from subordinated debt	27	14,383	14,383		
Dividends paid	36	(3,729)	(3,729)	(2,989)	(2,989)
Repayment of principal of lease liabilities		(1,168)	(1,168)	-	-
Net cash from/(used in) financing activities		**83,130**	**83,130**	**63,689**	**63,689**
Effect of exchange rate changes on cash and cash equivalents		**1,655**	**1,655**	**489**	**489**
Net increase/(decrease) in cash and cash equivalents		**116,440**	**116,201**	**(9,305)**	**(7,077)**
Cash and cash equivalents at the beginning of the year		130,272	132,499	139,577	139,577
Cash and cash equivalents at the end of the year	7	**246,712**	**248,700**	**130,272**	**132,500**

1 Introduction

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for JSC Basisbank (the “Bank”) and its subsidiaries (together the “Group”).

The Bank was incorporated and is domiciled in Georgia, registered at Krtsanisi_Mtatsminda court and registration number is 4/5-44, Tax code 203841833. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. As of 31 December 2019 and 2018 the Bank’s immediate and ultimate parent company was Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People’s Republic of China , and the Bank was ultimately controlled by Mr Mi Enhua.

	% of ownership interest held as at 31 December	
Shareholders	**2019**	**2018**
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.305%	92.305%
Mr. Mi Zaiqi	6.969%	6.969%
Other minority shareholders	0.726%	0.726%

Principal activity. The Group’s principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia (“NBG”) since *1993*. The Bank participates in the state deposit insurance scheme, which was introduced by Georgian law on “Deposits insurance system” dated 17 May 2017. The Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to GEL 5,000 per individual on occurrence of an insurance case - the liquidation, insolvency or bankruptcy process in accordance with the law of Georgia on Commercial Banks. The Bank has 24 (2018: 22) branches within Georgia. The Group had 550 employees at 31 December 2019 (2018: 483 employees), of which 510 are the bank’s employees and 40 of the subsidiaries (2018: 463 related to the Bank and 20 to the subsidiaries).

Registered address and place of business. The Bank’s registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia.

Presentation currency. These consolidated and separate financial statements are presented in Georgian lari ("GEL"), unless otherwise stated.

Subsidiaries. These consolidated financial statements include the following principal subsidiaries:

			Ownership % at 31 December	
Name	**Country of incorporation**	**Principal activities**	**2019**	**2018**
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
Hualing Insurance JSC	Georgia	Insurance	100%	100%
BHL Leasing JSC	Georgia	Leasing	100%	100%

Basis Asset Management – Holding LLC. The Company was incorporated and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 404417984. The Company is Limited Liability Company and was set up in accordance with Georgian regulations. The company’s principal business activity is holding property for lease. The registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia.

Hualing Insurance JSC. JSC “Hualing Insurance” was incorporated in December 2017 and is domiciled in Georgia. The Company is a joint stock company limited by shares and was set up in accordance with Georgian regulations. Registering body is Revenue Service of Georgia, Tax code 406232214. The Company’s principal business activity is insurance business operations within Georgia. The capital of Hualing Insurance as at 31 December 2019 was GEL 4.3 million (2018: GEL 4.3 million). The Company has a life and non-life licenses issued by the Insurance State Supervision Service of Georgia since 27 December 2017.

1 Introduction (continued)

The registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia.

BHL Leasing JSC.The Company was incorporated and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 406233534. The Company is Limited Liability Company and was set up in accordance with Georgian regulations. The registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia. The Bank establish leasing subsidiary in December 2018, the capital BHL Leasing as at 31 December 2019 was GEL 5 million (2018: GEL 2 million). The offers the customers financial leasing products in:

- Vehicle leasing
- Leasing of fixed assets (equipment, technic etc.)
- Preferential agricultural leasing (APMA)
- Leasing provided under the program “Produce in Georgia”
- Sale-and-leaseback

Abbreviations. A glossary of various abbreviations used in this document is included in Note 44.

2 Operating Environment of the Group

The Group’s operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Georgia. The consolidated and seprate financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

For the purpose of measurement of expected credit losses (“ECL”) the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 38 provides more information of how the Group incorporated forward-looking information in the ECL models.

3 Significant Accounting Policies

Basis of preparation. These consolidated and separate financial statements (hereafter the “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of premises and equipment, financial instruments categorised at fair value through profit or loss (“FVTPL”) and at fair value through other comprehensive income (“FVOCI”). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

3 Significant Accounting Policies (Continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Investments in subsidiaries. Investments in sunsidiaries are accounted for under the cost method in the separate financial statements of the Bank. When there is objective evidence that the carrying amount of the investment in subsidiary has impaired the impairment loss is calculated as a difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods can be reversed only if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

Insurance contracts. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance receivables. Insurance receivables are recognized based upon insurance policy terms and measured at cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the profit or loss.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

3 Significant Accounting Policies (Continued)

Financial instruments – key measurement terms. *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 42.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

3 Significant Accounting Policies (Continued)

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Group in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Group in performing the SPPI test for its financial assets.

Financial assets – reclassification*.* Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

3 Significant Accounting Policies (Continued)

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 38 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 38. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 38 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards and overdrafts, that may include both a loan and an undrawn commitment component, the Group applies simplified methodology to measure expected credit losses over the expected lifetime basis. For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 38.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currenty in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by GEL 1,371 thousand as of 31 December 2019 (31 December 2018: higher by GEL 1,577 thousand).

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

3 Significant Accounting Policies (Continued)

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Groups' loans and finance lease receivables include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Group or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Group. The cash flows are SPPI if such clauses merely reduce the Group's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Group's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

The instruments that failed the SPPI test are measured at FVTPL.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. Indicators that there is no reasonable expectation of recovery include days past due over 180 days and non-existence of collateral as of write off day. The bank will also write off those loans, which were collateralized, but the execution process on overdue liability is finalized and all existing collaterals have been sold on auctions or repossessed. The remaining unsecured liability will be written off, even if there is no overdue portion of the liability at the moment of write off. Based on expert recommendation, The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery, or the expected recovery is insignificant compared to the remaining liability.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

3 Significant Accounting Policies (Continued)

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, aggregation of two or more financial assets into one financial asset or any other type of consolidation of financial assets, financial assets with no predetermined cash flows are replaced with schedule or vice-versa, when the rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred.

Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to asses whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change considerably, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

3 Significant Accounting Policies (Continued)

Insurance contract liabilities. Insurance contract liabilities include the provision for unearned premiums, provisions for claims and unexpired risk, and payables to reinsurance companies. The provision for unearned premiums is recognized when contracts are entered into and premiums are charged, and is brought to statement of profit and loss as insurance income over the term of the contract. Claims provisions contain provisions for reported claims, provisions for incurred but not reported claims, provisions for costs of processing claims. Provisions for reported claims are determined by individual assessment. Actuarial methods are applied upon determining provisions for the costs of processing claims and for incurred but unreported claims. At each reporting date the carrying amount of unearned premium is calculated on active policies based on the insurance period and time until the expiration date of each insurance policy. The Group reviews its unexpired risk based on the historical performance of separate business lines to determine the overall change in expected claims. The differences between the unearned premium provision, claims provisions and the expected claims are recognized in the profit or loss by setting up a provision for premium deficiency.

Payables to reinsurance companies are recognised on an accruals basis and measured at amortised cost.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the NBG. Mandatory cash balances with the NBG are carried at AC and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

3 Significant Accounting Policies (Continued)

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 38 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value. The Group applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee.

3 Significant Accounting Policies (Continued)

At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell.

The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income.

Depreciation. Land and construction in progress are not depreciated. Depreciation of other items of premises is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives 50 years.

Premises and equipment. Premises and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

If there is no market based evidence of fair value, fair value is estimated using an income approach. Management has updated the carrying value of land and buildings measured in accordance with the revaluation model at the end of the reporting period using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity.

3 Significant Accounting Policies (Continued)

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation of other items of premises and equipment and right-of-use assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Office and computer equipment	5
Leasehold improvements	1 to 7
Motor vehicles	5
Right-of-use assets	1 to 10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software and *licences*. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable.

Capitalised costs include costs of the software development service made by external contractors. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 10 years.

Accounting for leases by the Group as a lessee from 1 January 2019. The Group leases office and premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

3 Significant Accounting Policies (Continued)

- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Accounting for operating leases by the Group as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Accounting for finance leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. he interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from lease is recorded as a separate line in profit or loss and other comprehensive income statement.

Credit loss allowance is recognised in accordance with the general ECL modelusing a simplified approach at lifetime ECL. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

3 Significant Accounting Policies (Continued)

Non-current assets classified as held for sale (or disposal groups). Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period.

Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at AC. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Other borrowed funds. Other borrowed funds include lending from international and local financial institutions that are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

The Group also enters into offsetting loans with its counterparty banks to exchange currencies. Such loans, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the loans are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3 Significant Accounting Policies (Continued)

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Tax deduction for lease payments is allocated to depreciation of right of use asset and interest cost on the lease liability. As a result, no temporary differences arise upon initial recognition of a new lease where the Group is a lessee.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

3 Significant Accounting Policies (Continued)

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account maintenance, account servicing fees, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Net insurance revenues. Net Insurance premiums written are recognized on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business incepted during the period, and exclude any sales-based taxes or duties.

Provision for unearned premiums. The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the profit or loss in the order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Net insurance claims. Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Sales and purchases of foreign currencies and currency conversion. The Group sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Group, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Group rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of Georgia, Georgian Lari ("GEL").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBG at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBG, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation.

3 Significant Accounting Policies (Continued)

At 31 December 2019, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.8677 (2018: USD 1 = GEL 2.6766), EUR 1 = GEL 3.2095 (2018: EUR 1 = GEL 3.0701).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Staff costs and related contributions. Wages, salaries, contributions to the Pension agency, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Share based payments. Under share-based compensation plan the Group receives services from management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled schemes is accounted for under share based payment reserve. Upon meeting vesting conditions, share based payment reserve attributable to the vested shares is transferred to share capital and share premium.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Group assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Group applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Write-off policy. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: loans being past due over 180 days, liquidation or bankruptcy proceedings, enforcement activities were completed and there is no collateral.

Fair value of derivatives and certain other instruments. Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 42.

Finance leases and derecognition of financial assets. In assessing transfers of financial assets and classification of leases of non-financial assets to third parties, management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and leasedassets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

3 Significant Accounting Policies (Continued)

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for

similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 44.

Accounting for subordinated loans from Shareholder. The shareholder ("Xinjiang Hualing Industry & Trade (Group) Co Ltd') provided subordinated loans to the gourp of USD 4,900 thousand, bearing a fixed interest rate of 7% per annum payable annually until maturity on 2026.

The loan was originally recognised and is subsequently carried on the statement of financial position at amortised contractual value. Terms and conditions of related party balances are disclosed in Note 44.

3 Significant Accounting Policies (Continued)

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in accordance with contractual maturity. Refer to Note 38 for analysis of financial instruments by their maturity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 38.

	31 December 2019			**31 December 2018**		
	Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
In thousands of Geogrian Lari	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS						
Cash and cash equivalents	248,700	-	248,700	132,500	-	132,500
Mandatory cash balances with the NBG	177,989	-	177,989	170,443	-	170,443
Due from other banks	7,186	-	7,186	-	-	-
Investments in debt securities	85,901	116,668	202,569	85,727	89,963	175,690
Investments in equity securities	-	63	63	-	63	63
Loans and advances to customers	331,298	653,696	984,994	305,268	595,535	900,803
Finance leases to customers	149	2,977	3,126	89	-	89
Insurance receivables	8,798	-	8,798	4,194		4,194
Investment properties	-	959	959	-	1,572	1,572
Current income tax prepayment	1,472	-	1,472	5	-	5
Other financial assets	1,061	143	1,204	649	134	783
Other assets	1,332	29,283	30,615	1,339	16,110	17,449
Premises and equipment	-	27,016	27,016	-	26,457	26,457
Intangible assets	-	2,199	2,199	-	1,382	1,382
Right of use assets	-	3,536	3,536			
Non-current assets held for sale	486	-	486	4,249	111	4,360
TOTAL ASSETS	**864,372**	**836,540**	**1,700,912**	**704,463**	**731,327**	**1,435,790**
LIABILITIES						
Due to other banks	183,984	-	183,984	100,196	-	100,196
Customer accounts	717,211	51,660	768,871	665,093	62,328	727,421
Other borrowed funds	235,880	193,046	428,926	194,943	150,839	345,782
Lease Liabilities	3,737	-	3,737	-	-	-
Insurance Liabilities	8,828	-	8,828	4,531	-	4,531
Other financial liabilities	2,557	-	2,557	1,822	-	1,822
Current income tax liability	-	-	-	1,647	-	1,647
Deferred income tax liability	-	1,854	1,854	-	1,671	1,671
Provisions for liabilities and charges	1,010		1,010	374	-	374
Other liabilities	3,097	-	3,097	2,812	-	2,812
Subordinated debt	-	14,410	14,410	-	-	-
TOTAL LIABILITIES	**1,156,304**	**260,970**	**1,417,274**	**971,418**	**214,838**	**1,186,256**

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 38. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The Group used supportable forward looking information for measurement of ECL, primarily an outcome of macro-economic forecasting model which is published by the National Bank of Georgia. Three scenarios are modelled: Baseline, Upside and Downside. According to NBG recommendation, the Group assigns 50% weight to Baseline Scenario, 25% to Upside and 25% to Downside scenarios. The most significant forward looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2019:

Variable	Scenario	Assigned weight	Assumption for: 2020	2021	2022
CPI Inflation	Base	50%	4.00%	2.50%	3.00%
	Upside	25%	3.50%	3.00%	3.00%
	Downside	25%	5.00%	4.00%	3.00%
Real GDP Growth rate	Base	50%	4.50%	5.00%	5.00%
	Upside	25%	5.50%	5.50%	5.00%
	Downside	25%	2.50%	4.00%	4.50%
Nominal Effective Exchange Rate NEER (1995=100)	Base	50%	260.1	264.8	269.5
	Upside	25%	271.1	276.5	276.5
	Downside	25%	233	240	247.2
Real Estate price index in GEL (YoY	Base	50%	104	102.5	103
	Upside	25%	103.5	103	103
	Downside	25%	97	103	103
GEL/USD Nominal Exchange Rate (YoY)	Base	50%	97	97	97
	Upside	25%	90	97	100
	Downside	25%	115	95	95
Country Sovereign risk premium in%	Base	50%	2.5	2.5	2.5
	Upside	25%	2.5	2.5	2.5
	Downside	25%	4	2.5	2.5

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

The assumptions and assigned weights were as follows at 31 December 2018:

Variable	Scenario	Assigned weight	Assumption for: 2019	2020	2021
CPI Inflation	Base	50%	2.90%	3.00%	3.00%
	Upside	25%	3.40%	3.20%	3.00%
	Downside	25%	4.50%	4.00%	3.00%
Real GDP Growth rate	Base	50%	5.00%	5.00%	5.00%
	Upside	25%	6.00%	5.50%	5.00%
	Downside	25%	2.00%	2.50%	3.50%
Nominal Effective Exchange Rate NEER (2010=100)	Base	50%	125.45	125.45	125.45
	Upside	25%	132.99	136.98	136.98
	Downside	25%	116.65	110.82	113.06
Real Estate price index in GEL (2018=100)	Base	50%	102.90	103.00	103.00
	Upside	25%	103.40	103.20	103.00
	Downside	25%	95.00	100.00	105.00
Country Sovereign risk premium in%	50%	2.60	2.60	2.60	50%
	25%	2.60	2.60	2.60	25%
	25%	4.10	3.60	2.60	25%

A change in the weight assigned to base forward looking macro-economic set of assumptions by 10% towards the immediate downside level assumptions would result in an increase in ECL by GEL 138 thousand at 31 December 2019 (31 December 2018: by GEL 63 thousand). A corresponding change towards the upside assumptions would result in a decrease in ECL by GEL 6 thousand at 31 December 2019 (31 December 2018: by GEL 34 thousand).

A 10% increase in PD estimates would result in an increase in total expected credit loss allowances of GEL 311 thousand at 31 December 2019 (31 December 2018: GEL 394 thousand). A 10% decrease in PD estimates would result in an decrease in total expected credit loss allowances of GEL 307 thousand at 31 December 2019 (31 December 2018: GEL 418 thousand).

