BASISBANK
Hualing Group Member

ANNUAL REPORT

2020

2020

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Hualing Group Member

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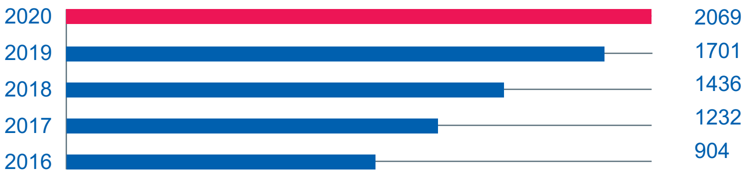
BASISBANK ANNUAL REPORT 2020

Basisbank's Results Highlights

5th BY ASSETS

22% ↑

TOTAL ASSETS GELm



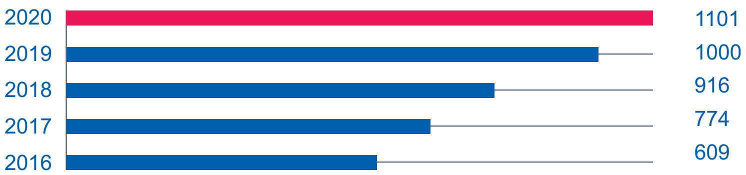
LONG -TERM B+/ STABLE*
SHORT - TERM B

FITCH RATINGS
*Revised in May, 2021

6th BY LENDING

9% ↑

LENDING GELm



GEL **24 200**
NET PROFIT

5th BY LIABILITIES

24% ↑

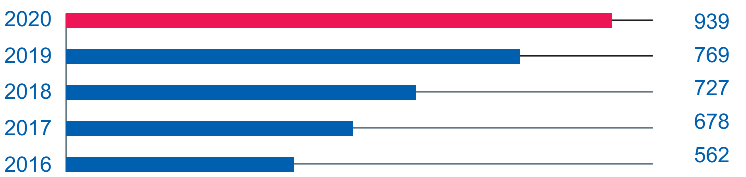
LIABILITIES GELm

433
EMPLOYEES

7th BY DEPOSITS

22% ↑

DEPOSITS GELm



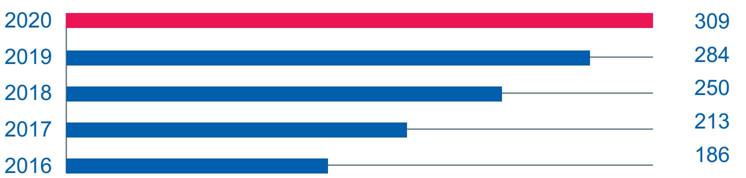
136 000
CUSTOMERS

14 PARTNER INSTITUTIONS

4th BY EQUITY

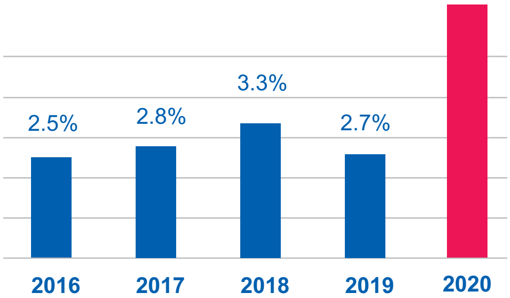
9% ↑

TOTAL SHAREHOLDERS' EQUITY GELm

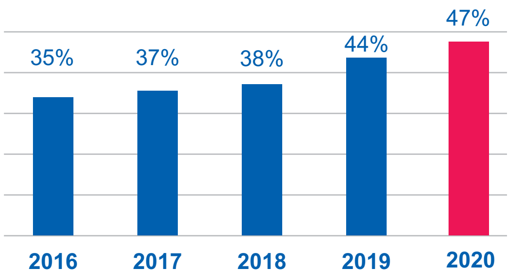


STRONG CAPITALIZATION – **17,5%** WELL ABOVE REGULATORY MINIMUM OF **12,27%**

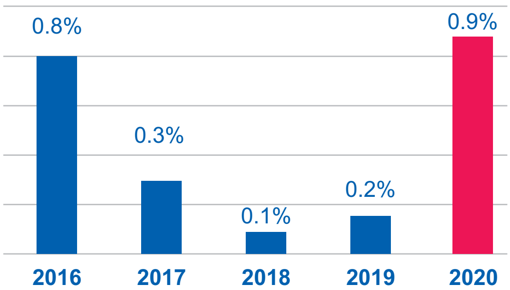
NPLS



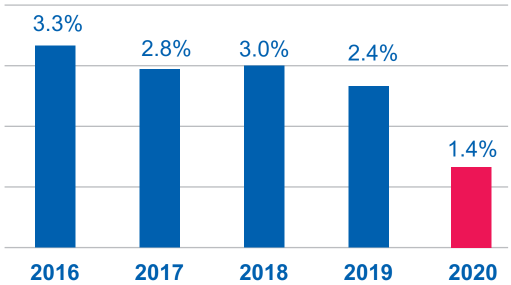
COST/INCOME



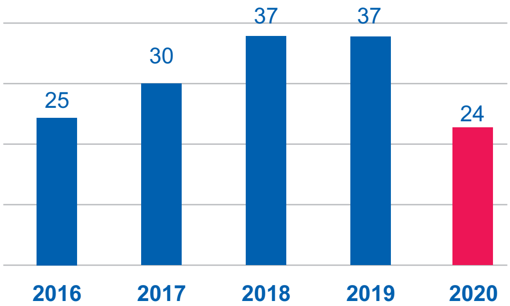
COST OF RISK



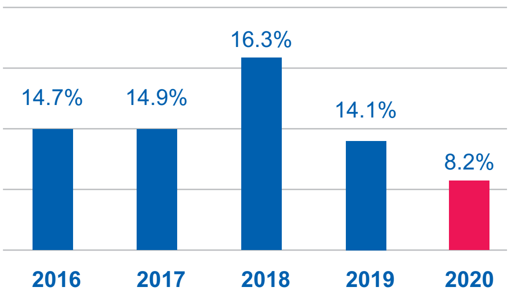
ROAA



NET PROFIT



ROAE



Letter from the Executive Chairman of the Supervisory Board

Zhang Jun
Executive Chairman
of the Supervisory Board,

Dear Shareholders,

2020 was marked with significant challenges, health safety issues took precedence over society lives worldwide, the Covid-19 pandemic forced people around the world into lockdown, inverted livelihoods and economies to deal with. The Covid-19 pandemic has severely impacted many countries, including Georgia. The communities were severely affected by the economic crisis that unfolded unpredictably during the year hitting entire sectors causing them to halt.