A 10% increase in LGD estimates would result in an increase in total expected credit loss allowances of GEL 863 thousand at 31 December 2019 (31 December 2018: GEL 565 thousand). A 10% decrease in LGD estimates would result in a decrease in total expected credit loss allowances of GEL 716 thousand at 31 December 2019 (31 December 2018: GEL 565 thousand).

The Bank applies LGD floor to estimated LGD value. A 10% increase or decrease in LGD floor value would result in an increase or decrease in total expected credit loss allowances of GEL 258 thousand at 31 December 2019 (31 December 2018: increase or decrease by GEL 300 thousand).

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16, Leases*.* The Group has adopted IFRS 16 retrospectively from 1 January 2019 with certain simplifications and exemptions, and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions of IFRS 16. The reclassifications and the adjustments arising from the new leasing requirements are therefore recognised as an adjustment to the opening balance of retained earnings as of 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

5 Adoption of New and Revised Standards and Interpretations (Continued)

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

For leases previously classified as finance leases the Group recognised the carrying amount of the leased asset and lease liability as the carrying amount of the right-of-use asset and the lease liability at the date of initial application, respectively. The measurement principles of IFRS 16 are only applied after 1 January 2019.

The following table presents reconciliation of the operating lease commitments reported as of 31 December 2018 (Note 40) and lease liability recognised at 1 January 2019:

In thousands of Georgian Lari	**1 January 2019**
Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018 (Note 40)	**-**
Finance lease liabilities recognised as at 31 December 2018	-
Future lease payments that are a result of a different treatment of extension and termination options	327
Future variable lease payments that are based on an index or a rate	2,602
Effect of discounting to present value	(388)
Lease liability recognised as at 1 January 2019	**2,541**
Right-of-use asset recognised as at 1 January 2019	**2,541**

* Non-cancellable leases include those cancellable only: (a) upon the occurrence of some remote contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

In thousands of Georgian Lari	**Notes**	**Impact of adopting IFRS 16**
Increase in right-of-use assets	18	2,541
Increase in lease liabilities	23	2,541

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

In thousands of Georgian Lari	**31 December 2019**	**1 January 2019**
Properties for own use	3,535	2,541
Total right-of-use assets	3,535	2,541

5 Adoption of New and Revised Standards and Interpretations (Continued)

Amendment to IAS 12, Income Taxes, included in the Annual Improvements to IFRSs 2015-2017 cycle. The Group adopted the changes to IAS 12, *Income Taxes*, with effect from 1 January 2019. As a result of these amendments, the tax benefits of distributions on perpetual instruments that are classified as equity under IFRS but are considered as liabilities for tax purposes are no longer recognised directly in equity but in profit or loss because these tax benefits are linked more directly to past transactions or events that generated distributable profits than to the distributions to owners. The group has no tax benefits as at 31 December 2019 (2018: zero).

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk.

6 New Accounting Pronouncements (Continued)

If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements. Potential impact on insurance products embedded in loans and similar instruments is also under consideration.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

7 Cash and Cash Equivalents

In thousands of Georgian Lari	2019	2018
Cash on hand	37,439	32,099
Cash balances with the NBG (other than mandatory reserve deposits)	41,991	31,812
Correspondent accounts and overnight placements with other banks	56,127	68,699
Placements with other banks with original maturities of less than three months	113,455	-
Less credit loss allowance	(312)	(110)
Total cash and cash equivalents	**248,700**	**132,500**

The cash and cash equivalent balances under the bank's separate financial statement as at 31 December 2019 amount GEL 246,711 thousand (2018: GEL 130,272 thousand). Subsidiaries attributed GEL 1,989 thousand to the group's balance at 31 December 2019.

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019. Refer to Note 38 for the description of the Group's credit risk grading system.

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspon-dent accounts and overnight placements	Placements with other banks, with maturity of less than three months	Total
- Excellent	-	48,439	113,339	161,778
- Good	41,859	7,089	-	48,948
- Satisfactory	-	188	-	188
- Special monitoring	-	90	-	90
- Unrated	-	258	-	258
Total cash and cash equivalents, excluding cash on hand	**41,859**	**56,064**	**113,339**	**211,262**

The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018 is as follows:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspon-dent accounts and overnight placements	Placements with other banks, with maturity of less than three months	Total
- Excellent	31,750	63,528	-	95,278
- Good	-	8	-	8
- Satisfactory	-	2,946	-	2,946
- Special monitoring	-	59	-	59
- Unrated	-	2,109	-	2,109
Total cash and cash equivalents, excluding cash on hand	**31,750**	**68,650**	**-**	**100,400**

As at 31 December 2019 there were four placement with unrated Georgian banks with aggregate amount of GEL 258 thousand, (2018: two placement with unrated Georgian banks with aggregate amount of GEL 2,109 thousand.)

7 Cash and Cash Equivalents (Continued)

Investing and financing transactions that did not require the use of cash and cash equivalents, and were excluded from the statement of cash flows are as follows:

In thousands of Georgian lari	**2019**
Non-cash investing activities	
Recognition of right of use assets against lease liabilities	3,535
Non-cash investing activities	**3,535**
Non-cash financing activities	
Recognition of finance lease receivables and liabilities	3,737
Non-cash financing activities	**3,737**

At 31 December 2019 the Group had two counterparty banks (2018: one banks) with aggregated cash and cash equivalent balances above 10% of equity. The total aggregate amount of these balances was GEL 146,536 thousand (2018: GEL 60,925 thousand) or 58% of the cash and cash equivalents (2018: 46%).

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 38 for the ECL measurement approach.

Interest rate analysis of cash and cash equivalents is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

The cash balances with the NBG (other than mandatory reserve deposits) represent balances with the NBG related to settlement activity and were available for withdrawal at year end.

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, whose availability is restricted and the amount of which depends on the level of funds attracted by the financial institutions.

In 2018, Fitch Ratings re-affirmed government of Georgia's short-term sovereign credit rating of "B" and long-term credit rating of "BB-".For the purpose of ECL measurement Mandatory cash balances with the NBG are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for Mandatory cash balances with the NBG. Refer to Note 38 for the ECL measurement approach.

9 Due from Other Banks

In thousands of Georgian Lari	**2019**
Placements with other banks with original maturities of more than three months	7,186
Less credit loss allowance	-
Total due from other banks	**7,186**

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 38 for the ECL measurement approach.

9 Due from other Banks (Continued)

At 31 December 2019 the Group had balances with two counterparty banks (2018: nil banks) with aggregated amounts above GEL 3,000 thousand. The total aggregate amount of these deposits was GEL 6,199 thousand (2018: nil) or 86% of the total amount due from other banks (2018:nil).

Refer to Note 42 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

10 Investments in Debt Securities

In thousands of Georgian Lari	**2019**	**2018**
Debt securities at AC	202,569	175,690
Total investments in debt securities	**202,569**	**175,690**

The table below discloses investments in debt securities at 31 December 2019 by measurement categories and classes:

In thousands of Georgian Lari	**Debt securities at AC**	**Total**
Georgian government treasury bonds	145,393	145,393
Georgian government treasury bills	45,671	45,671
Corporate bonds	12,013	12,013
Total investments in debt securities at 31 December 2018 (gross carrying value)	**203,077**	**203,077**
Credit loss allowance	(508)	(508)
Total investments in debt securities at 31 December 2019 (carrying value)	**202,569**	**202,569**

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

In thousands of Georgian Lari	**Debt securities at AC**	**Total**
Georgian government treasury bonds	106,314	106,314
Georgian government treasury bills	66,969	66,969
NBG certificates of deposit	2,732	2,732
Total investments in debt securities at 31 December 2018 (gross carrying value)	176,015	176,015
Credit loss allowance	(325)	(325)
Total investments in debt securities at 31 December 2018 (carrying value)	**175,690**	**175,690**

10 Investments in Debt Securities (Continued)

a) Investments in debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2019 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 38 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2019 below also represents the Group's maximum exposure to credit risk on these assets:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**
Georgian government treasury bonds		
- Good	145,393	145,393
Gross carrying amount	**145,393**	**145,393**
Credit loss allowance	(233)	(233)
Carrying amount	**145,160**	**145,160**
Georgian government treasury bills		
- Good	45,671	45,671
Gross carrying amount	**45,671**	**45,671**
Credit loss allowance	(48)	(48)
Carrying amount	**45,623**	**45,623**
Corporate bonds		
- Good	7,934	7,934
- Satisfactory	4,079	4,079
Gross carrying amount	**12,013**	**12,013**
Credit loss allowance	(227)	(227)
Carrying amount	**11,785**	**11,785**
Total investments in debt securities measured at AC (gross carrying amount)	**203,077**	**203,079**
Credit loss allowance	(508)	(508)
Total investments in debt securities measured at AC (carrying amount	**202,569**	**202,571**

10 Investments in Debt Securities (Continued)

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2018.

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Total
Georgian government treasury bonds		
- Good	106,314	106,314
Gross carrying amount	**106,314**	**106,314**
Credit loss allowance	(205)	(205)
Carrying amount	**106,109**	**106,109**
Georgian government treasury bills		
- Good	66,969	66,969
Gross carrying amount	**66,969**	**66,969**
Credit loss allowance	(119)	(119)
Carrying amount	**66,850**	**66,850**
NBG certificates of deposit		
- Good	2,732	2,732
Gross carrying amount	**2,732**	**2,732**
Credit loss allowance	(1)	(1)
Carrying amount	**2,731**	**2,731**
Total investments in debt securities measured at AC (gross carrying amount)	**176,015**	**176,015**
Credit loss allowance	(325)	(325)
Total investments in debt securities measured at AC (carrying amount	**175,690**	**175,690**

The debt securities at AC as at 31 December 2019 are not collateralised (2018: not collateralised).

At 31 December 2019 debt securities at AC with a carrying value of GEL 99,855 thousand have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds (2018: GEL 40,427 thousand). Refer to Notes 21 and 23. The counterparty is not allowed to sell further or repledge the investments.

10 Investments in Debt Securities (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount for debt securities at AC between the beginning and the end of the annual period:

	Credit loss allowance		Gross carrying amount	
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Total**
Georgian government treasury bonds				
At 31 December 2018	**(205)**	**(205)**	**106,314**	**106,314**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(124)	(124)	64,584	64,584
Derecognised during the period	49	49	(25,385)	(25,385)
Changes in accrued interest	47	47	(418)	(418)
Other movements			298	298
Total movements with impact on credit loss allowance charge for the period	(28)	(28)	39,079	39,079
At 31 December 2019	**(233)**	**(233)**	**145,393**	**145,393**
Georgian government treasury bonds				
At 1 January 2018	**(169)**	**(169)**	**87,748**	**87,748**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(113)	(113)	58,004	58,004
Derecognised during the period	77	77	(39,566)	(39,566)
Changes in accrued interest	-	-	128	128
Other movements				
Total movements with impact on credit loss allowance charge for the period	(36)	(36)	18,566	18,566
At 31 December 2018	**(205)**	**(205)**	**106,314**	**106,314**

10 Investments in Debt Securities (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of Georgian Government treasury bills carried at AC were as follows:

In thousands of Georgian Lari	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Total
Georgian government treasury bills				
At 31 December 2018	**(119)**	**(119)**	**66,969**	**66,969**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(67)	(67)	58,596	58,596
Derecognised during the period	144	144	(83,967)	(83,967)
Changes in accrued interest	(6)	(6)	4,057	4,057
Other movements			17	17
Total movements with impact on credit loss allowance charge for the period	**71**	**71**	**(21,297)**	**(21,297)**
At 31 December 2019	**(48)**	**(48)**	**45,671**	**45,671**
Georgian government treasury bills				
At 1 January 2018	**(89)**	**(89)**	**56,156**	**56,156**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(119)	(119)	86,692	86,692
Derecognised during the period	89	89	(80,841)	(80,841)
Changes in accrued interest	-	-	4,962	4,962
Total movements with impact on credit loss allowance charge for the period	**(30)**	**(30)**	**10,813**	**10,813**
At 31 December 2018	**(119)**	**(119)**	**66,969**	**66,969**

10 Investments in Debt Securities (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of NBG certificated of deposit carried at AC were as follows.

In thousands of Georgian Lari	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Total
NBG certificated of deposit				
At 31 December 2018	**(1)**	**(1)**	**2,732**	**2,732**
Movements with impact on credit loss allowance charge for the period:				
Derecognised during the period	1	1	(2,778)	(2,778)
Changes in accrued interest	-		46	46
Total movements with impact on credit loss allowance charge for the period	**1**	**1**	**(2,732)**	**(2,732)**
At 31 December 2019	-	-	-	-
NBG certificated of deposit				
At 1 January 2018	-	-	-	-
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(1)	(1)	6,834	6,834
Derecognised during the period	-	-	(4,177)	(4,177)
Changes in accrued interest	-	-	75	75
Total movements with impact on credit loss allowance charge for the period	(1)	(1)	2,732	2,732
At 31 December 2018	**(1)**	**(1)**	**2,732**	**2,732**

10 Investments in Debt Securities (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of corporate bonds carried at AC were as follows.

In thousands of Georgian Lari	**Credit loss allowance** Stage 1 (12-months ECL)	**Credit loss allowance** Total	**Gross carrying amount** Stage 1 (12-months ECL)	**Gross carrying amount** Total
Corporate bonds				
At 31 December 2018	-	-	-	-
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(215)	(215)	11,385	11,385
Derecognised during the period		-		-
Changes in accrued interest	(5)	(5)	277	277
Total movements with impact on credit loss allowance charge for the period	(220)	(220)	11,663	11,663
Movements without impact on credit loss allowance charge for the period:				
FX and other movements	(7)	(7)	350	350
At 31 December 2019	**(227)**	**(227)**	**12,013**	**12,013**

11 Investments in Equity Securities

In thousands of Georgian Lari	**2019**	**2018**
Equity securities at FVOCI	63	63
Total investments in equity securities	**63**	**63**

The tables below discloses investments in equity securities at 31 December 2019 and 31 December 2018 by measurement categories and classes:

In thousands of Georgian Lari	**Equity securities at FVOCI**	**Total**
Corporate shares	*63*	*63*
Total investments in equity securities at 31 December 2019	*63*	*63*

In thousands of Georgian Lari	**Equity securities at FVOCI**	**Total**
Corporate shares	*63*	*63*
Total investments in equity securities at 31 December 2018	*63*	*63*

(a) Investments in equity securities at FVOCI

The Group designated investments disclosed in the following table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale and there are no plans to dispose of these investments in the short or medium term. This designation is irrevocable.

In thousands of Georgian Lari	**Fair value at 31 December 2019**	**Fair value at 31 December 2018**
Georgian stock market	6	6
United Clearing center	57	57
Total investments in equity securities at FVOCI	63	63

At 31 December 2019 securities at FVOCI include equity securities with a carrying value of GEL 63 thousand which are not publicly traded (2018: GEL 63 thousand). Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted operating cash flows of the investee. Refer to Note 42.