The financial services industry has been at the forefront of helping businesses and individuals through the difficulties they have faced, working with government and regulator towards expected recovery and future growth.

We positioned ourselves to provide much-needed support for our customers and employees, while ensured that out financial standing was strong and operating capacities were set and adjusted so as to meet the needs and requirements of clients, authorities, our partners and stakeholders. In 2020 we faced increasingly complex and challenging environment, even before the year began, the environment was being reshaped and tensed resulted from complicated economic conditions and political crisis and polarization during entire 2019. The spread of the Covid-19 virus made that environment all the more complex and challenging.

Basisbank Group (BB Group) was on sound footing operationally and financially dealing with the crisis. The Group has demonstrated financial and operational resilience during a period of intense shock caused by the pandemic. Reported profit before tax was GEL 24 million, a fall of 35% compared to 2019, resulted from increased provisional charges due to lowered assets quality and heightened risks on portfolios impacted by downturns. Still the bank and the group managed to maintain operating capacities as we continued uninterrupted services to our clients and revenues generated reached GEL 66.9 million 9% down of 2019 results. Despite significant charges to capital the Capital adequacy was standing high at 17.5% after short-term reduction early in the year due to higher charges on loan portfolio. We also reinforced the strength of our funding position as well as capital support across the Group.

Due to heightened capital charges and increased risks on the market, following to the instruction of the regulator we cancelled the dividend pay for 2019. By the decision of the regulator (The National Bank of Georgia – “NBG”) some capital buffers were realised from capital requirements to ensure solvency and compliance of the banking sector during the crisis, this measure was supporting at the same time to the growth throughout the system and extension of financing was maintained serving as a stimulus to the businesses during the most difficult environment. BasisBank is fully compliant to the requirements set by the regulator, but the dividends are suspended until the capital requirements are officially restored to the pre-pandemic level, this should ensure smooth development and progress of the bank as well as confidence of stakeholders and our partners. The Shareholders of Basisbank proclaim full support to the Bank and the Group.

Despite challenges ahead the Board is confident there are many opportunities with BB group's competitive strengths to grow. While we prioritised supporting our customers and our people during the pandemic, we made good progress against our strategic priorities. The Board worked with the Management over the course of the year to oversight the risk and ensure controls on progress during the most difficult phases, to support the safety measures taken by the management, while at the same time we declare full support in planning and developing strategically important projects and decisions for the development of new technologies prioritised by the Board and the Management in line with the our vision and aspirations. We believe the measure we take to accelerate the progress and investments in key areas of new technologies will support to the sustainable growth of the Group and favour competitive advantages of companies under the umbrella of BB Group.

The BB group has a unique advantage by the Hualing group and its connections to China. The Hualing group is committed to support the bank and its daughter companies with financial resources and other benefits in advanced technologies prevailing on Chinese market, the knowledge which the Bank and its companies can obtain and enhance their strength and explore earliest opportunities and advance further on the market.

China remains one of the fastest growing market for the last decade. The resources and new technologies, connections to the Chinese suppliers, these are the benefits which the local community could benefit through Basisbank and BB leasing by connecting suppliers and buyers ensuring prompt and fast delivery of quality goods and serves they seek on Asian market. We want to build the connections and links between the communities and bring these opportunities to greater value, this is what we stand for and how this connects to our strategy. It is important that we align and energise the organisation to create long-term value to our customers, employees, partners and the communities we serve.

2020 underlined once again that our people are the driving force behind our business. I would like to express my gratitude to my colleagues for the great dedication and support they showed to our customers and to each other during such testing times. Our team demonstrated the ability to empower their skills and make Basisbank and the Group even stronger in its capacity by delivering new solutions and tools to ensure timely and sophisticated decisions while coping with the pandemic consequences and customers' immediate needs. Enabling them to do their jobs and execute our strategic priorities is the key to our future success.

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Letter from the Chairman of the Management Board

David Tsaava
Chairman of the Management Board

In 2020, BB had a very clear goal – to secure stability and continue unimpeded services in a highly instable environment. BB has succeeded in growing strong and resilient financial group over the decade while facing many challenges and obstacles inherent to emerging markets with characteristically highly volatile and unpredictable twists in environment.

Year 2020 was exceptionally difficult and challenging to business community, society and Governments. We were put against wasting conditions that proved to be long-lasting and its impact and durability on environment were difficult to determine. Covid-19 put uncertainty on businesses, customers and communities and had great impact on economies by creating a significant unpredictability on the world's markets. It affected Georgia significantly as it is strongly dependent on external markets.

In 2020 Georgia's economy has contracted, GDP fell by -6.1% y/y as severe restrictions were imposed following the announcement of emergency due to increased danger of spreading the Covid-19 in the first quarter of 2020. The situation affected Georgia's economy in many ways, the most negative impact fell on tourism sector, trade, HORECA.

The economic activity was mainly supported by the expansionary fiscal policy stance financed by the borrowed resources. The significant impact of the pandemic left Georgia's economy with substantial tourism sector deterioration, large current account deficit and markedly high public debt with a significant portion of liabilities denominated in foreign currency. The Covid_19 outbreak significantly hampered international trade, coupled by the negatively affected remittances.

Lari continued its depreciation against USD standing at 1$=3.2766 by the end of the year. With halted tourism sector and reduced Foreign Currency (FC) revenues Lari was supported by the interventions of NBG on FX market. The depreciated Lari increased the inflationary pressure. These uncertainties again affected interest rates and margins to press further.