12 Loans and Advances to Customers

In thousands of Georgian Lari	31 December 2019	31 December 2018
Gross carrying amount of loans and advances to customers at AC	1,000,429	916,451
Less credit loss allowance	(15,435)	(15,648)
Total carrying amount of loans and advances to customers at AC	**984,994**	**900,803**

As at 31 December 2019 the Group identified 100% of portfolio of loans and advances to customers to meet the SPPI requirement for AC classification under IFRS 9.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2019 and 31 December 2018 are disclosed in the table below:

	31 December 2019			31 December 2018		
In thousands of Georgian Lari	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Loans to Legal entities	796,951	(12,465)	784,486	694,896	(10,977)	683,919
Standard lending	796,951	(12,465)	784,486	694,896	(10,977)	683,919
Loans to individuals	**203,478**	**(2,970)**	**200,508**	**221,555**	**(4,670)**	**216,885**
Mortgage loans	137,574	(1,351)	136,223	137,685	(2,705)	134,980
Consumer loans	61,540	(1,368)	60,172	79,004	(1,758)	77,246
Credit cards	4,363	(251)	4,112	4,866	(207)	4,659
Total loans and advances to customers at AC	**1,000,429**	**(15,435)**	**984,994**	**916,451**	**(15,647)**	**900,804**

More detailed explanation of classes of standard loans to legal entities is provided below:

- Loans issued to large commercial entities under the standard terms, mainly for working capital financing and investment projects; and
- Loans to SME – loans issued to small and medium-sized enterprises, where the Group defines such as loans issued to a client up to 1 million USD;

12 Loans and Advances to Customers (Continued)

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods:

	Credit loss allowance				**Gross carrying amount**			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending								
At 31 December 2018	**2,089**	**308**	**8,580**	**10,977**	**605,721**	**59,627**	**29,549**	**694,897**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(685)	1,528	-	843	(201,455)	201,455	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(766)	(524)	7,647	6,357	(10,438)	(41,437)	51,875	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	432	(500)	(452)	(520)	84,860	(79,417)	(5,443)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	162	(2,776)	(2,614)	-	17,252	(17,252)	-
New originated or purchased	2,514			2,514	647,560			647,560
Payments	(1,779)	(762)	(3,558)	(6,099)	(676,410)	(96,831)	(24,153)	(797,394)
Other movements	(110)	159	285	334	189,551	27,322	1,747	218,620
Total movements with impact on credit loss allowance charge for the period	**(394)**	**63**	**1,146**	**815**	**33,668**	**28,344**	**6,774**	**68,786**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	(2)	(57)	(59)	-	(2)	(57)	(59)
Foreign exchange gains and losses and other movements	75	25	632	732	28,422	1,757	3,148	33,327
At 31 December 2019	**1,770**	**394**	**10,301**	**12,465**	**667,811**	**89,726**	**39,414**	**796,951**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending	**1,796**	**363**	**10,109**	**12,268**	**514,783**	**61,996**	**40,053**	**616,832**
At 1 January 2018								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(70)	130	-	60	(27,549)	27,549	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(33)	(30)	1,131	1,068	(8,881)	(817)	9,698	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	18	(26)	(2)	(10)	6,309	(6,286)	(23)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	1	(26)	(25)	-	251	(251)	-
New originated or purchased	1,307	-	-	1,307	447,514	-	-	447,514
Payments	(1,016)	(120)	(3,104)	(4,240)	(345,531)	(24,861)	(20,400)	(390,792)
Other movements	67	(17)	485	535	3,433	655	132	4,220
Total movements with impact on credit loss allowance charge for the period	**273**	**(62)**	**(1,516)**	**(1,305)**	**75,295**	**(3,509)**	**(10,844)**	**60,942**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(209)	(209)	-	-	(209)	(209)
Foreign exchange gains and losses and other movements	20	7	196	223	15,643	1,140	549	17,332
At 31 December 2018	**2,089**	**308**	**8,580**	**10,977**	**605,721**	**59,627**	**29,549**	**694,897**

12 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Mortgage loans								
At 31 December 2018	**217**	**640**	**1,847**	**2,704**	**92,785**	**37,980**	**6,920**	**137,685**
Changes in Assumptions	564	(564)	-	-	34,221	(34,221)	-	-
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(119)	181	-	62	(14,242)	14,242	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(7)	(134)	2,565	2,424	(2,389)	(9,857)	12,246	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	41	(79)	(212)	(250)	7,688	(5,983)	(1,705)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	26	(688)	(662)	-	3,037	(3,037)	-
New originated or purchased	227			227	61,549			61,549
Payments	(301)	(20)	(1,232)	(1,553)	(62,294)	(1,822)	(5,319)	(69,435)
Other movements	(416)	(30)	(1,215)	(1,661)	2,420	208	480	3,108
Total movements with impact on credit loss allowance charge for the period	**(11)**	**(620)**	**(782)**	**(1,413)**	**26,953**	**(34,396)**	**2,665**	**(4,778)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(92)	(92)	-	-	(92)	(92)
Foreign exchange gains and losses and other movements	23	3	126	152	3,938	251	570	4,759
At 31 December 2019	**229**	**23**	**1,099**	**1,351**	**123,676**	**3,835**	**10,063**	**137,574**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Mortgage loans								
At 1 January 2018	**277**	**604**	**1,145**	**2,026**	**66,051**	**30,490**	**5,656**	**102,197**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(62)	387	-	325	(23,853)	23,853	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(121)	(27)	1,374	1,226	(3,055)	(1,673)	4,728	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	15	(71)	(100)	(156)	4,378	(3,929)	(449)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	5	(128)	(123)	-	587	(587)	-
New originated or purchased	110	-	-	110	74,559	-	-	74,559
Payments	(88)	(214)	(424)	(726)	(27,978)	(11,816)	(2,430)	(42,224)
Other movements	82	(51)	68	99	183	57	23	263
Total movements with impact on credit loss allowance charge for the period	**(64)**	**29**	**790**	**755**	**24,234**	**7,079**	**1,285**	**32,598**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(109)	(109)	-	-	(109)	(109)
Foreign exchange gains and losses and other movements	4	7	21	32	2,500	411	88	2,999
At 31 December 2018	**217**	**640**	**1,847**	**2,704**	**92,785**	**37,980**	**6,920**	**137,685**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 31 December 2018	**398**	**151**	**1,210**	**1,759**	**63,512**	**11,532**	**3,960**	**79,004**
Changes in Assumptions	116	(116)	-	-	8,431	(8,431)	-	-
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(68)	107	-	39	(9,024)	9,024	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5)	(73)	1,802	1,724	(640)	(5,746)	6,386	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	16	(26)	194	184	2,312	(2,006)	(306)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	8	(197)	(189)	-	846	(846)	-
New originated or purchased	249	-	-	249	45,284	-	-	45,284
Payments	(338)	(30)	(1,018)	(1,386)	(58,714)	(2,636)	(4,884)	(66,234)
Other movements	(24)	8	42	26	2,942	578	399	3,919
Total movements with impact on credit loss allowance charge for the period	**(54)**	**(122)**	**823**	**647**	**(9,409)**	**(8,371)**	**749**	**(17,031)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	(6)	(1,049)	(1,055)	-	(6)	(1,049)	(1,055)
Foreign exchange gains and losses and other movements	2	1	14	17	406	116	100	622
At 31 December 2019	**346**	**24**	**998**	**1,368**	**54,509**	**3,271**	**3,760**	**61,540**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 1 January 2018	**332**	**25**	**717**	**1,074**	**45,709**	**1,786**	**2,647**	**50,142**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(89)	130	-	41	(10,964)	10,964	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(282)	(59)	1,287	946	(3,074)	(431)	3,505	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	(1)	(2)	(3)	110	(66)	(44)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	1	(19)	(18)	-	125	(125)	-
New originated or purchased	414	-	-	414	69,005	-	-	69,005
Payments	(199)	(11)	(384)	(594)	(37,554)	(917)	(1,593)	(40,064)
Other movements	221	66	71	358	6	55	14	75
Total movements with impact on credit loss allowance charge for the period	**65**	**126**	**953**	**1,144**	**17,529**	**9,730**	**1,757**	**29,016**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(464)	(464)	-	-	(464)	(464)
Foreign exchange gains and losses and other movements	1	-	4	5	274	16	20	310
At 31 December 2018	**398**	**151**	**1,210**	**1,759**	**63,512**	**11,532**	**3,960**	**79,004**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	**Credit loss allowance**				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit cards								
At 31 December 2018	**-**	**40**	**167**	**207**	**-**	**4,629**	**237**	**4,866**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(34)	34	-	-	(2,825)	2,825	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(192)	(8)	459	259	(538)	(631)	1,169	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	65	65	3	(1)	(2)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	7	(264)	(257)	-	591	(591)	-
New originated or purchased	226			226	3,357			3,357
Payments	-	(89)	(170)	(259)	(2)	(7,622)	(468)	(8,092)
Other movements	-	54	172	226	1	3,684	202	3,887
Total movements with impact on credit loss allowance charge for the period	**-**	**(2)**	**262**	**260**	**(4)**	**(1,154)**	**310**	**(848)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(218)	(218)	-	-	(218)	(218)
Foreign exchange gains and losses and other movements	-	-	2	2	4	557	2	563
At 31 December 2019	**-**	**38**	**213**	**251**	**-**	**4,032**	**331**	**4,363**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Credit cards								
At 1 January 2018	**-**	**47**	**71**	**118**	**-**	**4,879**	**201**	**5,080**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	328	328	-	(384)	384	-
Payments	-	(22)	(33)	(55)	-	(2,199)	(92)	(2,291)
Other movements*	-	15	58	73	-	2,327	1	2,328
Total movements with impact on credit loss allowance charge for the period	**-**	**(7)**	**353**	**346**	**-**	**(256)**	**293**	**37**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(257)	(257)	-	-	(257)	(257)
Foreign exchange gains and losses and other movements	-	-	-	-	-	6	-	6
At 31 December 2018	**-**	**40**	**167**	**207**	**-**	**4,629**	**237**	**4,866**

*Net decrease in credit cards exposures during the period is disclosed in payments and net increase is in other movements.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 38. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Write-offs of allowances related to assets that were written off during the period.

12 Loans and Advances to Customers (Continued)

The following tables contain analyses of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending				
- Excellent	24,071	-	-	24,071
- Good	643,740	-	-	643,740
- Satisfactory	-	89,081	-	89,081
- Special monitoring	-	645	-	645
- Default	-	-	39,414	39,414
Gross carrying amount	**667,811**	**89,726**	**39,414**	**796,951**
Credit loss allowance	(1,770)	(394)	(10,301)	(12,465)
Carrying amount	**666,041**	**89,332**	**29,113**	**784,486**

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2018:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending				
- Excellent	58,718	-	-	58,718
- Good	547,001	-	-	547,001
- Satisfactory	-	57,456	-	57,456
- Special monitoring	-	2,171	-	2,171
- Default	-	-	29,549	29,549
Gross carrying amount	**605,719**	**59,627**	**29,549**	**694,895**
Credit loss allowance	(2,088)	(309)	(8,581)	(10,977)
Carrying amount	**603,631**	**59,318**	**20,968**	**683,917**

12 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2019:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Mortgage loans				
- Excellent	592	-	-	592
- Good	123,084	-	-	123,084
- Satisfactory	-	3,252	-	3,252
- Special monitoring	-	584	-	584
- Default	-	-	10,063	10,063
Gross carrying amount	**123,676**	**3,835**	**10,063**	**137,574**
Credit loss allowance	(229)	(23)	(1,099)	(1,351)
Carrying amount	**123,447**	**3,812**	**8,964**	**136,223**
Consumer loans				
- Excellent	1,669	-	-	1,669
- Good	52,840	-	-	52,840
- Satisfactory	-	2,578	-	2,578
- Special monitoring	-	693	-	693
- Default	-	-	3,760	3,760
Gross carrying amount	**54,509**	**3,271**	**3,760**	**61,540**
Credit loss allowance	(346)	(24)	(998)	(1,368)
Carrying amount	**54,163**	**3,247**	**2,762**	**60,172**
Credit cards				
- Excellent	-	-	-	-
- Good	-	-	-	-
- Satisfactory	-	4,032	-	4,032
- Special monitoring	-	-	-	-
- Default	-	-	331	331
Gross carrying amount	**-**	**4,032**	**331**	**4,363**
Credit loss allowance	-	(38)	(213)	(251)
Carrying amount	**-**	**3,994**	**118**	**4,112**

12 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2018:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Mortgage loans				
- Excellent	1,743	-	-	1,743
- Good	91,041	-	-	91,041
- Satisfactory	-	36,812	-	36,812
- Special monitoring	-	1,169	-	1,169
- Default	-	-	6,920	6,920
Gross carrying amount	**92,784**	**37,981**	**6,920**	**137,685**
Credit loss allowance	(218)	(640)	(1,847)	(2,705)
Carrying amount	**92,566**	**37,341**	**5,073**	**134,980**
Consumer loans				
- Excellent	4,437	-	-	4,437
- Good	59,075	-	-	59,075
- Satisfactory	-	10,827	-	10,827
- Special monitoring	-	705	-	705
- Default	-	-	3,960	3,960
Gross carrying amount	**63,512**	**11,532**	**3,960**	**79,004**
Credit loss allowance	(398)	(151)	(1,209)	(1,758)
Carrying amount	**63,114**	**11,381**	**2,751**	**77,246**
Credit cards				
- Satisfactory	-	4,629	-	4,629
- Default	-	-	237	237
Gross carrying amount	**-**	**4,629**	**237**	**4,866**
Credit loss allowance	-	(40)	(167)	(207)
Carrying amount	**-**	**4,589**	**70**	**4,659**

For description of the credit risk grading used in the tables above refer to Note 38.

12 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2019		2018	
In thousands of Georgian Lari	Amount	%	Amount	%
Individuals	203,478	20%	221,555	25%
Hotels & Restaurants	137,832	14%	86,990	10%
Financial Institutions	99,384	10%	63,182	7%
Real Estate Management	96,878	10%	82,680	9%
Trade	76,766	8%	85,697	10%
Construction & Production of Construction materials	72,302	7%	40,709	4%
Service	70,428	7%	71,358	8%
Health Care	59,577	6%	61,635	7%
Wine production	47,826	5%	12,183	1%
Agricultural	37,370	4%	45,185	5%
Production & Manufacturing	29,183	2%	46,560	5%
Energy	25,813	2%	31,022	3%
Real Estate Development	25,770	3%	22,069	2%
Telecommunication	53	0%	13,424	1%
Other	17,769	2%	32,202	4%
Total loans and advances to customers carried at AC	**1,000,429**	**100%**	**916,451**	**100%**

At 31 December 2019 the Group had 11 borrowers' groups (2018: 10 borrowers) with aggregated loan amounts above 5% of the Bank's regulatory capital. The total aggregate amount of these loans was GEL 219,274 thousand (2018: GEL 195,258 thousand) or 22% of the gross loan portfolio (2018: 21%).

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. Description of collateral held for loans to carried at amortised cost is as follows at 31 December 2019:

In thousands of Georgian Lari	Standard lending	Consumer loans	Mortgage loans	Credit cards	Total
Loans collateralised by:					
- real estate	569,328	27,548	136,277	7	733,160
- cash deposits	97,133	1,550	35	-	98,718
- Transport and equipment	17,061	337	22	-	17,420
- other assets	32,527	-	128	20	32,675
Total	716,049	29,435	136,462	27	881,974
Unsecured exposures	80,902	32,105	1,112	4,336	118,455
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**796,951**	**61,540**	**137,574**	**4,363**	**1,000,429**

12 Loans and Advances to Customers (Continued)

Information about collateral for loans to corporate customers is as follows at 31 December 2018:

In thousands of Georgian Lari	Standard lending	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:					
- real estate	509,888	135,800	31,972	11	677,671
- cash deposits	76,432	153	4,338	-	80,923
- Transport and equipment	19,238	42	241	-	19,521
- other assets	29,252	268	4	20	29,544
Total	634,810	136,263	36,555	31	807,659
Unsecured exposures	60,086	1,423	42,449	4,834	108,792
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**694,896**	**137,686**	**79,004**	**4,865**	**916,451**

The carrying value of loans was allocated based on the type of collateral taken in following order: cash deposit, real estate, transport and equipment, other assets. Other assets mainly include securities and inventory. Part of mortgage loans issued for purchases of real estate with status of construction in progress is not secured with real estate before completion of legal registration procedures by the construction company. Until completion of these legal procedures the loans are secured by the construction company's guarantee. After completion of the registration procedures, the collateral will be replaced with real estate.

Third party guarantees received in the aggregate amount of GEL 9,877 thousand (2018: GEL 27,432 thousand) were not considered in the above table.

The disclosure above represents the lower of the carrying value of the loan or fair value collateral taken; the remaining part is disclosed within the unsecured exposures.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

	Over-collateralised Assets		**Under-collateralised assets**	
In thousands of Georgian Lari	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Loans to corporate customers carried at AC				
Standard lending	2,547	1,110	36,867	145,904
Loans to individuals carried at AC				
Mortgage loans	79	22	9,985	22,614
Consumer loans	1,146	-	2,614	15,274
Credit cards	325	-	7	11

12 Loans and Advances to Customers (Continued)

The effect of collateral on credit impaired assets at 31 December 2018 is as follows.

	Over-collateralised Assets		**Under-collateralised assets**	
In thousands of Georgian Lari	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Loans to corporate customers carried at AC				
Standard lending	29,037	90,588	512	332
Loans to individuals carried at AC				
Mortgage loans	6,781	17,583	139	27
Consumer loans	2,939	13,467	1,021	16
Credit cards	11	17	226	-

The Group obtains collateral valuation at the time of granting loans and annually re-evaluates real estate properties pledged for the loans which are included in top 100 borrower group list by carrying amount as at reporting date. Apart from top-100 borrower groups, for the loans with carrying amount more than GEL 100 thousand, the Group requests re-evaluation of the pledged real-estate collaterals if a new loan is disbursed under the pledge of the given collateral or in case of restructuring of the given commitment in case the last valuation is more than 1 year ago.