Though banking sector continued to grow and due to very strict regulatory framework and requirements set for capital and solvency, the sector was well prepared to face complications caused by the pandemic. Despite of huge pressure from tightened operating environment and contracting businesses which resulted in deterioration of assets qualities and increased risk costs, the CAR and liquidity still remained solid and impaired loans were not above 8% throughout the banking sector.

The financial sector continued to provide full range of services without disruption; remote services were fully adapted and services were provided through on-line platforms - the financial service providers limited direct physical contact between the staff members and customers at the service centers.

Under those challenging circumstances, the BB Group remained committed to being with its customers and ensuring unhindered services and actively participated in the relief measures to mitigate the impact of the crisis. I am very proud of how the Bank's Management has supported its employees, partners and customers to ensure that they can manage through this turbulent period.

As the virus continued to spread BasisBank has put in action comprehensive Business Continuity Plan to ensure that all proper responses to healthcare and operational risks and ramifications emerging in a face of Covid-19 outbreak were in place. We took all necessary measures to follow all recommendations and adhered to safety measures of Ministry of Health and the Government of Georgia. We continued unhindered service to our customers - depositors and borrowers' albeit with reduced physical access to the bank offices. Clients were recommended to switch mostly on remote channels of self-service which provides complete coverage of the bank's service catalogue. All back functions were moved to work from home mode. In agreement with the NBG Retail and Corporate clients were offered postponement of scheduled payments.

Speaking of our financial performance in 2020, our results demonstrated the power of our efficient business model in a challenging environment. Notwithstanding the headwinds we faced throughout 2020, the Group ended the year with sound profit. Net income of the group amounted to GEL 24.2 million (GEL 37.3 million at y/e 2019), which has recorded 8.2% of Return on Shareholder's equity (ROAE), and 1.4% on Average assets (ROAA), 14.1% and 2.4% in 2019 respectively. Capitalization stood at 17.5%, well above regulatory minimum 12.3%, despite of significant allowances of GEL 24 million required by the NBG against increased risks in portfolios potentially affected by the restrictions.

Not only did we enter the crisis well-capitalized and with sound solvency, our efforts over the past few years to strategically position our footmark, focus on asset quality, and mitigate risks gave us flexibility and positioned us well to weather the stress caused by the pandemic.

The Management Board laid the right foundations for the development of the group and has rigorously implemented the transformation to achieve the strategic goals of the Group.

We rolled-out on the market as an integrated financial institution with optimal product mix in banking, leasing and insurance, encompassing sophisticated solutions driven by our client needs, creating opportunities by ultimately contributing to the growth of the value to our customers and shareholders.

During 2020, all three wings of BB holding continued providing services in close coordination which is based on the ability to offer one-stop-shop financial services to clients in a single space. All our subsidiaries continued to deliver strong operational performance even during the volatile period brought by Covid-19 outbreak, we remained focused on strengthening our position and attaining scale in respective businesses.

Our philosophy of offering superior experience to customers using digital technology remained unchanged in 2020. Even in these difficult circumstances caused by Covid-19 virus spread, we continued to invest in our technology and operations capabilities to enhance customer offerings and launch new digital solutions.

In 2020, we have made considerable investments in technology and infrastructure to strengthen the core and become a more digital and agile financial institution that has lower costs, fewer and simpler products, and better and faster decision-making processes. As a result of strong teamwork and collaboration across all of our channels, supported by our enhanced digital capabilities we have made smooth transition to digital services and offerings, making it easier for our customers to do business with us. The year saw some innovative products being launched for the Group's customers. The teams are entrusted to transform the operations of the Group so that we have one of the best systems and processes on the market and are also ready to seamlessly integrate the various digital journeys that our Project Development and Business Analysis Department together with IT team are building simultaneously. The success of the past initiatives is visible through the increased number of digital transactions under severe lockdown and mobility restrictions in the past year.

One of utmost importance to us is the health, well-being of our employees, business partners and customers. Appropriate precautious measures were taken to ensure the health and safety of our onsite teams and our customers. The Group demonstrated tremendous resilience over the past year, and proved that, regardless of the circumstances, we will do our best to support our customers, partners, and employees while working to deliver for our shareholders. We moved quickly to provide tailored support to the staff across our subsidiaries to help them manage through the pandemic. Our IT team deserves special mention as they worked tirelessly to ensure that most of the back-office staff were able to work from home, while keeping our systems stable and secure. Our Human Resources team also deserves special mention for the wellness support they delivered for our employees over the past year.

We put much emphasis on maintaining strong partnership ties with our existing partner international financial institutions. Despite the complex environment, Basisbank Group attracted in total GEL 184 million in long-term and short term loans from EBRD, IFC, ADB, EFSE and CDB which is another sign that, despite the crisis, investors have maintained their confidence in our Group. In 2020 we prioritized promoting and partnering international financial institutions for such projects as: trade financing, SME, energy efficiency and agribusiness development to provide our customers with much needed flexibility and benefits of affordable financing. As a result in 2020, 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 SME financing. We will continue further discussions with our partner institutions to increase obtained credibility and reliance of the Group and have their long-term financial and technical support for our further growth.

I would also like to highlight our special role in Chinese-Georgian business facilitation. Similarly to our Bank, our subsidiary - BB Leasing has a special and competitive advantage 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. BB 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 Group decided not to pay dividends for 2019, as was the case also for other Georgian banks, but to add the proposed dividend amount back to further bolster our capital base. This decision was made to support the initiatives and the recommendations from the NBG aimed at minimizing the economic consequences of the pandemic.

Outlook

As we look ahead to 2021, we remain optimistic that our Group will emerge from this pandemic stronger than it was before. The current environment may have delayed the timeline, however we are on the right track towards our strategy aspirations. We are confident that our strategy will deliver better returns for our shareholders in all our core businesses in the future. We will continue to enhance our customer experience and offerings through new innovations on the digital side and investments in API, automated services and data sciences.

We face the challenges ahead with many advantages. We enter 2021 with a healthy balance sheet, deep customer relationships, a strong brand, and well-positioned businesses. Though macroeconomic challenges and uncertainties remain, I am confident in the future as we work to build and strengthen our Group's image and position.

COVID-19 continues to be a challenge in the coming year. But our experience over the past year has demonstrated our ability to change and adapt, and it has shown us what we can achieve when we all work together to overcome such a challenging situation.

In 2021, as usual, Basisbank Group will maintain a prudent funding strategy, with various set of funding sources to ensure greater flexibility and favourable impact to deal with the pandemic consequences and help repair the economic and social damage caused by the coronavirus pandemic as well as on overall development of the Group's business lending.

We expect full recovery of our operating revenues and profit before pandemic level, which will also supported by lower costs of risks and increased operating capacities in 2021. The outlook is subject to developments on Macro level and depends on economic conditions, including government support package.

Forecast for the economic growth is 4% subject mainly to business activity resumption and broader economic developments supported by the fiscal stimulus and lending growth. We expect that epidemiological situation will improve following to the vaccination process launched by the Government while the tourism sector will start gradual recovery by the second half of the year.

Finally, I would like to thank our management team for their continued confidence, support and engaged leadership, our employees for their tremendous efforts, hard work and dedication, and our partners and customers for their trust through this challenging period. Together, we shall overcome these challenges and emerge stronger.

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Speaking of our financial performance in 2020, our results demonstrated the power of our efficient business model in a challenging environment. Notwithstanding the headwinds we faced throughout 2020, the Group ended the year with sound profit. Net income of the group amounted to GEL 24.2 million (GEL 37.3 million at y/e 2019), which has recorded 8.2% of Return on Shareholder's equity (ROAE), and 1.4% on Average assets (ROAA), 14.1% and 2.4% in 2019 respectively. Capitalization stood at 17.5%, well above regulatory minimum 12.3%, despite of significant allowances of GEL 24 million required by the NBG against increased risks in portfolios potentially affected by the restrictions.

Not only did we enter the crisis well-capitalized and with sound solvency, our efforts over the past few years to strategically position our footmark, focus on asset quality, and mitigate risks gave us flexibility and positioned us well to weather the stress caused by the pandemic.

OUR STRATEGY

Our Strategy

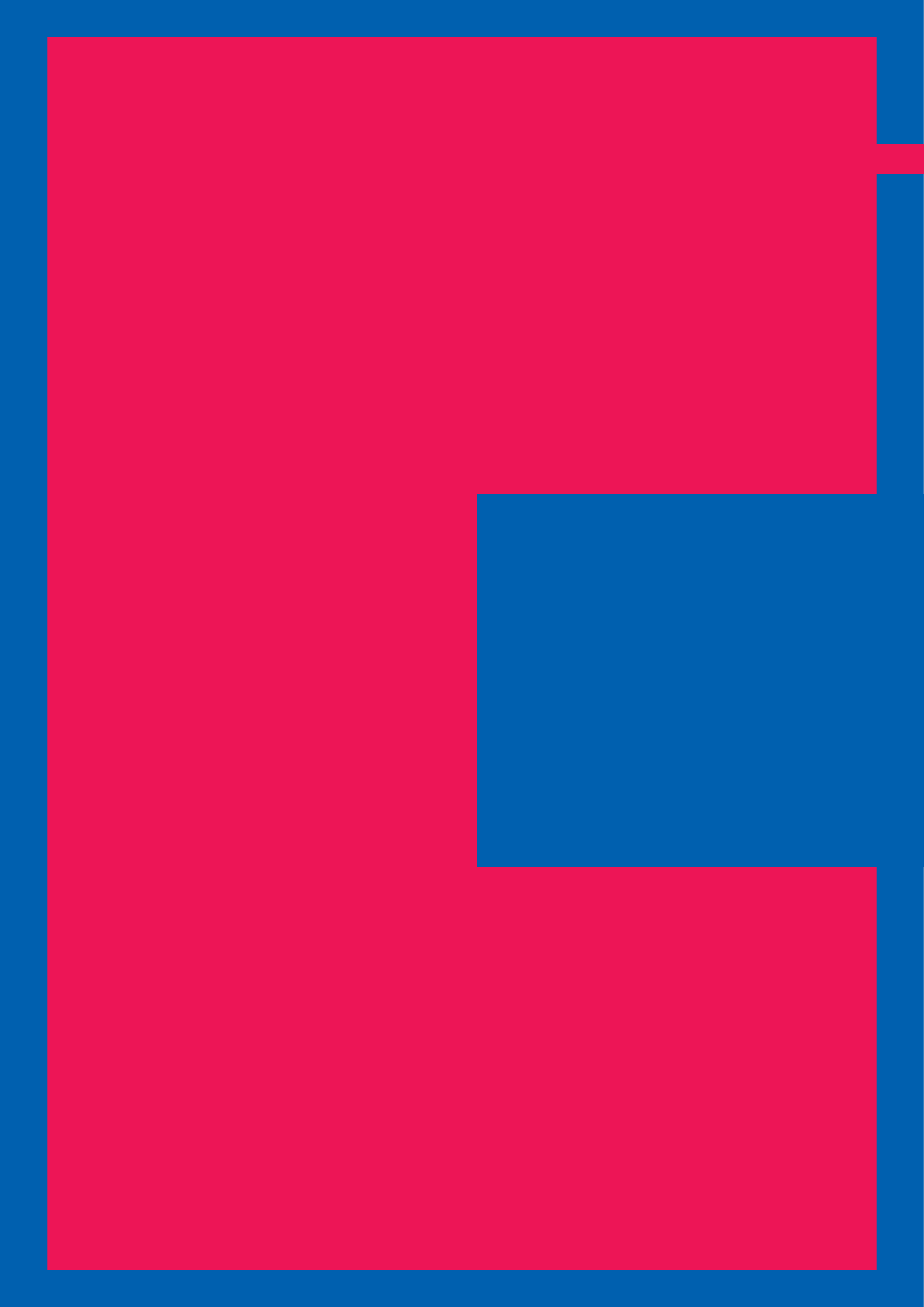
With continued delivery against our commitments, we are now in the stage of changes, which responds to the significant shifts and aligns to our refreshed purpose, values and ambition.