In order to assess the impact of old valuations on the assessment of ECL the Group has performed re-evaluation of the representative sample of collaterals with old valuations (older than one year) in 2019. Based on the results for the representative sample the possible impact of old valuations on ECL assessment was found insignificant for 2019, as market prices didn't show significant change over time. Where there are indications that the carrying value of the loan might exceed fair value of collateral, the management discretionally obtains valuations for collateral for the affected properties. The values of collateral considered in this disclosure are market values of collaterals.

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2019 and 31 December 2018:

In thousands of Georgian Lari	**31 December 2019**	**31 December 2018**
Loans to corporate customers		
Standard lending	59	826
Loans to individuals		
Mortgage loans	92	118
Consumer loans	1,055	1,676
Credit cards	218	
Total	**1,424**	**2,620**

The Group's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

Refer to Note 42 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

13 Finance Lease Recivables

In thousands of Georgian Lari	Note	2019	2018
Other financial assets at AC			
Financial leases		3,138	89
Less credit loss allowance		(12)	-
Total other financial assets		**3,126**	**89**

The table below contains an analysis of the credit risk exposure of Financial leases at AC. The carrying amount of other financial assets at AC at 31 December 2019 below also represents the Group's maximum exposure to credit risk on these assets:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Finance lease receivables				
- Excellent	2,837	-	-	2,837
- Good	28	-	-	28
- Satisfactory	-	41	-	41
- Special monitoring	-	232	-	232
Gross carrying amount	**2,865**	**273**	**-**	**3,138**
Credit loss allowance	(10)	(2)	-	(12)
Carrying amount	**2,855**	**271**	**-**	**3,126**

13 Finanace Lease Receivabes (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of finance lease receivables were as follows.

In thousands of Georgian Lari	**Credit loss allowance**				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Finance lease								
At 31 December 2018	**-**	**-**	**-**	**-**	**89**	**-**	**-**	**89**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(2)	2		-	(273)	273		-
New originated or purchased	12	-	-	12	3,138	-	-	3,138
Payment	-	-	-	-	(89)	-	-	(89)
Total movements with impact on credit loss allowance charge for the period	**10**	**2**	**-**	**12**	**2,776**	**273**	**-**	**3,049**
At 31 December 2019	**10**	**2**	**-**	**12**	**2,865**	**273**	**-**	**3,138**

Refer to Note 38 for the ECL measurement approach.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of Georgian Lari	**Due within 1 year**	**Due between 1 and 2 years**	**Due between 2 and 3 years**	**Due between 3 and 4 years**	**Due between 4 and 5 years**	**Total**
Finance lease payments receivable at 31 December 2019						
Unearned finance income	327	577	1,310	709	215	3,138
Credit loss allowance	(2)	(1)	(6)	(1)	(2)	(12)
Present value of lease payments receivable at 31 December 2019	**325**	**576**	**1,304**	**708**	**213**	**3,126**

Finance lease receivables relate to leases of car and equipment. Etimated colleteral held is as at 31 December 2019 amount to GEL 3,653 thousand. Estimates of collateral value are based on the value of collateral assessed at the time of lease origination, and generally are not updated. Risks related to the leased asset such as damage caused by various reasons and theft in majority cases are insured.

14 Insurance receivables

In thousands of Georgian Lari	Note	2019	2018
Insurance receivables		3,757	2,098
Reinsurance Assets		5,041	2,096
Total insurance contracts		**8,798**	**4,194**

15 Investment Properties

In thousands of Georgian Lari	2019	2018
Investment properties at 1 January	**1,572**	**1,078**
Depreciation	(7)	(14)
Disposals	(727)	(400)
Transfer to other assets		
Transfer from other assets	121	1,117
Transfer to held for sales	-	(209)
Investment properties at 31 December	**959**	**1,572**

As at 2018 GEL 367 thousnand of investment property were attributable to the Bank (2018: GEL 1,037 thousand).

The separate statement of the Bank's investment properties are as follows:

In thousands of Georgian Lari	2019	2018
Investment properties at 1 January	**1,037**	**400**
Disposals	(670)	(400)
Transfer to other assets	-	-
Transfer from other assets	-	1,037
Investment properties at 31 December	**367**	**1,037**

As of 31 December 2019, the fair value of investment properties was GEL 2,011 thousand (2018: GEL 3,972 thousand). As of 31 December 2019 the fair value of investment properties attributable to the bank was GEL 854 thousand (2018: GEL 3,011 thousand).

The fair value of the Group's investment properties was determined by the independent valuator Kushman & Wakefield, who hold a recognized and relevant professional qualification. In determining the fair values of investment properties, three market comparatives were identified for each property. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the investment property. Refer to Note 33 and 34 for the disclosure of the income and expenses incurred from investment property.

16 Other Financial Assets

In thousands of Georgian Lari	Note	2019	2018
Other financial assets at AC			
Receivables for credit card services and money transfers		453	438
Accrued interest on other receivables		159	89
Restricted Cash		143	134
Prepayments for Services		93	80
Other receivables		707	172
Less credit loss allowance		(351)	(130)
Total other financial assets		**1,204**	**783**

Restricted cash represents balance with card payment system Union Pay (UPI) account. The Group does not have the right to use these funds for the purposes of funding its own activities.

The table below contains an analysis of the credit risk exposure of other financial assets at AC. The carrying amount of other financial assets at AC at 31 December 2019 below also represents the Group's maximum exposure to credit risk on these assets:

16 Other Financial Assets (Continued)

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit and debit cards receivables and Money transfers				
- Excellent	102	-	-	102
- Good	240	10	-	250
- Default	-	-	101	101
Gross carrying amount	**342**	**10**	**101**	**453**
Credit loss allowance	(1)	(10)	(85)	(96)
Carrying amount	**341**	**-**	**16**	**357**
Accrued interest on other receivables				
- Good	159	-	-	159
Gross carrying amount	159	-	-	159
Credit loss allowance	-	-	-	-
Carrying amount	**159**	**-**	**-**	**159**
Restricted cash				
- Excellent	143	-	-	143
Gross carrying amount	**143**	**-**	**-**	**143**
Credit loss allowance				
Carrying amount	**143**	**-**	**-**	**143**
Prepayments for Services				
- Good	93	-	-	93
Gross carrying amount	93	-	-	93
Credit loss allowance				
Carrying amount	**93**	**-**	**-**	**93**
Other receivables				
- Good	91	24	-	115
- Default	-	-	592	592
Gross carrying amount	**91**	**24**	**592**	**707**
Credit loss allowance	(1)	(24)	(230)	(255)
Carrying amount	**90**	**-**	**362**	**452**

16 Other Financial Assets (Continued)

The table below contains an analysis of the credit risk exposure of other financial assets at AC. The carrying amount of other financial assets at AC at 31 December 2018:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**
Receivables for credit card services and money transfers		
- Excellent	144	144
- Good	294	294
Gross carrying amount	**438**	**438**
Credit loss allowance	(87)	(87)
Carrying amount	**352**	**352**
Restricted Cash		
- Excellent	134	134
Gross carrying amount	**134**	**134**
Carrying amount	**134**	**134**
Accrued interest on other receivables		
- Good	89	89
Gross carrying amount	**89**	**89**
Carrying amount	**89**	**89**
Prepayments for Services		
- Good	80	80
Gross carrying amount	**80**	**80**
Carrying amount	**80**	**80**
Other receivables		
- Good	172	172
Gross carrying amount	172	172
Credit loss allowance	(43)	(43)
Carrying amount	**129**	**129**

16 Other Financial Assets (Continued)

The following tables explain the changes in the gross carrying amount and in the credit loss allowance for other financial assets under simplified ECL model between the beginning and the end of the current and comparative annual periods:

	2019			2018		
in thousands of Georgian Lari	**Gross carrying amount**	**Credit loss allowance**	**Total**	**Gross carrying amount**	**Credit loss allowance**	**Total**
Balance at 1 January	**913**	**(130)**	**783**	**1,429**	**-**	**1,429**
New originated or purchased	887	(204)	683	401	(130)	271
Financial assets derecognised during the period	(268)	2	(266)	(930)	-	(930)
Total credit loss allowance charge in profit or loss for the period	-	(202)	(202)	-	(130)	(130)
Foreign exchange gains and losses	23	(19)	3	13	-	13
Balance at 31 December	**1,555**	**(351)**	**1,204**	**913**	**(130)**	**783**

16 Other Financial Assets (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of credit and debit cards receivables were as follows.

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Other financial assets								
At 31 December 2018	130	-	-	130	913	-	-	913
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(34)	34		-	(34)	34	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(314)	-	314	-	(693)	-	693	-
New originated or purchased	204	-	-	204	887	-	-	887
Payments	(2)	-	-	(2)	(268)	-	-	(268)
Total movements with impact on credit loss allowance charge for the period	**(146)**	**34**	**314**	**202**	**(108)**	**34**	**693**	**619**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	19	-	-	19	23	-	-	23
At 31 December 2019	**3**	**34**	**314**	**351**	**828**	**34**	**693**	**1,555**

As at 31 December 2018 for the purpose of ECL measurement other financial assets balances are included in Stage 1 and for these balances ECL amounts is GEL 130 thousand. Refer to Note 38 for the ECL measurement approach.

Refer to Note 42 for the disclosure of the fair value of each class of other financial assets. Information on related party balances is disclosed in Note 44.

17 Other Assets

In thousands of Georgian Lari	Note	2019	2018
Repossessed collateral		27,793	13,916
Litigation prepayments		686	711
Input and withholding taxes		526	922
Prepayments for services		457	626
Prepayment for assets repossession		-	1,261
Other		1,153	13
Total other assets		**30,615**	**17,449**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future.

As of 31 December 2019 the value of repossessed collateral attributable to the bank was GEL 25,895 thousand (2018: GEL 12,057). Information on related party balances is disclosed in Note 44.

18 Premises, Equipment and Intangible Assets

In thousands of Georgian Lari	Note	Premises	Office and computer equipment	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2018		19,731	10,207	29,938	1,587	31,525
Accumulated depreciation		770	7,274	8,044	726	8,770
Carrying amount at 1 January 2018		**18,961**	**2,933**	**21,894**	**861**	**22,755**
Additions		1,922	3,273	5,195	760	5,955
Transfers		(214)	-	(214)	-	(214)
Disposals		-	-	-	(33)	(33)
Elimination of accumulated depreciation upon revaluation of property		(1,141)	-	(1,141)	-	(1,141)
Revaluation		1,052	-	1,052	-	1,052
Depreciation						
Depreciation charge	33	375	1,095	1,470	239	1,709
Disposals		-	-	-	(33)	(33)
Elimination of accumulated depreciation upon revaluation of property		(1,141)	-	(1,141)	-	(1,141)
Carrying amount at 31 December 2018		**21,346**	**5,111**	**26,457**	**1,382**	**27,839**
Cost or valuation at 31 December 2018		21,350	13,480	34,830	2,314	37,144
Accumulated depreciation		4	8,369	8,373	932	9,305
Carrying amount at 31 December 2018		**21,346**	**5,111**	**26,457**	**1,382**	**27,839**
Additions		330	2,194	2,524	1,229	3,753
Transfers		-	-	-	-	-
Disposals		-	-	-	(92)	(92)
Revaluation		-	-	-	-	-
Depreciation						
Depreciation charge	33	429	1,536	1,965	412	2,377
Disposals		-	-	-	(92)	(92)
Carrying amount at 31 December 2019		**21,247**	**5,769**	**27,016**	**2,199**	**29,215**
Cost or valuation at 31 December 2019		21,680	15,673	37,353	3,452	40,805
Accumulated depreciation		433	9,904	10,337	1,253	11,590
Carrying amount at 31 December 2019		21,247	5,769	27,016	2,199	29,215

Premises have been revalued at fair value at December 2018. The valuation was carried out by an independent firm of valuers, Georgian Valuation Company LLC, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category.

The input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

At 31 December 2019, the carrying amount of premises would have been GEL 12,925 thousand (2018: GEL 12,903 thousand) had the assets been carried at cost less depreciation.

18 Premises, Equipment and Intangible Assets (Continued)

The amount reconciles to the carrying value of the premises as follows:

In thousands of Georgian Lari	31 December 2019	31 December 2018
Premises at revalued amount in the statement of financial position	21,247	21,350
Revaluation reserve presented in equity, net of tax	9,165	9,284
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	(843)	(837)
Deferred tax on revaluation (Note 34)		
Premises at cost less accumulated depreciation	**12, 925**	**12,903**

19 Right of Use Assets and Lease Liabilities

The Group leases various offices. Rental contracts are typically made for fixed periods from 1 to 10 years, but may have extension options as described below.

Until 31 December 2018 leases of premises and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets by class of underlying items is analysed as follows:

In thousands of Georgian Lari	Note	Buildings
Carrying amount at 31 December 2018		**-**
Carrying amount at 1 January 2019		**2,541**
Additions		2,072
Disposals		(79)
Depreciation charge		(998)
Carrying amount at 31 December 2019		**3,536**

Interest expense on lease liabilities was GEL 218 thousand.

Expenses relating to leases of low-value assets that are not shown as short-term leases are included in general and administrative expenses:

In thousands of Georgian Lari	2019
Expense relating to leases of low-value assets that are not shown above as short-term leases	296

Total cash outflow for leases in 2019 was GEL 1,168 thousand.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

19 Right of Use Assets and Lease Liabilities (Continued)

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

20 Non-Current Assets Classified as Held for Sale (or Disposal Groups)

Major classes of non-current assets classified as held for sale (or disposal groups) are as follows:

In thousands of Georgian Lari	2019	2018
Non-current assets held for sale at 1 January:	**4,360**	**1,928**
Disposals	(1,688)	(485)
Transfer to other assets	(2,462)	-
Transfer from PPE	-	414
Transfer from other assets	276	2,299
Transfer from Investment Properties	-	204
Total Non-current assets held for sale (or disposal groups)	**486**	**4,360**

As of 31.12.2019 sales agreements are signed for non-current assets held for sale. The payment for assets are made in instalments. Until final payment the risk and rewards stays on the group, rights and obligation of assets will transfer to the buyer after all contract terms are met. The final payments for GEL 486 thousand are contracted by the end of 2020.

The Non-current assets held for sale attributable to the bank amounts GEL 291 thousand as at 31 December 2019 (2018: GEL 4,016 thousand).

21 Due to Other Banks

In thousands of Georgian Lari	2019	2018
Correspondent accounts and overnight placements of other banks	1	1
Short-term placements of other banks	40,838	50,155
Short-term placements from NBG	143,145	50,040
Total due to other banks	**183,984**	**100,196**

The Group pledged debt securities as collateral with carrying amount of GEL 99,855 thousand and mortgage loans with carrying amount of GEL 60,492 thousand for short term loan with NBG at the end of reporting period (2018: debt securities GEL 40,427 thousand and mortgage loans GEL 27,309 thousand pledged for short-term loans with NBG).

Refer to Note 42 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

22 Customer Accounts

In thousands of Georgian Lari	**2019**	**2018**
State and public organisations		
- Current/settlement accounts	82,519	128,789
- Term deposits	44,381	35,137
Other legal entities		
- Current/settlement accounts	154,936	135,716
- Term deposits	155,118	161,995
Individuals		
- Current/demand accounts	130,079	109,751
- Term deposits	201,837	156,033
Total customer accounts	**768,870**	**727,421**

State and public organisations exclude government owned profit orientated businesses.

The customer accounts balances under the bank's separate statement as at 31 December 2019 amount to GEL 770,050 thousand (2018: GEL 734,262 thousand)

Economic sector concentrations within customer accounts are as follows:

	2019		**2018**	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	331,916	43%	265,784	37%
Financial Institutions	97,004	13%	64,190	9%
Transportation or Communication	54,944	7%	67,413	9%
Construction & Production of Construction Materials	50,284	7%	96,789	13%
State Deposits	46,973	6%	55,690	8%
Service	46,939	6%	80,062	11%
Trade	41,627	5%	28,780	4%
Production/Manufacturing	39,583	5%	30,212	4%
Education	27,181	4%	20,808	3%
Real Estate Development	17,705	2%	-	0%
Energy	2,319	0%	678	0%
Other	12,395	2%	17,015	2%
Total customer accounts	**768,870**	**100%**	**727,421**	**100%**

At 31 December 2019, the Group had two customers (2018: two customers) with balances above 10% of total equity. The aggregate balance of these customers was GEL 82,415 thousand (2018: GEL 97,333 thousand) or 10.7% (2018: 13.4%) of total customer accounts.