The significant changes in the operating environment during 2020 have made it more important to accelerate our pivot to those areas where we can make the highest returns and have the best opportunities for growth. Our near term goals and emphasis will be to transform and grow our franchise in:

Emphasis on transformation and growth of our franchise / Gaining greater market share in key business lines	Banking - BB upgrades market position to number 4, in Corporate and Retail banking is reaching 7% and 3.5% share on the market The targets for Insurance and leasing - to obtain 10% of market share in 4-5 year time horizon.
Implementation of Digitalization plans and goals for new Sales delivery platform	We continue to invest in digital transformation to enhance our customer experience and offerings through new inovations and considerable investments in technology and infrastructure to strengthen the core of our digital services.
Maintain low risk profile and sound financial strength with robust capital and profitability	Maintain excellence in risk management capabilities, driving lower concentrations, low risk appetite, keep sound financial performance based on management of NPL, quality of assets, low non-core assets

Progress in 2020

- BB' group is one of top leading financial groups on Georgian Market currently represented in Commercial Banking, Insurance and Leasing businesses.
- BB is one of the top 5 banks on market providing banking and financial services to retail consumers, wealthy clients, businesses and State control organizations. Our businesses currently serve over 130 thousand of active clients of which over 5500 represent Corporate and SME clients. BB operates through the 24 network of branches including regional centers.
- BB's group targets inclusive development and accelerated growth satisfying the shareholders' and other stakeholders best interests and expectations, including partners, employees, business community, etc. The objective of the group is to build up a most customer-oriented successful universal financial institution on Georgian market.
- The year 2021 plan concentrates on key lines of development outlined in BB group strategy with vigorous focuses on transformation and development of its strategic business lines, creating unified platform for financial services, connections to customers and businesses, introducing market-leading services by investing in digital technologies, staff and infrastructure directed to improve customer experiences.
- 2021 year plan also is concentered on further progress of its businesses gaining greater values especially during the difficulties facing the downturn of the economy.
- BB has a strong loyal customer base gained through long-lasting collaboration with key sectors' leaders and SME entrepreneurs and retail clients mostly acquired through the related businesses, though we are relatively low in executing our strategy of capturing the greater share of this segment.
- For business sectors BB aims to attain significant growth securing high quality and full range of financial services, refined banking products, increase expansion on segmented customers where we maintain lower concentration as compared to the sector. Increase market share in the target areas and provide fast, flexible and high quality corporate services to leading companies and institutions;
- Business channeled to companies offer a comprehensive range of solutions, designed to meet all business need. More focus on increasing demand for non-traditional lending products on securities markets, market-leading treasury services developed by the bank and brokerage services for high value clients.
- For retail - solid efforts are directed towards renovations and upgrade of our technological base and service delivery platforms, redesign of our internal processes and programs. BB is committed to build up long-term relationships with customers, offering tailored, sophisticated products and services, to help them reach their goals and aspirations. We forced solid efforts towards renovations and upgrade of our technological base and service delivery platforms – Technological breakthrough and structural changes to enable us to advance strongly on the market.
- 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. Our digital capabilities will be also opening new channels for us to distribute products and services. Digitization offers market entry opportunities and we expect our businesses to have an increased need for investment in digital product and process resources and potential to increase market share. 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.
- To become customer-oriented, the bank is planning to offer omni-channel customer experience in all distance channels (Internet banking, mobile banking, branches). We are encouraging self-service for customers, therefore we are working on to implement digital on-boarding process using AI powered tools and give them possibility to register online and use distance channels without visiting branches.



DELIVERING ON OUR STRATEGY

DELIVERING ON OUR STRATEGY
The Group Structure

JSC BASISBANK is an establisher of a financial services group - “Basisbank Group” (or “the Group”) and is among top financial holdings operating on Georgian Market currently represented in Banking, Insurance and Leasing businesses. The group provides services to Retail Consumers, Wealthy Individuals, Businesses and State Control Organizations. With assets of GEL 2 billion at 31 December 2020, Basisbank Group is one of top five largest banking and financial services organisations in Georgia. More than 130 thousand customers bank with us and we employ around 470 full-time equivalent staff.

For over two decades, we have created one of the most valuable financial brand and established ourselves as a universal financial Group providing complex services to the clients across the country. We roll-out on the market as an integrated financial institution with optimal product mix in banking, leasing and insurance, encompassing sophisticated solutions driven by our client needs, creating opportunities by ultimately contributing to the growth of the value to our customers and shareholders.

Customers expect seamless services and products from the bank and the Group overall, we therefore work on integration of all our channels in the best possible way that provided through the set of our branches, variety of digital platforms and omni-channel solutions, designed to master diverse demands and customer-focused approaches by meeting evolving customer aspirations, resulting in sustained business growth even in a largely volatile and uncertain market environment.

The Group's fundamental aim is to be the best open financial services platform by acting responsibly and earning lasting loyalty of staff, customers, partners and shareholders. BB's group targets inclusive development and accelerated growth satisfying the shareholders' and other stakeholders' best interests and expectations. The group concentrates on key lines of development with focuses on transformation and development of its strategic business lines, creating unified platform for financial services, connections to customers and businesses, introducing market-leading services by investing in digital technologies, staff and infrastructure directed to improve customer experiences.

Through coordinated functioning, all pillars of the group ensure the synergy and saving of resources and time, as well as greater accessibility to the products and services for the greater benefit of the clients. As a result, BB group is a universal financial platform, a one-stop financial solution provider with a wide value proposition basket of financial products and services spanning diverse business segments across the country.

Three subsidiaries are operating under the Basisbank Group umbrella: BB Insurance, BB Leasing and Basis Asset Management Holding Company (BAMH).

Our subsidiaries continue to deliver strong operational performance even during the volatile period brought by Covid-19 outbreak, we remain focused on improving our market share and attaining scale in respective businesses.

BB INSURANCE

Established in 2017, BB Insurance, is a rapidly growing company and is the main bank assurance partner of the holding. BB Insurance serves individual and legal entities and provides a broad range of insurance products covering motor, property, life, travel and corporate packages. BB 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. BB Insurance delivers services through BasisBank Group's branches in all cities and regions all-over the country.

In 2020, BB insurance and whole insurance sector in Georgia have been significantly impacted by the COVID-19 due to sales contraction in travellers and tourism businesses.

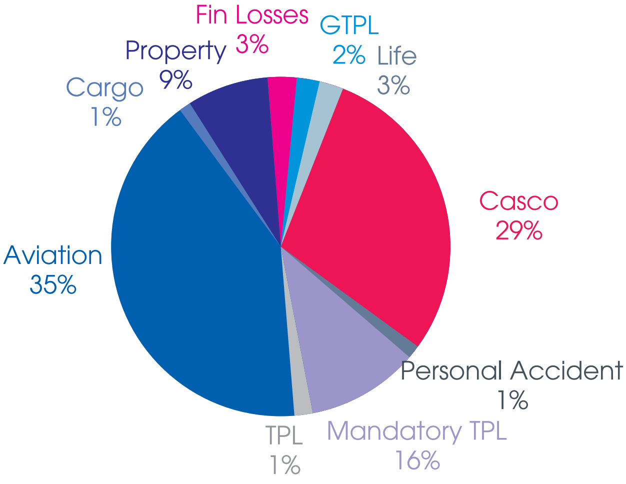
By continued improvement of products, BB insurance has restructured the credit life Insurance packages and covered pandemic risks which was critical for the clients. Ability to quickly adapt to the market needs has positioned the company as a desired insurer for lenders thus resulting in the growth of sales.

The process of efficient sales and on-boarding of new customers digitally became crucial in 2020, accordingly BB Insurance have adopted its website by transforming it into a sales channel and offered retail clients remotely acquire key products (auto and property insurance). Jointly with the Group holding member companies, a digital marketplace development has been originated where BB holding clients will have possibility to conveniently reach out and receive all financial services and products offered by the Group. The transformation of sales approach will deliver positive result in 2021. 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.

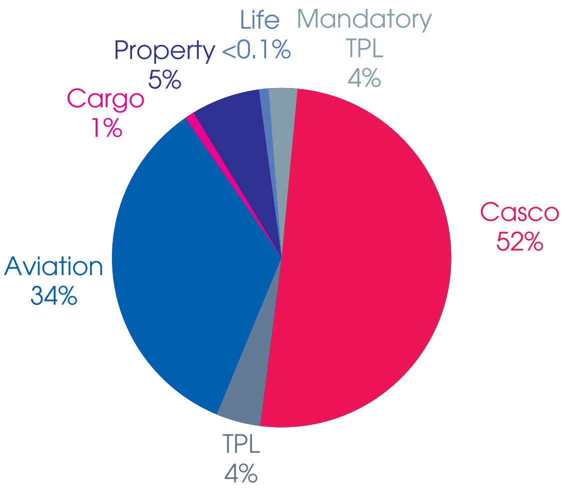
In 2020, despite the COVID-19 pandemic effect, BB Insurance managed to remain its stable profitability ending the year with GEL 17 million in total assets and GEL 1.4 million in net profit.

Portfolio diversification, achieved through variety of clients operating in different business sectors, strong financial standing and solid professional staff, has also led to diversification of our Gross Written Premium directions (see picture below):

Insurance Products Composition



Insurance Products By Claims Settled



Despite long periods of curfew and lockdowns in 2020, BB insurance still managed to maintain it excellence in settling claims within the short period of time. As a result our average period for settlements was 4.7 business days. Overall, GEL 2.4 million of claims were settled in 2020 (see details below):

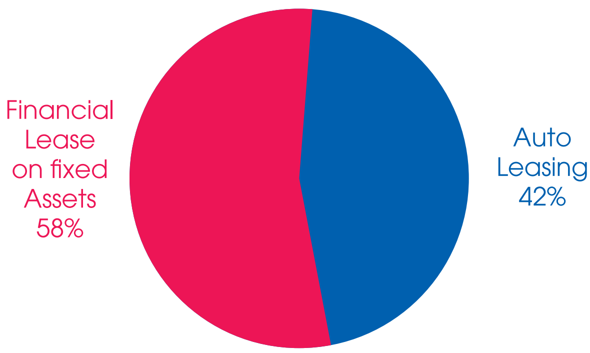
BB LEASING

BB Leasing has started operations with clients in February 2019. As a subsidiary of the Basisbank Group, BB 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. BB Leasing is guided by the following principles: to define clients' needs responsibly and create added opportunities for them.

BB Leasing serves both individuals and legal entities and provides comprehensive leasing solutions and advisory services. 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.

Leasing Products Composition



BB 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, BB 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 start-up companies for whom leasing is an affordable and particularity convenient option to obtain needed equipment.

Despite adverse economic conditions, BB Leasing managed to generate a low risk bearing portfolio of Gel 5 million, out of which 47% comes on investments in legal entities and remaining 53% are investments in retail segment. Leases of tentative clients whose payment capabilities have significantly worsened due to 2020 pandemic problems, comprises only 1.7% of overall portfolio. Profit generated in 2020 is GEL 0.8 million.

Next steps of BB 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.

During 2020 all three wings of BB holding continued providing services in close coordination which is based on the ability to offer one-stop-shop financial services to clients in a single space on both platforms (brick&mortal and digital). Simple, transparent and customer-centric approach remains a key factor in the success of our Group.

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, Including Georgia.

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 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.

Strategy Implementation

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. 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.

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 2020, the main focus of the Commercial Direction was directed on the following activities:

- working with state agencies to facilitate access to support programs to assist businesses affected by the COVID-19 imposed restrictions
- addressing customer concerns and tailoring solutions to their specific needs
- strengthening our team to bring in greater business focus and drive performance and efficiency
- de-risking and diversifying corporate and SME loan book
- proactively taking measures on the operational front and developing strategies to counter the near term challenges

In 2020, commercial department was focused on retention of each employee, despite existing challenges the staffing of Corporate and SME departments had not been reduced. Against the snags triggered by the pandemic and worsened economic conditions, the Group took proactive measures from the beginning of the COVID-19 outbreak to help its staff to adapt to the new challenges and switched substantial part of employees to remote services and work schedules, while having in place adequate IT and technical support.
With some changes in early 2020, commercial department tailored the incentives system linking it specifically to the loan portfolio revenue structure, the bank's goals and the desired results. Human resource has been always of great importance for us, therefore our payroll policies and scales remain competitive and we constantly strive for the development, prosperity and support of our human capital.