Refer to Note 42 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

23 Other Borrowed Funds

In thousands of Georgian Lari	2019	2018
Other borrowed funds at AC		
Loans from European Bank for Reconstruction and Development (“EBRD”)	82,575	40,505
Loans from Blue Orchard	60,257	81,003
Loans from Black Sea Trade and Development Bank (“BSTDB”)	56,429	44,029
Loans from The OPEC Fund for International Development (OFID)	43,770	-
Loans from China Development Bank (“CDB”)	42,972	48,018
Loans from GLOBAL CLIMATE PARTNERSHIP FUND (responsAbility)	41,017	13,407
Loans from THE EUROPEAN FUND FOR SOUTHEAST EUROPE	32,409	-
Loans from International Finance Corporation (“IFC”)	28,717	26,693
Loans from GREEN FOR GROWTH FUND (Finance-in-Motion)	26,588	26,491
Loans from EFA FINANCIAL INSTITUTIONS DEBT FUND PTE. LTD (“EFA”)	7,145	6,445
Loans from Commerzbank	7,047	10,267
Loans from URUMQI CITY COMMERCIAL BANK	-	43,509
Loans from BANCA POPOLARE DI SONDRIO SCPA	-	5,415
Total other borrowed funds at AC	**428,926**	**345,782**
Total other borrowed funds	**428,926**	**345,782**

Refer to Note 42 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

24 Insurance Liabilities

In thousands of Georgian Lari	Note	2019	2018
Unearned premium and claims provisions		4,780	2,351
Other insurance liabilities		4,048	2,180
Total insurance liabilities		**8,828**	**4,531**

Other insurance liabilities contains amount for provisions incurred but not reported GEL 4 thousand (2018: GEL135 thousand).

The movement during the year in insurance contract liabilities is as follows:

In thousands of Georgian Lari	Note	2019	2018
Unearned premium and claims provisions as at 1 January 2018		**2,351**	-
Gross premium during the year		10,278	5,442
Premiums earned during the year		(7,849)	(3,091)
Unearned premium and claims provisions as at 31 December 2018		**4,780**	**2,351**

Risks under policies usually cover twelve months duration. For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

24 Insurance Liabilities (Continued)

The provisions are refined monthly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The Company reviews its unexpired risk based on historical performance of separate business lines to determine overall change in expected claims

Refer to Note 42 for disclosure of the fair value of each class of other financial liabilities.

25 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	Note	2019	2018
Other financial liabilities at AC			
Payables for services		934	762
Settlement Operations	37	917	576
Other accrued liabilities		554	389
Debit and credit card payables		152	95
Total other financial liabilities		**2,557**	**1,822**

The financial liability on settlement operations represents the amounts for which the Bank's customers initiated transfer from their customer accounts to other commercial banks and which have not been settled at the end of the period. These amounts have been deducted from the customer accounts and included in other financial liabilities.

Refer to Note 40 for analysis of exposure from financial guarantees and loan commitments by credit risk grades.

Refer to Note 42 for disclosure of the fair value of each class of other financial liabilities.

26 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	Note	2019	2018
Accrued employee benefit costs		2,083	1,773
Taxes payable other than on income		74	27
Prepayments received		472	767
Other		468	245
Total other liabilities		**3,097**	**2,812**

27 Subordinated Debt

Subordinated debt of GEL 14,410 thousand (2018: nil) carries a fixed interest rate of 7% p.a. and matures on 2026. The debt ranks after all other creditors in the case of liquidation.

Refer to Note 42 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

28 Share Capital

In thousands of Georgian Lari except for number of shares	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 1 January 2018	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2018	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2019	**16,057**	**16,057**	**74,923**	**90,980**

The total authorised number of ordinary shares is 16,181 thousand shares (2018: 16,137 thousand shares), with a par value of GEL 1 per share (2018: GEL 1 per share). The number of ordinary issued shares is 16,181 thousand (2018: 16,137 thousand shares). All issued ordinary shares are fully paid. Each ordinary share carries one voting right.

The table above does not include 124 thousand (2018: 80 thousand) of granted and issued shares to management which are not yet vested. Each ordinary share carries one voting rignt. Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with Georgian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Georgian Accounting Rules.

As at 31 December 2019 the profit for the year available or distribution under Georgian Accounting Rules amount to GEL 24,830 thousand (2018: GEL 35,230 thousand), the Banks undistributed reserves under Georgian Accounting Rules as at 31 December 2019 amount to GEL 113,627 thousand (2018: GEL 82,129 thousand).

29 Share Based Payments

In April 2015, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2015 – 2016 and granted 71,000 new shares to the members of senior management of the Bank subject to service conditions. These shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties before the service conditions are met.

According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth and profitability metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants. The awarded shares carry service conditions and before those conditions are met, the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete.

Shares 2015 vested in July 2016 and these shares were removed of all post-vesting restrictions. 2016 tranche were issued on 27 July 2017. These shares are subject to post-vesting restrictions, July 2019 (the end of first lock-up period) will remove restrictions on 50% of vested shares and 1 July 2022 (the end of second lock-up period) is when the post-vesting restrictions expire entirely.

In March 2017, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2017 – 2021 and granted 169,000 new shares to the members of senior management of the Bank subject to service conditions.

The Group considers 27 March 2017 as the grant date. The fair value per share at the grant date was estimated at GEL 12.55 per share. The fair value of the shares was determined by reference to the price per share established for the share purchase transaction between the owners of the Bank.

29 Share Based Payments (Continued)

According to the new share based scheme the Management Shares will be subject to the similar restrictions and cannot be sold by the Directors within 2 (two) years after the acquisition ("the Lock-up Period"). After the Lock-up Period, half of the Management Shares owned by the Directors can be sold. All of the Management Shares owned by the Directors can be transferred only after the Directors' resignation.

The total expense on the scheme in 2019 amounted to GEL 483 thousand (2018: GEL 488 thousand).

Tabular information on the scheme is given below:

In thousands of Georgian Lari except for number of shares	2019	2018
Number of unvested shares at the beginning of the year	**218,000**	**213,000**
Number of granted shares	-	-
Change in estimate of number of shares expected to vest based on performance conditions	2,000	5,000
Number of unvested shares at the end of the year	**220,000**	**218,000**
Value at grant date per share (in GEL)	12.55	12.55
Expense on equity-settled part	483	488
Expense recognized as staff cost during the year	**483**	**488**

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period and corresponding entry is credited to share based payment reserve in equity. The share based payment reserve included in equity amounted to GEL 1,822 as at 31 December 2019 (GEL 1,339 as at 31 December 2018).

30 Other Comprehensive Income Recognised in Each Component of Equity

Analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Georgian Lari	Note	Revaluation reserve for premises	Total
Year ended 31 December 2018			
Revaluation of premises and equipment		1,052	1,052
Total other comprehensive income		**1,052**	**1,052**

31 Interest Income and Expense

In thousands of Georgian Lari	2019	2018
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	97,080	84,739
Debt securities at AC	14,410	12,129
Due from other banks at AC	3,978	1,935
Total interest income calculated using the effective interest method	**115,468**	**98,803**
Total interest income	**115,468**	**98,803**
Interest and other similar expense		
Term deposits of individuals	10,527	7,407
Term deposits of legal entities	9,290	9,622
Current/settlement accounts	6,192	4,371
Other borrowed funds	28,648	15,433
Term placements of other banks	1,374	6,252
Total interest expense	**56,031**	**43,085**
Net interest income	**59,437**	**55,718**

32 Fee and Commission Income and Expense

In thousands of Georgian Lari	2019	2018
Fee and commission income		
Fee and commission income not relating to financial instruments at FVTPL:		
- Plastic card fees	2,556	2,098
- Financial guarantees issued (Note 40)	2,320	1,037
- Settlement transactions	1,629	1,524
- Performance guarantees issued (Note 40)	833	619
- Cash transactions	535	650
- Cash collection	294	232
- Distant banking fees	-	-
- Other	232	470
Total fee and commission income	**8,399**	**6,630**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at FVTPL		
- Plastic card fees	2,415	1,709
- Settlement transactions	612	491
- Cash Collection & Transaction fees	135	129
- Factoring services	92	-
- Expenses Related to Guarantees	79	17
- Other	35	144
Total fee and commission expense	**3,368**	**2,490**
Net fee and commission income	**5,031**	**4,140**

The group has recognised the following contract liabilities that represent performance obligations from contracts with customers. The obligations are short-term. Refer to Note 26.

33 Other Operating Income

In thousands of Georgian Lari	Note	2019	2018
Gains less losses on disposal of repossessed property		789	2,857
Rental income from investment properties		534	165
Gains on disposal of securities		314	-
Fines and penalties		117	13
Reversal of impairment of repossessed property		95	660
Other		89	44
Total other operating income		**1,938**	**3,739**

34 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	2019	2018
Employee compensation		19,702	15,150
Depreciation of premises and equipment	17	2,387	1,726
Professional services		2,124	2,233
Advertising and marketing		1,374	1,254
Communications and information services		1,121	719
Depreciation of right of use assets	18	998	-
Security services		684	628
Repairs and maintenance		639	553
Insurance		608	289
Taxes other than on income		412	302
Office supplies		339	260
Occupancy		-	968
Operating lease expense		296	142
Low-value assets lease expense		224	-
Impairment of litigation prepayments and other financial assets		193	291
Travel and training		170	70
Other		1,171	1,273
Total administrative and other operating expenses		**32,442**	**25,858**

Included in staff costs are statutory pension contributions of GEL 266 thousand (2018: nil thousand).

The average number of employees of the group during 2019 is 484 (2018: 431). The table below discloses the information on the Management Board members including Supervisory Board and employees for respective periods:

	2019		2018	
	Bank separate	Consolidated	Bank separate	Consolidated
Supervisory Board members	5	6	3	3
Management Board members	6	10	5	6
Middle management staff	28	35	29	33
Other employees	444	465	392	397
Temporary employed	1	1	2	2
Average number of employees	**484**	**517**	**431**	**441**

Included in staff costs is the amount of GEL 483 thousand (2018: GEL 488 thousand), which represents share-based remuneration provided to the Group's personnel directly by shareholders.

Direct operating expenses for investment properties that generate rental income amounted to GEL 31 thousand in 2019 (2018: GEL 25 thousand) and consisted of costs of utilities, staff costs and expenses repated to property tax and security. Direct operating expenses for investment properties that did not generate rental income amounted to GEL 1 thousand in 2018.

As at 31 December 2019 the professional service fees include GEL 399 thousand fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing (2018: GEL 463 thousand). The fees related to the bank as at 31 December 2019 amount GEL 345 thousand, (2018: GEL 431 thousand).

35 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Georgian Lari	**2019**	**2018**
Current tax	(2,400)	(3,991)
Deferred tax	(204)	(1,482)
Income tax expense for the year	**(2,604)**	**(5,473)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2019 income is 15% (2018: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2018: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	**2019**	**2018**
Profit before tax	**39,933**	**42,766**
Theoretical tax charge at statutory rate (2019: 15%; 2018: 15%)	(5,990)	(6,415)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income from Government /NBG's securities and deposits	2,401	2,065
- Other income which is exempt from taxation	118	-
- Income items not recognized in P&L, but taxable from taxation viewpoint	(46)	(91)
- Other non-deductable expenses	43	(8)
Effect of change in tax legislation	870	(1,024)
Income tax expense/(credit) for the year	**(2,604)**	**(5,473)**

The Group has recorded a deferred tax liability in respect of temporary differences of GEL 7 thousand (2018: GEL 7 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia for commercial banks, insurance organizations abolishing income tax attributable on the period profit (before distribution in a form of dividend or other forms of profit distributions) starting from 1 January 2019.

On 30 May 2018 the Georgian Government has announced postponement of these changes until 1 January 2023. As of 31 December 2018, deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2019 to 31 December 2022.

36 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In thousands of Georgian Lari	1 January 2019	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2019
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(387)	(770)	20	(1,137)
Credit loss allowance of loans	(1,856)	554	-	(1,302)
Right of use assets	-	131	-	131
Guarantee impairment provision	(125)	(102)	-	(227)
Interbank Reserve	16	30	-	46
Reversal of Securities Reserve	49	(7)	-	42
Accruals	250	(44)	-	206
Other	311	(14)	-	297
Share Based Payment	71	18	-	89
Net deferred tax asset/(liability)	**(1,671)**	**(204)**	**20**	**(1,855)**

In the context of the Group’s current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In thousands of Georgian Lari	1 January 2018	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2018
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(14)	(373)	-	(387)
Credit loss allowance of loans	(799)	(923)	(134)	(1,856)
Guarantee impairment provision	(20)	(92)	(13)	(125)
Interbank Reserve	-	(8)	24	16
Reversal of Securities Reserve	-	10	39	49
Accruals	250	(49)	49	250
Other	373	(62)	-	311
Share Based Payment	58	13	-	71
Net deferred tax asset/(liability)	**(152)**	**(1,484)**	**(35)**	**(1,671)**

36 Dividends

	2019	2018
In thousands of Georgian Lari	**Ordinary**	**Ordinary**
Dividends payable at 1 January	-	-
Dividends declared during the year	3,729	2,989
Dividends paid during the year	(3,729)	(2,989)
Dividends payable at 31 December	**-**	**-**
Dividends per share (or bond) declared during the year	**0.23**	**0.19**

All dividends are declared and paid in Georgian Currency.

37 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing actrivities in the statement of cash flows.

	Liabilities from financing activities			
In thousands or Georgian Lari	**Other borrowed funds**	**Subordinated debt**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2018	**270,280**		**-**	**270,280**
Cash flows	66,678		-	66,678
Foreign exchange adjustments	7,637		-	7,637
Other non-cash movements	1,187		-	1,187
Liabilities from financing activities at 31 December 2018	**345,782**		**-**	**345,782**
Adoption of IFRS 16, *Leases*				
Liabilities from financing activities at 1 January 2019			**2,541**	**2,541**
Cash flows	35,012	14,383	(1,250)	48,145
Foreign exchange adjustments	24,358	(332)	115	24,141
Other non-cash movements	23,774	358	2,331	26,463
Liabilities from financing activities at 31 December 2019	**428,926**	**14,409**	**3,737**	**447,072**

38 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. The Group manages the identification, assessment and mitigation of risks through an internal governance process, the risk management tools and processes to mitigate the impact of these risks on the Group's financial results, its long term strategic goals and reputation.

Responsibility for risk management resides at all levels within the Group, from the Supervisory Board and Management Board (The Executive Management) level down through to each business unit manager and risk officer. The risk management function is split between risk management units:

- On the Supervisory Board level - the Board committees: Risk Committee and Audit Committee,
- On the Management Board level – the Management Board level committees and units: Assets and Liabilities Management Committee ("ALCO"), Risk Management department, Treasury department, and Credit Committees.

The Supervisory Board has overall responsibility for the oversight of the risk management framework. As a top governing body of the Bank, the Supervisory Board sets the general approach and principles for risk management by assessing the Bank's risk profile and the adequacy and effectiveness of the Bank's risk management framework, approving individual risk strategies, setting risk appetite and the risk control framework.

The Risk Management policies approved by the Supervisory Board of the Bank cover main type of risks, assign responsibility to the management for specific risks, set the requirements for internal control frameworks. The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board defines appropriate procedures for managing all inherent risks in each business line, with the role of structuring business to reflect risk, ensuring adequate segregation of duties and adequate procedures in place, defining operational responsibilities of subordinate staff. The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters.

Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk, both at portfolio and transactional levels, is managed by a system of Credit Committees; to facilitate efficient decision-making, the Group establishes a hierarchy of credit committees depending on the type and amount of the exposure.

Market and liquidity risks are managed by the Asset and Liability Management Committee in coordination with the Treasury Department and the Risk Management department. The Treasury Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, structural interest rate exposures, and controls and manages foreign exchange risk exposure.

The Bank sets principles about risk taking and risk management which are reflected in the internal rules and policies, and applied consistently throughout the organisation. These general principles are the following:

- prudent risk-taking with comprehensive risk assessment and control environment;
- adequate and effective monitoring and reporting system;
- proper quantification of risks using proper methodologies in line with the size and complexity of the Bank;

38 Financial Risk Management (Continued)

- adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices via using international standards;
- operating effective risk governance by maintaining proper risk control hierarchy, independent from business activities in order to avoid conflict of interest;
- the observation of risk management considerations upon the launch of new activities, business lines or products.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular emphasis is placed on developing risk maps that are used to identify a wide range of risk factors and serve as a basis for determining the level of comfort over the current risk mitigation procedures.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group established a number of credit committees that are responsible for approving credit limits for individual borrowers. Senior level credit is a supreme decision making body responsible for high value transactions. The Committee is also responsible for issuing guidance and manuals to lower level credit committees. The credit approval limits between committees are segregated as follows:

For retail segment lending

- The senior credit committee reviews and approves limits above GEL 600 thousand;
- The junior credit committees review and approve credit limits between GEL 300-600 thousand;
- Applications up to GEL 300 thousand are approved by risk management department. Exceptions are retail loans up to GEL 100 thousand are approved by retail lending group.