As the negative impact of COVID-19 on the economy and business became more evident in 2020, it significantly slowed down and hindered both business development and demand for loan products. In order to mitigate the negative impact of the COVID-19 on the country's financial sector and to stimulate the country's economy, significant measures were taken with the support of the National Bank of Georgia and the Ministry of Economy (within the framework of the program Produce in Georgia): Business support for vulnerable sectors through programs, aimed to subsidize companies affected by pandemic were rolled out; The programs included various relief components such as 6 and 12 months subsidies on the accrued interest rates and credit guarantee schemes - the systemically important project initiated by the Ministry of Economy, to facilitate those in need of additional collateral and to encourage banks to finance through additional liquidity. Moreover, interest subsidy period for loans issued under the Produce in Georgia project has been extended to 24 and 36 months, which played an important role for businesses to survive during the lockdown periods. Significant steps have been taken by the National Bank in different areas: uninterrupted supply of liquid cash resources to various sectors of the economy, as well as the development of an interim supervision plan, among others, are worth mentioning. Our Corporate and SME Departments have been actively involved in the relief programs from the initial stage and continue efficient cooperation with the public and private sectors.

Furthermore, at the initial stage of the virus outbreak, commercial department together with the business analysts and risk department developed and implemented appropriate stress scenarios based on different studies and market expectations. Contingent on the given scenarios, within the framework of business support and responsible lending, our clients were able to service their obligations in accordance with their business schedules, which helped maintain the quality of the loan portfolio and the possible improvement of the business environment. The pandemic had a particularly adverse effect on the tourism, restaurant and real estate management sectors. These sectors received significant support from both financial institutions and the public sector.

CORPORATE BANKING - Our Corporate Banking Group (Corporate Department) serves to top businesses, large private sector companies, financial institutions and public sector entities.

Understanding customer expectations and responding through appropriate products and services has been central to Basisbank Group's strategy. The demand for convenience, speed and flexibility with customised solutions and innovative approaches lays at the core of our corporate business strategy. We have built strong relationships with our corporate clients over the years by deepening relationships and strengthening our commitment through customized approach to each and every client.

2020 was really difficult year in terms of new challenge brought by COVID-19 outbreak. Absent of any medical approaches to slow the spread of the virus, Georgian government implemented a number of measures to slow down the virus progression, including business closures, travel restrictions, quarantines, and limits on public and private gatherings. These measures led to a sharp reduction in economic activity leaving Corporate and SME segment in uncertain conditions.

Delivering on Our Strategy

Main concern of the year was to promptly address the needs of the clients in most vulnerable economic sectors, mainly HORECA. During this period main target and goal of Corporate Department was to support clients in transferring period. We have taken proactive measures on the operational front and have developed strategies to counter the near term challenges .The goal was to adjust payment schedules to most probable scenario of future cash inflows and to make an indication of portfolio risk as such. For these purpose financial monitoring and stress tests were conducted for the whole outstanding credit portfolio to identify borrower segments and sectors that may face incremental stress in the current scenario. The information was given to credit risk department for further assessment.

We have also been working towards strengthening our position as a transactions-led bank for our clients helping them through their business life cycle where we could deliver the full capabilities of services as a Group. In cooperation with the Treasury Department, a new position of Treasury Product Manager was introduced to ensure the maximum efficiency through convenient offerings of treasury products including foreign exchange deals under the most beneficial terms for our existing customers.

We have remained cautious over the last year given the weakness in underlying economy and have been downsizing much in advance compared to previous years. We continued to focus on disciplined and cautious execution of our strategy, identifying sector specific opportunities and diversifying the portfolio outside the most vulnerable sectors. Our advances throughout the year were spread between direct financing and syndicated deals - with almost equal shares. Syndicated deals is one of the priority directions for the bank in terms of risk sharing, increased awareness, reputation and ultimately market share. Given the difficulties encountered throughout the year, corporate team still managed to increase the Bank's credit portfolio. As of YE2020 corporate department portfolio outstanding stood at GEL 698 million with rounded 10% growth compared to YE2019.

SME BANKING - Lending to small and medium-sized businesses lies is the key Direction for the bank's strategy. The bank offers customers a full range of banking services and products. With the help of a qualified team, Basisbank manages to steadily grow its loan portfolio and develop various business sectors as well as in the agro sector.

According to the indicators of 2020, the bank's small and medium business loan portfolio exceeded GEL 188 million, which means an increase of 22% in 2020, with the agro direction increasing by 27%.

The small and medium business loan portfolio is well diversified and quality remains steady with 85% of it secured by hard collaterals and with high proportion of working capital loans. The loans are distributed in different sectors such as: hotels & restaurants; real estate management; construction & production of building materials; agriculture; trade; services; production and more. The concentration of the share of each sector in the total loan portfolio is in line with the regulator and general standards.

BUSINESS CASE - Hotel complex Sunset Mestia - a premium hotel in the Mestia region is an excellent example of our contribution to the green lending development. The company's main activity is hospitality business. The hotel has 16 standard and 2 suite rooms. Under our joint energy efficiency program with EBRD (CEEP), Basisbank Group allocated GEL 868 thousand to the hotel to complete its construction activities. The company invested in energy efficient, modern construction materials, fixtures, fittings and equipment to save energy consumption.

BUSINESS CASE: AGRIBUSINESS

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 one.

An excellent example of our contribution to agribusiness development is ADGI Ltd. Case - our agro client that benefited from Basisbank Group expertise in agribusiness lending. We allocated total of GEL 2 million facility to the company for the construction of an intensive apple orchard and refrigerator farm. The company has built up high-tech infrastructure in Gori following modern standards.