For business segment lending

- The senior credit committee reviews and approves limits above USD 600 thousand;
- The junior credit committees review and approve credit limits between USD 300-600 thousand and meet weekly;
- Applications up to USD 300 thousand are approved by risk management department.

38 Financial Risk Management (Continued)

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the Financial Reporting and Risk departments based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Management Board and the Risk Committee.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies an Internal Rating System for legal entities or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's) for Interbank exposures, Securities and other financial assets, when applicable

Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corporate internal ratings	Corresponding ratings of external international rating agencies (Fitch)	Corresponding PD interval of international rating agencies(Fitch)
Excellent	1 – 2	AAA to BB+	0,01% - 0,5%
Good	3 – 4	BB to B+	0,51% - 3%
Satisfactory	5 – 6	B, B-	3% - 10%
Special monitoring	7 – 8	CCC+ to CC-	10% - 99,9%
Default	9	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

The approach used by the Group for measuring credit risk associated with legal entities, is an Expert Judgement-based model designed internally, which assigns credit ratings to the borrower based on the different qualitative and quantitative factors. Ratings are estimated by credit risk officers and are reviewed by the members of the credit risk committees during the credit approval process.

Exposures without assigned internal rating are classified according to credit risk, using different quantitative and qualitative criteria: days in overdue, restructuring, existence of collaterals.

Credit Risk Grade	Credit Quality criteria
Excellent	Not overdue; fully covered with deposit, precious metal or government guarantee
Good	Not more than 31 days past due during last 12 months and collateral (deposit or real estate) fully covers the loan
Satisfactory	Not more than 31-60 days past due during last 12 months, or if loan was restructured, the event happened more than one year ago and current overdue is less than 31 days past due
Special monitoring	Not more than 61-90 days past due during last 12 months , or if the loan was restructured, the event happened more than one year ago and current overdue is 31-90 days past due
Default	Loan was restructured in last 12 months or minimum overdue in last 12 months is 90 days past due

38 Financial Risk Management (Continued)

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: interbank placements, loans to sovereigns and sub-sovereigns, and investments in debt securities (government, corporate, municipal bonds, Eurobonds and promissory notes purchased).

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. Due to data limitation CCF is assumed to be 100%. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, the Group uses simplified assumptions for credit cards issued to individuals. As a matter of exception from determining the lifetime exposure based on contractual maturity, the Group uses simplified assumptions for credit cards issued to individuals. 5 years (maximum allowed maturity for unsecured consumer credits) is applied as maximum lifetime these instruments and ECL is always measured at lifetime expected losses.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

For purposes of measuring PD, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- 90 days past due (DPD);
- Distressed restructuring (i.e. exposure is defaulted);
- Inability to repay (ITR), which is expressed in internal rating of the counterparty.

Usually only 90 DPD and distressed restructuring are considered as default indicators for Retail borrowers, if there is no additional information available on a counterparty level.

38 Financial Risk Management (Continued)

Apart from the criteria, listed above the group would classify as default, i.e. include in stage 3, if relevant, following cases:

- Call upon guarantee;
- Partial Write-off;
- Specific portfolios or segments, in case of global macroeconomic changes, which are expected to have detrimental impact on certain segments.

Apart from the criteria, listed above, in case of individual assessment of the counterparties above significance threshold in order to classify a counterparty as defaulted, the bank analysis number of qualitative factors. The below list is not exhaustive:

- A borrower's sources of recurring income will be no longer available due to incurred disappearance of the market that will result reduction of the borrowers sales;
- Delays in payments to other creditors;
- Sales of significant assets of the borrower with loss;
- Termination of significant contract (customer or supplier) that generates significant portion of the revenue or purchases in the past;
- A breach of contract and the covenants of a credit contract;
- Initiation of legal proceedings, that may result in significant cash outflow;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- A crisis of the sector in which the counterparty operates combined with a weak position of the counterparty in this sector.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined expertly, based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis for each commitment and on a portfolio basis. For loans issued to corporate entities, interbank loans and debt securities at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. For loans issued to individuals and other financial assets SICR is assessed on a portfolio basis, but finally SICR is assigned to a particular loan and not to all loans of a borrower. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Group uses low credit risk assessment exemption for investment grade financial assets. The bank assumes that assets with an external 'investment-grade' rating (e.g., ratings within the AAA through BBB categories using the Standard & Poor's rating system or corresponding to Moody's) have low credit risk at the reporting date. The Group doesn't use Low Risk assessment exemption as of reporting date.

The Group considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For interbank operations and bonds issued by banks:

- 30 days past due;
- Award of external rating corresponding to the risk grade "Special monitoring" according to the rating scale disclosed above.

38 Financial Risk Management (Continued)

For loans issued to legal entities and bonds issued by corporate customers:

- 30 days past due;
- Restructuring (if exposure is not defaulted);
- Change of internal rating corresponding to the downwards movement from credit risk grades "excellent" or "good" to "Satisfactory" or "Special Monitoring".

For loans to Individuals:

- 30 days past due;
- Restructuring (if exposure is not defaulted);
- Significant increase in lifetime PD above predefined absolute and relative thresholds for retail portfolio.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed, this is particular will be true for portfolios which have been included in Stage 2 based on watch list status. Regular, at least yearly monitoring is performed for such portfolios to include latest developments into ECL assessment.

ECL for POCI financial assets is always measured on a lifetime basis. The Group therefore only recognises the cumulative changes in lifetime expected credit losses.

The Group performs assessment on an individual basis for the following types of loans: loans with unique credit risk characteristics, individually significant loans, that is, individual exposures above GEL 2,000 thousand Current threshold was set based on expert decision taking into consideration current structure of the Bank's Portfolio, and might be re-assessed only in case of significant changes in portfolio volume and structure.

The Group performs assessment on a portfolio basis for the following types of loans: retail loans and loans issued to Corporate SMEs, when the exposure is under the significance threshold. Under this approach loan pools are stratified into homogeneous sub-segments based on -specific characteristics, for example product types, historical data on losses, location, sectors of activity, loan currency etc.

The Group performs assessments based on external ratings for interbank loans, debt securities issued by the banks and loans issued to sovereigns.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Risk and Problem Assets Management Department, with support of credit risk experts, who are the primary source of information from borrower's side. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

38 Financial Risk Management (Continued)

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group analyses its exposures by segmentsdetermined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as wholesale or retail), product type, date of initial recognition, term to maturity etc. Different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future quarter during the lifetime period for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates an ECL for each future period that is afterword discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. Due to the insufficient data on the payment periodicity for instruments with non-monthly schedules, the assumption of 30-day schedule has been used for the entire corporate/SME portfolio. The impact of this simplification was assessed as immaterial. Currently the Group doesn't consider early repayment or refinancing assumptions in ECL assessment (the impact was assessed to be insignificant). For revolving products like overdrafts and credit cards the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. CCF is assumed to be 100% for retail and corporate credit cards and overdrafts. Unlike CCF, which is used for credit cards and overdrafts, Utilization Rate is calculated and updated for each reporting period for the committed, but undrawn limits for Corporate and SME exposures. Utilization rate is the assessment for the expected drawdown of the remaining limit by the time, when counterparty defaults and is calculated based on the analysis of past data, i.e. historical data on corporate and SME exposures with remaining undrawn limit at the moment of default.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Group uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes for Corporate and SME loans, developing lifetime PD curves based on the historical default data for Retail loans.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. The approach currently used by the Group for LGD measurement can be divided into three steps:

- Calculation of LGD on a portfolio basis based on recovery statistics; LGD1- recoveries based on solely clients cash payments
- Measurement of LGD based on the specific characteristics of the collateral; LGD2 - recoveries expected based on the specific real estate collateral: projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities
- Final LGD= LGD1*LGD2

The rationale behind the Group's approach is the observation that even after default, certain part of defaulted exposure is covered by borrowers own cash payments, without realizing the underlying collateral. Therefore underlying collateral is used to cover the remaining defaulted liability, only after the borrower has exhausted payment possibilities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate/SME loan portfolio and for retail homogenous sub-portfolios.

38 Financial Risk Management (Continued)

The group has applied a floor to final estimated LGD. The rationale for applying the floor is that there are factors, which cannot be modelled even in the pessimistic scenario, which can result in a loss even in case of over-collateralized assets. The group applies LGD floor as management adjustment to the model estimates and the floor value is subject to regular back-testing and reviews. ECL Sensitivity to LGD floor is disclosed in note 4.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines of corporate customers, credit cards issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default. CCF for overdrafts is defined as 100% since the limits can be used by the customers at any time.

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to government and blue chip corporate bonds and interbank exposures.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. Forecasts of economic variables (the "base economic scenario", "Upside economic scenario" and "downside economic scenario") are published by the National Bank of Georgia and provide the best estimate of the expected macro-economic development. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates. Final PD models have been adjusted with relevant macroeconomic variables, with significant impact on Default rates (Nominal Effective Exchange Rates for Retail PD Models and Country Sovereign Risk Premium for Corporate PD Models). The Group has incorporated macroeconomic variables in the formulas for LGD, in particular in LGD2 formulas, via incorporating adjustment by real estate price index on the collateral value. Currently no macroeconomic adjustment is done for EAD, but the impact has been assessed as insignificant.

Currently the Group uses only scenarios published by the National Bank of Georgia for macroeconomic adjustment in impairment model. In the final model, Scenario weights are according to the weights determined in the NBG's publication: 50% for baseline scenario, 25%-25% for upside and downside scenarios.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected.

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Under IFRS9, validation and back-testing of all applied parameters and significant assumptions is an inherent part of ECL assessment process. The results of back testing the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

During 2019 the Group has performed back-tests of the assumptions, thresholds and risk parameters used in IFRS9 impairment model, in order to assess the adequacy of forecasts for financial year 2019 as estimated by the IFRS9 impairment models at the end of previous year. Based on the results of the back-tests several modifications have been made in the model, in particular:

- Calculation methodology of SICR in retail portfolio - this modification didn't have material impact on ECL (reversal of GEL 194 thousand), but resulted in a significant shift of portfolio exposure from stage 2 to stage 1 in mortgage and consumer portfolios (GEL 34 thousand and GEL 8 thousand respectively).
- Haircuts applied in LGD models - back-tested data suggested, that haircuts applied in the LGD models were too conservative, therefore the bank has modified haircuts as of YE 2019. The effect of this modification is reversal of provisions of GEL 1,400 thousand.

38 Financial Risk Management (Continued)

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The open currency position may cause substantial losses depending on the extent of difference and a change in exchange rate. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. General open currency position limits are set to minimize this risk insomuch as such change may adversely affect the Bank revenues, equity, liquidity and creditworthiness.

The open currency position is calculated and maintained on a daily basis. In the event of any violation, the Bank must perform balancing operations to bring the parameter within the approved limits. General open currency positions is a consolidated on-balance sheet and off-balance sheet position which must fall within the limits set by NBG, which is 20% of regulatory capital. However, ALCO introduces intra-day and overnight open currency position limits in aggregate and for individual currencies, within which the Bank may operate. Such limits are reviewed by ALCO from time to time to respond to market conditions. Bank's internal limits are significantly lower than the limits set by the NBG. Current limit equals 5% of the regulatory capital. The Group monitors under ICAAP framework its exposure to currency risk, according to 99% confidence level VaR at 10 day holding period. As at 31 December 2019 the VaR value amounted GEL 614 thousand (2018: GEL 462 thousand).

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	31 December 2019			31 December 2018		
In thousands of Georgian Lari	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Georgian Lari	713,284	497,399	215,885	552,719	350,163	202,556
US Dollars	693,243	688,084	5,159	740,437	738,333	2,104
Euros	224,276	222,068	2,208	90,872	90,777	95
Other	3,824	3,763	61	537	479	58
Total	**1,634,627**	**1,411,314**	**223,313**	**1,384,565**	**1,179,752**	**204,813**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2019	At 31 December 2018
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2018: strengthening by 20%)	1,032	421
US Dollar weakening by 20% (2018: weakening by 20%)	(1,032)	(421)
Euro strengthening by 20% (2018: strengthening by 20%)	442	19
Euro weakening by 20% (2018: weakening by 20%)	(442)	(19)

38 Financial Risk Management (Continued)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

The Group's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

	Average exposure during 2019	Average exposure during 2018
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2018: strengthening by 20%)	(169)	112
US Dollar weakening by 20% (2018: weakening by 20%)	169	(112)
Euro strengthening by 20% (2018: strengthening by 20%)	(2)	(2)
Euro weakening by 20% (2018: weakening by 20%)	2	2

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2019						
Total financial assets	252,264	121,069	221,361	777,066	262,868	1,634,628
Total financial liabilities	598,216	150,673	131,994	243,033	276,759	1,400,675
Net interest sensitivity gap at 31 December 2019	**(345,952)**	**(29,604)**	**89,367**	**534,033**	**(13,891)**	**233,953**
31 December 2018						
Total financial assets	362,888	286,756	147,546	450,318	137,057	1,384,565
Total financial liabilities	355,355	195,723	209,969	194,720	220,518	1,176,285
Net interest sensitivity gap at 31 December 2018	**7,533**	**91,033**	**(62,423)**	**255,598**	**(83,461)**	**208,280**

At 31 December 2019, significant part interest bearing assets and liabilities are placed in foreign currency, part of loans and advances to customers and borrowings in FX and Local currency are based on floating interest rates. Below is the group's sensitivity to the interest rate risk on average exposures as the interest rate risk at the end of the reporting period is not representative of the typical exposure of the Group during the year.

For the average exposure during 2019 if interest rates had been 200 basis points lower (2018: 200 basis points lower) on GEL denominated interest bearing assets and liabilities with all other variables held constant, profit for the year would have been GEL 2,809 thousand lower (2018: GEL 1,068 thousand lower), mainly as a result of lower interest income on variable interest assets of GEL 4,629 thousand which exceed decrease in interest expense from floating rate borrowings of GEL 1,820 thousand, (2018: mainly as a

38 Financial Risk Management (Continued)

result of lower interest income on variable interest assets of GEL 2,246 thousand which exceed decrease in interest expense from floating rate borrowings of GEL 1,178 thousand). If interest rates had been 100 basis points lower (2018: 100 basis points lower) on foreign currency denominated interest bearing assets and liabilities, with all other variables held constant, profit for the year would have been GEL 1,072 thousand lower (2017: GEL 153 thousand lower), due to lower interest income on variable interest assets of GEL 2,070 thousand which exceeds increase income from floating rate borrowings of GEL 998 thousand (2017: due to lower interest income on variable interest assets of GEL 642 thousand which exceeds increase income from floating rate borrowings of GEL 448 thousand).

For the average exposure during 2019 if interest rates had been 200 basis points higher (2018: 200 basis points higher), on GEL denominated interest bearing assets and liabilities with all other variables held constant, profit would have been GEL 2,809 thousand higher (2018: GEL 1,068 thousand higher), mainly as a result of higher interest income on variable interest assets by GEL 4,629 thousand which exceed growth of interest expense from floating rate borrowings of GEL 1,820 thousand (2018: mainly as a result of higher interest income on variable interest assets of GEL 2,246 which exceed growth of interest expenses from floating rate borrowings by GEL 1,178 thousand). If interest rates had been 100 basis points higher (2018: 100 basis points higher) on foreign currency denominated interest bearing assets and liabilities, with all other variables held constant, profit for the year would have been GEL 1,072 thousand higher (2018: GEL 153 thousand higher) with higher interest income on variable interest assets of GEL 2,070 thousand and decrease in income from floating rate borrowings by GEL 998 thousand (2018: mainly as a result of with higher interest income on variable interest assets of GEL 642 and decrease in income from floating rate borrowings by GEL 448).

The Group monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2019			2018		
In % p.a.	**GEL**	**USD**	**Euro**	**GEL**	**USD**	**Euro**
Assets						
Cash and cash equivalents	2.0%	1.7%	-	0.2%	1.0%	-
Mandatory cash balances with the NBG	-	1.3%	-0.7%		0.8%	-0.6%
Due from other banks	11.5%	-	-	-	-	-
Investments in debt securities	7.7%	11.0%	-	8%	-	-
Loans and advances to customers	11.6%	8.4%	5.9%	11.7%	8.7%	6.2%
Liabilities						
Due to other banks	9.3%	-	1.0%	7.1%	5.3%	1.6%
Customer accounts	7.6%	3.4%	1.5%	7.3%	3.5%	1.6%
- current and settlement accounts	7.0%	1.9%	1.4%	7.0%	3.4%	1.3%
- term deposits	8.2%	3.6%	1.5%	7.7%	3.6%	1.7%
Other borrowed funds	12.2%	5.5%	3.0%	12.4%	6.0%	3.4%
Lease liabilities	10.0%	6.0%	-	-	-	-
Subordinated debt	-	7.0%	-	-	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2018: no material impact).

38 Financial Risk Management (Continued)

The management of interest rate risk is regulated by the Assets and Liabilities Management ("ALM") Policy of the Bank. The Risk Management department regularly produces a report on interest sensitivity gap by repricing periods. The report is used to assess the impact of changes in interest rates on the profit of the Bank. The amount of the stress (expressed in basis points) of the interest rates incorporated in the report is defined by the Risk Management department, based on observed fluctuations in interest rates for relevant currencies. The limit of tolerable potential impact on the profit of the Bank is defined as up to 1% of the regulatory capital.

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2019 is set out below:

In thousands of Georgian Lari	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	86,630	-	161,941	129	248,700
Mandatory cash balances with the NBG	177,989	-	-	-	177,989
Due from other banks	7,186	-	-	-	7,186
Investments in debt securities	202,569	-	-	-	202,569
Investment in equity securities	63	-	-	-	63
Loans and advances to customers	962,387	376	18	22,213	984,994
Finance leases to customers	3,126				3,126
Insurance receivables	8,798	-	-	-	8,798
Other financial assets	795	150	226	33	1,204
Total financial assets	**1,449,543**	**526**	**162,185**	**22,375**	**1,634,629**
Financial liabilities					
Due to other banks	183,984	-	-	-	183,984
Customer accounts	728,016	21,770	2,094	16,990	768,870
Other borrowed funds	-	42,972	335,040	50,914	428,926
Lease liabilities	3,737				3,737
Insurance liabilities	8,828	-	-	-	8,828
Other financial liabilities	2,537	19	1	-	2,557
Subordinated debt	-	14,410	-	-	14,410
Total financial liabilities	**927,102**	**79,171**	**337,135**	**67,904**	**1,411,312**
Net position in on-balance sheet financial instruments	**522,441**	**(78,645)**	**(174,950)**	**(45,529)**	**223,317**
Credit related commitments	**144,745**	**2,929**	**23**	**317**	**148,014**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with counterparties outstanding to/from companies ultimately controlled by the entities located in China are allocated to the caption "China". Cash and cash equivalents have been allocated based on the country in which they are physically held.

38 Financial Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2018 is set out below:

In thousands of Georgian Lari	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	68,843	8	1,056	62,593	132,500
Mandatory cash balances with NBG	170,443	-	-	-	170,443
Investments in debt securities	175,690	-	-	-	175,690
Investment in equity securities	63	-	-	-	63
Loans and advances to customers	900,803	-	-	-	900,803
Finance leases to customers	89	-	-	-	89
Insurance receivables	4,194	-	-	-	4,194
Other financial assets	783	-	-	-	783
Total financial assets	**1,320,908**	**8**	**1,056**	**62,593**	**1,384,565**
Financial liabilities					
Due to other banks	100,196	-	-	-	100,196
Customer accounts	647,067	80,354	-	-	727,421
Other borrowed funds	-	91,527	247,810	6,445	345,782
Insurance liabilities	4,531	-	-	-	4,531
Other financial liabilities	1,822	-	-	-	1,822
Total financial liabilities	**753,616**	**171,881**	**247,810**	**6,445**	**1,179,752**
Net position in on-balance sheet financial instruments	**567,292**	**(171,873)**	**(246,754)**	**56,148**	**204,813**
Credit related commitments	**154,212**	**2,414**	**-**	**-**	**156,626**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The Group manages liquidity risk according to the Asset-Liability Management Policy and Regulation of Liquidity Management, where detailed processes and limit system for liquidity management is defined. The Asset/Liability Committee is responsible for the implementation of the Asset-Liability Management Policy, the daily management of liquidity is the responsibility of Treasury Department.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits, long-term borrowings and credit lines. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considersation of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements.

38 Financial Risk Management (Continued)

The liquidity is calculated and assessed on stand alone basis. The Bank calculates and maintains liquidity in accordance with the requirement of the NBG on daily basis. These ratios are:

- Average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities and and borrowings up to six months and off-balance sheet liabilities limited to minimum 30% on monthly basis .
- Liquidity Coverage Ratio ("LCR"), which is calculated as high-quality liquid assets devided by net cash outflows over a 30 day stress period. Only assets with high potential to be easily converted into cash are included in high-quality liquid assets.

	2019	2018
Average liquidity ratio >=30%	58%	51%
Total liquidity coverage ratio	164%	171%
Liquidity coverage ratio (GEL)	172%	198%
Liquidity coverage ratio (FC)	153%	153%

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department.

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

38 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2019 is as follows:

In thousands of Georgian lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	248,700	-	-	-	-	248,700
Mandatory cash balances with the NBG	177,989	-	-	-	-	177,989
Due from other banks	-	287	6,899	-	-	7,186
Investments in debt securities	28,836	6,256	50,809	105,660	11,008	202,569
Investment in equity securities	-	-	-	-	63	63
Loans and advances to customers	44,731	118,559	168,008	397,040	256,656	984,994
Finance leases to customers	-	20	129	2,977	-	3,126
Insurance receivables	8,798	-	-	-	-	8,798
Other financial assets	575	20	466	-	143	1,204
Total	**509,629**	**125,142**	**226,311**	**505,677**	**267,870**	**1,634,629**
Liabilities						
Due to other banks	183,984	-	-	-	-	183,984
Customer accounts – individuals	149,335	54,233	85,976	45,679	5,093	340,316
Customer accounts – other	246,700	71,205	102,264	19,217	576	439,962
Other borrowed funds	6,505	161,947	68,457	226,788	5,020	468,717
Lease liabilities	101	433	434	1,795	974	3,737
Insurance liabilities	4,189	630	4,009	-	-	8,828
Other financial liabilities	2,219	338	-	-	-	2,557
Subordinated debt	-	492	492	3,934	15,527	20,445
Financial guarantees	-	5,363	5,681	42,551	4,263	57,858
Other financial liabilities	65,965	-	-	-	-	65,965
Letters of credit	600	516	-	-	-	1,116
Total potential future payments for financial obligations	**659,598**	**295,157**	**267,313**	**339,964**	**31,453**	**1,593,485**
Liquidity gap arising from financial instruments	**(149,969)**	**(170,015)**	**(41,002)**	**165,713**	**236,417**	**41,144**

38 Financial Risk Management (Continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The maturity analysis of financial instruments at 31 December 2018 is as follows:

In thousands of Georgian lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	132,500	-	-	-	-	132,500
Mandatory cash balances with the NBG	170,443	-	-	-	-	170,443
Investments in debt securities	6,021	27,114	52,592	89,963	-	175,690
Investment in equity securities	-	-	-	-	63	63
Loans and advances to customers	16,650	119,118	169,500	370,532	225,003	900,803
Finance leases to customers	-	-	89	-	-	89
Insurace receivables	-	-	4,194	-	-	4,194
Other financial assets	507	-	142	-	134	783
Total	**326,121**	**146,232**	**226,517**	**460,495**	**225,200**	**1,384,565**
Liabilities						
Due to other banks	65,400	34,796	-	-	-	100,196
Customer accounts – individuals	123,154	51,585	70,663	26,742	2,410	274,554
Customer accounts – other	287,796	49,664	94,555	34,250	589	466,854
Other borrowed funds	5,353	87,038	114,003	157,486	10,595	374,475
Insurance liabilities	-	4,531	-	-	-	4,531
Other financial liabilities	1,588	234	-	-	-	1,822
Financial guarantees	55,573	-	-	-	-	55,573
Other financial liabilities	77,771	-	-	-	-	77,771
Total potential future payments for financial obligations	**616,635**	**227,848**	**279,221**	**218,478**	**13,594**	**1,355,776**
Liquidity gap arising from financial instruments	**(290,514)**	**(81,616)**	**(52,704)**	**242,017**	**211,606**	**28,789**

Payments in respect of gross settled forwards will be accompanied by related cash inflows. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

38 Financial Risk Management (Continued)

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2019						
Financial assets	509,629	125,141	226,311	505,677	267,870	1,634,628
Financial liabilities	285,597	306,310	267,122	394,318	215,202	1,468,549
Financial and performance guarantees	640					640
Letters of credit	600	516	-	-	-	1,116
Undrawn credit related commitments	6,596					6,596
Net liquidity gap based on expected maturities	**216,196**	**(181,685)**	**(40,811)**	**111,359**	**52,668**	**157,727**
Cumulative liquidity gap based on expected maturities	**216,196**	**34,510**	**(6,301)**	**105,058**	**157,727**	
At 31 December 2018						
Financial assets	326,120	146,232	226,517	460,495	225,200	1,384,564
Financial liabilities	169,088	246,422	285,521	323,456	197,944	1,222,431
Financial and performance guarantees	374	-	-	-	-	374
Undrawn credit related commitments	7,777	-	-	-	-	7,777
Net liquidity gap based on expected maturities	**148,881**	**(100,190)**	**(59,004)**	**137,039**	**27,256**	**153,982**
Cumulative liquidity gap based on expected maturities	**148,881**	**48,691**	**(10,313)**	**126,726**	**153,982**	

Amounts for financial and performance guarantees and undrawn credit lines are disclosed based on expected cash outflows.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

As at 31 December 2019 the management believes it will be able to close the liquidity gap by obtaining sufficient borrowings from NBG or other banks under committed borrowings as and when necessary arises.

39 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least above the minimum level stated in borrowing agreements.

Compliance with capital adequacy ratios set by the NBG is monitored monthly, with reports outlining their calculation reviewed and signed by Deputy General Director, Finances. Other objectives of capital management are evaluated quarterly.

In the process of transition to Basel III framework, to increase transparency and comparability and segregate between available Capital instruments, for coverage of potential risks, the National Bank of Georgia ("NBG") amended Capital Adequacy requirements in December 2017 and in addition to the minimum capital requirements under pillar 1, in updated framework new Pillar 1 and Pillar 2 buffers were introduced:

Buffers under pillar 1:

- The capital conservation buffer - 2.5% of risk-weighted assets, and is designed to provide for losses in the event of stress, included in minimum capital requirements;
- The countercyclical capital buffer - was introduced within the Basel III framework and represents one of the main macro-prudential policy instruments, currently set at 0%;
- Systemic buffers - are set separately for each commercial bank considered to be systematically important (not applicable for Basis bank)

Buffers under pillar 2:

- Unhedged currency induced credit risk buffer (CICR);
- Credit portfolio concentration buffer, which entails name and sectoral concentration buffers;
- Net stress test buffer, will be introduced in accordance with stress tests results administered by the NBG;
- Net GRAPE buffer, set in accordance with the NBG's General Risk Assessment Program and the assessment of banks' internal capital requirement;

Under the current capital requirements set by the NBG, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Based on information provided internally to key management personnel, the amount of capital that the Group managed was GEL 240,567 thousand as of 31 December 2019 (2018: GEL 218,933 thousand), regulatory capital amounts to GEL 258,633 thousand (2017: GEL 221,981 thousand) and the Group and the Bank have complied with all externally imposed capital requirements throughout 2019 and 2018.

39 Management of Capital (Continued)

The following Capital adequacy report is prepared under stand alone basis in accordance with NBG standards:

In thousands of Georgian Lari	**2019 Pillar I/II**	**2018 Pillar I/II**
Primary capital		
Share capital	16,181	16,138
Share premium	76,413	75,784
Retained earnings according to the NBG regulations	113,630	82,129
Revaluation reserve	9,513	9,653
Current year profit according to NBG regulations	24,830	35,230
Primary capital Before Correction	**240,567**	**218,934**
Primary capital Corrections	(11,546)	(11,017)
Total primary capital After correction	**229,021**	**207,917**
Secondary capital		
Subordinated debt	14,052	-
General reserve	15,560	14,064
Total secondary capital	**29,612**	**14,064**
Total regulatory capital	**258,633**	**221,981**
Risk weighted assets, combining credit, market and operational risks	**1,359,786**	**1,215,027**
Minimum Tier 1 Ratio	***10.7%***	***11.1%***
Tier I ratio	**16.8%**	**17.11%**
Regulatory capital ratio	**19.0%**	**18.27%**

40 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax contingencies. Georgian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. A tax year remains open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Bank is under inspection of tax authorities for the tax period starting from 1 April 2015 until 31 August 2018.There are certain areas which were questioned by the tax authorities, the Bank has not agreed with some estimations, disputes were not settled as at 31 December 2019. The onsite inspection contintues and is not finalised as at 31 December 2019. No provision has been made as the Group's management believes that it is not likely that any significant loss will eventuate.

The Georgian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. The Group consults with qualified external tax advisors on a regular basis.

Operating lease commitments at 31 December 2018. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases at 31 December 2018 are as follows:

In thousands of Georgian Lari	**2019**	**2018**
Not later than 1 year	17	327
Total operating lease commitments	**17**	**327**

The Group leases a part of premises rented for location of equipment (ATMs) under operating leases which are not included into Right of Use Assets. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that the Group was in compliance with covenants at 31 December 2019 and 31 December 2018.

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The Group complied with this loan covenant.

40 Contingencies and Commitments (Continued)

The composition of the Group's capital calculated in accordance with the Basel Accord is as follows:

In thousands of Georgian Lari	2019	2018
Tier 1 capital		
Share capital	90,980	90,980
Retained earnings	178,499	146,999
Total tier 1 capital	**269,479**	**237,979**
Tier 2 capital		
Revaluation reserves	9,165	9,372
Subordinated debt	14,410	-
General reserve	3,662	4,483
Total tier 2 capital	**27,237**	**13,767**
Total capital	**296,716**	**251,746**

General reserve included in Tier 2 is defined as lower of (a) IFRS provisions created on loans without signs of impairment and (b) 2% of loans without impairment trigger event.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	Note	2019	2018
Financial guarantees issued		57,858	55,573
Undrawn credit line commitments		65,965	77,771
Import letters of credit	22	1,118	
Total loan commitments		124,941	133,344
Less: Provision for financial guarantees	26	(349)	(95)
Less: Provision for loan commitments	26	(292)	(262)
Less: Provision for Import letters of credit		(11)	-
Less: Commitment collateralised by cash deposits		(17,811)	(24,422)
Total credit related commitments, net of provision and cash covered exposures		**106,478**	**108,565**

40 Contingencies and Commitments (Continued)

Movements in provisions for financial guarantees are as follows:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Total provision	Gross guaranteed amount
Provision for financial guarantees at 31 December 2018	**51**	**44**	**95**	**55,573**
Movements with impact on provision for credit related commitments charge for the period:				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(268)	268	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	5	(5)	-	-
Issued guarantees	336	-	336	40,559
Derecognised during the period	(46)	(40)	(86)	(37,973)
Total charge to profit or loss for the year	**27**	**223**	**250**	**2,586**
Movements without impact on provision for credit related commitments charge for the period:				
FX movements	3	-	3	(300)
Provision for financial guarantees at 31 December 2019	**81**	**267**	**348**	**57,859**

40 Contingencies and Commitments (Continued)

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Total provision	Gross guaranteed amount
Provision for financial guarantees at 1 January 2018	**77**	**1**	**78**	**30,978**
Movements with impact on provision for credit related commitments charge for the period:				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(44)	44	-	-
Issued guarantees	95	-	95	49,887
Derecognised during the period	(77)	(1)	(78)	(25,380)
Total charge to profit or loss for the year	**(26)**	**43**	**17**	**24,507**
Movements without impact on provision for credit related commitments charge for the period:				
FX movements	-	-	-	88
Provision for financial guarantees at 31 December 2018	**51**	**44**	**95**	**55,573**

40 Contingencies and Commitments (Continued)

Movements in the provision for loan commitments were as follows.

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total provision**	**Gross committed amount**
Provision for loan commitments at 31 December 2018	124	139	-	263	77,771
Movements with impact on provision for credit related commitments charge for the period:					
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(13)	13	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(101)	(3)	104	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(1)	-	-	-
Issued loan commitments	189	35	-	224	55,228
Derecognised during the period	(112)	(93)	-	(205)	(67,234)
Total charge to profit or loss for the year	**(36)**	**(49)**	**104**	**19**	**(12,006)**
Movements without impact on provision for credit related commitments charge for the period:					
FX movements	10	-	-	10	200
Provision for loan commitments at 31 December 2019	**98**	**90**	**104**	**292**	**65,965**

40 Contingencies and Commitments (Continued)

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total provision**	**Gross committed amount**
Provision for loan commitments at 1 January 2018	**108**	**155**	**34**	**297**	**50,476**
Movements with impact on provision for credit related commitments charge for the period:					
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(53)	53		-	
Issued loan commitments	137	12	-	149	56,428
Derecognised during the period	(71)	(83)	(34)	(188)	(29,204)
Total charge to profit or loss for the year	**13**	**(18)**	**(34)**	**(39)**	**27,224**
Movements without impact on provision for credit related commitments charge for the period:					
FX movements	3	1	-	4	71
Provision for loan commitments at 31 December 2018	**124**	**138**	**-**	**262**	**77,771**

Refer to Note 42 for disclosure of the fair value of each class of other financial liabilities.

40 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2019 is as follows.

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Issued financial guarantees				
- Excellent	5,090	-	-	5,090
- Good	41,387	-	-	41,387
- Satisfactory	-	11,381	-	11,381
Unrecognised gross amount	**46,477**	**11,381**	**-**	**57,858**
Provision for financial guarantees	**(81)**	**(268)**	**-**	**(349)**
Loan commitments				
- Excellent	2,326	603	-	2,929
- Good	55,214	5,884	-	61,098
- Satisfactory	-	1,196	-	1,196
- Special monitoring	-	401	-	401
- Default	-	-	341	341
Unrecognised gross amount	**57,540**	**8,084**	**341**	**65,965**
Provision for loan commitments	**(98)**	**(90)**	**(104)**	**(292)**

Refer to Note 38 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to credit related commitments.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was GEL 321 thousand at 31 December 2019 (2018: GEL 638 thousand).

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

40 Contingencies and Commitments (Continued)

The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

In thousands of Georgian Lari	Note	2019	2018
Construction		13,183	14,216
Energy		4,330	-
Trade		1,968	747
Real Estate Management and Develomen		1,832	-
Service		956	1,454
Other		1,747	6,865
Total guaranteed amounts		**24,016**	**23,282**

Movements in provisions for performance guarantees are as follows:

In thousands of Georgian Lari	Note	2019	2018
Carrying amount at 1 January		17	179
Initial recognition of issued performance guarantees		274	9
Utilisation of provision		(10)	(171)
FX movements		10	-
Carrying amount at 31 December		291	17

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

		31 December 2019		**31 December 2018**	
In thousands of Georgian Lari	**Notes**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Investments in debt securities at AC	9, 23	99,855	94,862	40,427	38,153
Mortgage Loan portfolio pledged with NBG		60,492	48,138	27,309	21,847
Total		**160,347**	**143,000**	**67,736**	**60,000**

At 31 December 2019, restricted cash balances are balances of GEL 143 thousand (2018: GEL 134 thousand) are placed as a cover for international payment cards transactions. In addition, mandatory cash balances with the NBG of GEL 177,989 thousand (2018: GEL 170,443 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations, as disclosed in Note 8.

41 Offsetting Financial Assets and Financial Liabilities

At 31 December 2019 and 31 December 2018 no financial instruments subject to offsetting, enforceable master netting and similar arrangements are presented.

42 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2019				31 December 2018			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investments in equity securities								
- Corporate shares	-	63	-	63	-	63	-	63
NON-FINANCIAL ASSETS								
- Premises and equipment	-	-	21,246	21,246	-	-	21,345	21,345
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	**-**	**63**	**21,246**	**21,309**	**-**	**63**	**21,345**	**21,408**

The non-current assets held for sale are measured at FV less cost to sell as of 31 December 2019 and 31 December 2018. The fair value belongs to level 3 measurements in the fair value hierarchy. The fair value is GEL 979 thousand (2018: GEL 6,301 thousand).

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs at 31 December 2018 and 31 December 2017 are as follows:

	Fair value at 31 December				
In thousands of Georgian Lari	**2019**	**2018**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**
ASSETS AT FAIR VALUE					
NON-FINANCIAL ASSETS					
- Premises	21,246	21,345	Market comparable assets	Price per square meter	Commercial area 3,640-10,831 Office area 2,460-4,100 Garage 1,179-1,591 (3,568)
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**21,246**	**21,345**			

42 Fair Value Disclosures (Continued)

(b) *Assets and liabilities not measured at fair value but for which fair value is disclosed*

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands of Georgian Lari	31 December 2019 Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value	31 December 2018 Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value
ASSETS								
Cash and cash equivalents								
- Cash on hand	37,439	-	-	37,439	32,099	-	-	32,099
- Cash balances with the NBG	-	41,859	-	41,859	-	31,750	-	31,750
- Correspondent accounts and overnight placements	-	56,064	-	56,064	-	68,650	-	68,650
- Placements with other banks with original maturities of less than three months		113,339	-	113,339	-	-	-	-
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	7,186	-	7,186	-	-	-	-
Mandatory balances with the NBG	-	177,989	-	177,989	-	170,443	-	170,443
Loans and advances to customers at AC								
- Corporate loans	-	-	805,945	784,485	-	-	679,068	683,919
- Mortgage loans	-	-	137,497	136,223	-	-	142,684	134,980
- Consumer loans	-	-	64,314	60,172	-	-	82,602	77,245
- Credit cards	-	-	4,623	4,112	-	-	4,659	4,659
- Finance lease	-	-	3,126	3,126	-	-	89	89
Investments in debt securities at AC								
- Georgian government treasury bonds	-	141,151	-	145,160	-	107,067	-	106,109
- Georgian government treasury bills	-	45,412	-	45,623	-	66,948	-	66,850
- Corporate bonds	-	14,410	-	11,785	-	-	-	-
-NBG deposit Certificate	-	-	-	-	-	2,731	-	2,731
Insurance receivables	-	8,798	-	8,798	-	4,194	-	4,194
Other financial assets	-	1,204	-	1,204	-	783	-	783
NON-FINANCIAL ASSETS								
- Investment properties			2,011	959	-	-	3,972	1,572
TOTAL	**37,439**	**607,412**	**1,017,516**	**1,635,523**	**32,099**	**452,566**	**913,074**	**1,386,072**

42 Fair Value Disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December 2019				31 December 2018			
In thousands of Georgian Lari	Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	1	-	1	-	1	-	1
- Short-term placements of other banks	-	40,838	-	40,838	-	50,155	-	50,155
- Short-term loans of NBG	-	143,145	-	143,145	-	50,039	-	50,039
Customer accounts								
- Current/settlement accounts of state and public organisations	-	82,519	-	82,519	-	128,789	-	128,789
- Term deposits of state and public organisations	-	-	46,203	44,381	-	-	35,638	35,137
- Current/settlement accounts of other legal entities	-	154,936	-	154,936	-	135,716	-	135,716
- Term deposits of other legal entities	-	-	156,305	155,118	-	-	163,226	161,995
- Current/demand accounts of individuals	-	130,079	-	130,079	-	109,751	-	109,751
- Term deposits of individuals	-	-	210,237	201,837	-	-	159,211	156,033
Other borrowed funds								
- Borrowings from International Financial institutions	-	468,718	-	428,926	-	374,476	-	345,782
Insurance Liabilities	-	8,828	-	8,828	-	4,531	-	4,531
Other financial liabilities	-	2,556	-	2,556	-	1,822	-	1,822
Subordinated debt								
- Subordinated debt	-	20,445	-	14,410	-	-	-	-
TOTAL	**-**	**1,052,065**	**412,745**	**1,407,574**	**-**	**855,280**	**358,075**	**1,179,751**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

The Group's liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

43 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

In thousands of Georgian Lari	**Equity instru-ments at FVOCI**	**AC**	**Finance lease receivables**	**Total**
ASSETS				
Cash and cash equivalents	**-**	**248,700**	**-**	**248,700**
Mandatory cash balances with the NBG	**-**	**177,989**	**-**	**177,989**
Due from other banks	**-**	**7,186**	**-**	**7,186**
Investments in debt securities	-	**202,569**	**-**	**202,569**
- Georgian government treasury bonds	-	145,160	-	145,160
- Georgian government treasury	-	45,623	-	45,623
- Corporate bonds	-	11,785	-	11,785
Investments in equity securities	**63**	**-**	**-**	**63**
Loans and advances to customers	-	**984,994**	**-**	**984,994**
- Standard lending	-	784,486		784,486
- Mortgage loans	-	136,223		136,223
- Consumer loans	-	60,172		60,172
- Credit cards	-	4,112		4,112
Finance lease	**-**	**-**	**3,126**	**3,126**
Insurance receivables	**-**	**8,798**	**-**	**8,798**
Other financial assets	**-**	**1,204**	**-**	**1,204**
TOTAL FINANCIAL ASSETS	**63**	**1,631,440**	**3,126**	**1,634,629**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2018:

In thousands of Georgian Lari	**Equity instru-ments at FVOCI**	**AC**	**Finance lease recei-vables**	**Total**
ASSETS				
Cash and cash equivalents	-	**132,500**	-	**132,500**
Mandatory cash balances with the NBG	-	**170,443**	-	**170,443**
Investments in debt securities	-	**175,690**	-	**175,690**
- Georgian government treasury bonds	-	106,109	-	106,109
- Georgian government treasury	-	66,850	-	66,850
- NBG certificates of deposit	-	2,731	-	2,731
Investments in equity securities	**63**	**-**	**-**	**63**
Loans and advances to customers	-	**900,803**	**-**	**900,803**
- Standard lending	-	683,919	-	683,919
- Mortgage loans	-	134,980	-	134,980
- Consumer loans	-	77,246	-	77,246
- Credit cards	-	4,659	-	4,659
Finance lease	-	-	**89**	**89**
Insurance receivables	**-**	**4,194**	**-**	**4,194**
Other financial assets	**-**	**782**	**-**	**782**
TOTAL FINANCIAL ASSETS	**63**	**1,384,412**	**89**	**1,384,564**

44 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can 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.

Included in "Investments in subsidiary" under Separate Statement of Financial Position of the Bank are the investments in following enitites:

In thousands of Georgian Lari		2019		2018	
Name	**Principal activities**	**Investment**	**Accumulated Profit/(loss)**	**Investment**	**Accumulated Profit/(loss)**
Basis Asset Management – Holding LLC	Asset management	3,797	36	3,796	(52)
Hualing Insurance JSC	Insurance	4,300	1,789	4,300	1,470
BHL Leasing JSC	Leasing	5,000	(14)	2,000	(3)
Total		**13,097**	**1,811**	**10,096**	**1,415**

At 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Ultimate share-holder**	**Other share-holders**	**Immedi-ate parent company**	**Super-visory Board**	**Manag-ement Board**	**Compa-nies under common control**	**Other related parties**
Loans and advances to customers (contractual interest rate: 4% □16%)	-	461	-	63	815	9,464	2,610
Credit loss allowance at 31 December 2019	-	-	-	-	(3)	(21)	(1)
Customer accounts (contractual interest rate: 2% □ 12%)	410	1,884	229	1,005	3,631	26,374	5,195
Subordinated debt (contractual interest rate: 7%)	-	-	14,410	-	-	-	-

The income and expense items with related parties for 2019 were as follows:

In thousands of Georgian Lari	**Ultimate share-holder**	**Signifcant share-holders**	**Immediate parent company**	**Superviso ry Board**	**Manage-ment Board**	**Compani es under common control**	**Other related parties**
Interest income	1	21	-	4	69	810	408
Interest expense	(24)	(67)	(166)	(35)	(224)	(880)	(122)
Credit loss allowance	-	(1)	-	(1)	7	(160)	3
Gains less losses from trading in foreign currencies	-	4	12	2	(4)	375	4
Foreign exchange translation gains less losses	2	(73)	(685)	(39)	(5)	(2,643)	304
Fee and commission income	-	-	-	-	-	5	-
Administrative and other operating expenses	-	-	-	-	-	-	110

44 Related Party Transactions (Continued)

At 31 December 2019, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	**Ultimate share-holder**	**Signifcant share-holders**	**Immediate parent company**	**Super-visory Board**	**Manag-ement Board**	**Compa-nies under common control**	**Other related parties**
Performance Guarantees issued by the Group at the year end	-	-	-	-	-	667	-
Financial Guarantees issued by the Group at the year end	-	-	-	-	-	1,605	-
Undrawn credit line commitments	50	44	-	106	1,064	740	139

Aggregate amounts lent to and repaid by related parties during 2019 were:

In thousands of Georgian Lari	**Ultimate share-holder**	**Signifcant share-holders**	**Immediate parent company**	**Supervi-sory Board**	**Manage-ment Board**	**Compa-nies under common control**	**Other related parties**
Amounts lent to related parties during the year	-	1,251	-	60	2,191	12,766	390
Amounts repaid by related parties during the year	-	1,095	-	60	2,630	4,839	3,601

At 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Ultimate share-holder**	**Other share-holders**	**Immedi-ate parent company**	**Super-visory Board**	**Manag-ement Board**	**Compa-nies under common control**	**Other related parties**
Loans and advances to customers (contractual interest rate: 4.7% □16%)	-	23	-	7	676	261	195
Credit loss allowance at 31 December 2019	-	(1)	-	-	(15)	(9)	(4)
Customer accounts (contractual interest rate: 2% □ 10%)	386	1,241	9,800	560	2,288	37,486	829

44 Related Party Transactions (Continued)

The income and expense items with related parties for 2018 were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Significant share-holders	Immediate parent company	Super-visory Board	Manag-ement Board	Compa-nies under common control	Other related parties
Interest income	-	6	-	21	59	1,455	20
Interest expense	(22)	(33)	(230)	(42)	(145)	(1,649)	(49)
Credit loss allowance	-	-	-	1	(3)	4	1
Gains less losses from trading in foreign currencies	-	5	-	4	-	597	-
Foreign exchange translation gains less losses	-	(23)	(236)	33	(90)	1,498	(16)
Fee and commission income	-	-	-	-	-	5	-
Administrative and other operating expenses	-	-	-	-	(2)	-	(86)

At 31 December 2018, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Significant share-holders	Immediate parent company	Super-visory Board	Manag-ement Board	Compa-nies under common control	Other related parties
Performance Guarantees issued by the Group at the year end	-	-	-	-	-	1,065	-
Financial Guarantees issued by the Group at the year end	-	-	-	-	-	1,536	-
Undrawn credit line commitments	-	295	-	160	496	739	18

Aggregate amounts lent to and repaid by related parties during 2018 were:

In thousands of Georgian Lari	Ultimate share-holder	Significant share-holders	Immediate parent company	Supervi-sory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Amounts lent to related parties during the year	-	1,042	-	849	332	3,613	-
Amounts repaid by related parties during the year	-	(1,364)	-	(1,253)	(626)	(41,234)	(114)

A person is considered as related party only if he/she has control or joint control or significant influence over the Bank or the group, is a member of Top Management of the group or its parent entity.

Legal Entity is considered to be a related party if the following conditions are met: The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others). One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); The enterprise is subject of control or joint control of the following natural persons: person having control or significant influence over the Bank; Member of Top Management of the Bank, The group or it's parent Company, as well as their family members. Other related parties include companies under control and/or family member of persons who are considered as related party and have right significant influence over the bank or the group.

44 Related Party Transactions (Continued)

Compensation for the members of the Supervisory Board is presented below:

	2019		2018	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	475		173	
Total	**475**		**173**	

Key management compensation is presented below:

	2019		2018	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	1,280		838	-
- Short-term bonuses	2,416	1,257	1,360	837
Share-based compensation:				
- Equity-settled share-based compensation	483		488	-
Total	**4,179**	**1,257**	**2,686**	**837**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services. Key management personel includes management board members.

45 Events after the End of the Reporting Period

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these consolidated financial statements, to date there has been no discernible impact on the Group's or the Bank's financials, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effect.

46 Abbreviations

The list of the abbreviations used in these consolidated financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
IFRS	International Financial Reporting Standard
IRB system	Internal Risk-Based system
L&R	Loans and Receivables
LGD	Loss Given Default
LTV	Loan to Value
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
ROU asset	Right of use asset
SICR	Significant Increase in Credit Risk
SME	Small and Medium-sized Enterprises
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest

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