GEOLAND

Another excellent example of our commitment to agribusiness development is an investment case of Geoland Ltd. Company owns 70 hectares of land in Shida Kartli region. An intense almond orchard is cultivated on 25 hectares of land. Basisbank Group has issued GEL 500,000 under the agro-preferential loan component of the Agriculture Agency program. The total investment of the project was GEL 1,500,000 as of YE2020. In addition, the company had a chance to participate in the Green Consulting Sponsorship Program, jointly initiated by the Green for Growth Fund (GGF) and Basisbank Group. The company was granted EUR 8000 under the stated project, which enabled the preparation of a drying and warehousing infrastructure project in the available area for further implementation.

Delivering on Our Strategy

GOALS IN 2021

In early 2021, the negative impact of pandemics and restraints on the business environment are likely to persist. Several business development projects are planned for 2021:

- To recruit additional staff in active areas;
- To identify/analyze new sectors and allocate small limits on the portfolio;
- To integrate business loans in digital channels and disseminate information/raise awareness;
- To implement process optimization.

RETAIL BANKING
TURNING CHALLENGES INTO OPPORTUNITIES

Despite our Business Model being more focused on Business clients, with a network chain designed for improved access to regional business clients, we are still keen on increasing our retail outreach and market share through building stronger retail business based on three main pillars– Speed, Quality and Flexibility.

Year 2020, was marked by the biggest healthcare challenges of the Millennia that touched social and economic live hood of everyone and made us re-evaluate our understanding of doing business, putting all three our core pillars to the test. Despite the unprecedented scale and nature of the challenge, our Retail Business, managed to put our declared values in practice and prevailed by building more agile, flexible, convenient, fast and smart business environment, both for our employees and our valued customers.

With the Global Pandemic unravelling fast, bringing uncertainties, the Financial Sector at the core of our Economy, took the responsibility to stand with the national government in the endeavour to establish sense of stability among population.

This endeavour required completion of two core objectives: a) Ensuring business continuity throughout the crisis and b) Delivering financial relief during the times of uncertainty;

In the point of view of the first objective, Basisbank Group displayed exemplary flexibility and agility as our retail business, being on the frontline along our society, did not stop for even a day and ensured that each and every hour of our operation was in line with occupational safety and global healthcare standards, set forth by the World Health Organization and National Centre for Disease Control. As early as in March, all operating service centres had been equipped with supplies to ensure security of staff and the customers. We updated our safeguards and added measures such as thermal screening of clients and employees, checking the health status of employees and keeping records in an electronic journal.

Moreover, early in March we also ensured our back-office personnel on a remote working mode. Total of 38 employees of the retail business successfully transitioned to the home-based working environment.

Due to the imminent threat of the lockdown that was certain to limit our retail customers' access to specific banking products and services, our Group concentrated efforts on accelerating digitization of all involved processes and procedures to ensure fast, comprehensive and comfortable transition of our customers to the remote channels. The determination and dedication of our retail professionals gave following results:

- As early as March we introduced a novel Customer Service product – Video Bank: call center started providing customer service via Video Banking, which became very relevant after the traffic was restricted and we allowed our bank customers to access remote channels and services through simple and convenient procedures. Video banking service includes activation of Internet Banking (full package) or improvement of the current package, as well as recovery of Internet Banking password. Throughout the 2020 the total of 4328 applications were processed through our new channel.
- In August we introduced an updated, multi-functional online-chat solution – Zoho, which proved even more convenience and flexibility both for our Customer Service professionals and the Customers. The new channel serviced 2962 chats and calls throughout the remainder of the year.

- We went digital with our archiving and document-flow processes, thus original documents from clients are no longer required. Digitalization of our document-flow process has led to minimizing archiving of documents, automatically storing all processed applications in a shared folder, ultimately reducing the need of printing out and sending documents to archive. In addition, simplified document flow procedures, will contribute to our aspiration of making our business as environmentally-friendly as possible.

Lockdown and general self-isolation of population unsurprisingly led to 28% Y/Y reduction of retail transactions at our sales points, our approach of accelerated digitization and overall improvement of remote service channels increased engagement in digital transactions by 67%, ultimately rewarding our efforts with overall 23% annual increase.

Efforts to contain the COVID-19 pandemic have had a profound impact on economies around the world. Georgian Government introduced and implemented a variety of measures to ease the pressure on consumers and businesses. Basisbank Group has been actively engaged in Government's initiatives, guided by the principles of supporting the well-being of its customers and colleagues and maintaining the Group's operational and financial resilience.

From the beginning of the first quarter of the year, we worked closely with government and banking sector to facilitate access to relief and support programs and offered direct financial assistance to our retail customers experiencing financial hardship due to COVID-19 through 3 month deferral of loan payments on all types of loans.

After the first wave of relief incentives, we joined the second initiative of the Government in Subsidized Mortgages Program. The project was designed to assist both the construction and development sector of our country, being one of the larges GDP growth contributor for many years, and the households. Despite the rising challenges, households were given possibility to get access to affordable living and financing in local currency. Throughout the year, the bulk of this assistance had run its course, with subsidized mortgage loans amounting to GEL 11 million issued to 136 retail customers.

Ultimately, despite all odds, our retail portfolio grew by 6% (GEL 12 million of new loans) ending the year with total GEL 216 million under management.

A lockdown and subsequent transition to home-based working environment and accelerated digitization process presented a new array of learning opportunities, which the Group happily embraced.

With people being the core value for our organization, the first training delivered to our retail professionals pertained self-care and coping with stress during the challenging time. Our sales points' managers and front-office employees learned how to maintain emotional stability during the self-isolation and remain productive both at home and on the frontline.

To ensure utmost efficiency of our educational programs, we systematized our trainings for new and existing personnel, ultimately significantly reducing the time for training of new staff, while helping to raise the level of qualification for existing employees. This practice will also aid us to train existing and new staff on a regular basis, additionally enabling us to take regular care of the qualifications of existing personnel.

In addition to regular products and sales-related trainings designated to maintain our customer experience and satisfaction at highest standards, managers of our retail business were trained in techniques of providing their subordinates with due and adequate feedback which we deem to be core for proper development of organizational culture and improved performance both on individual and team levels.

OUTLOOK FOR 2021

Proud with our overall accomplishments during the toughest challenges brought by the year, our Group has ever faced, we are prepared and eager to set ourselves bold and ambitious goals and objectives for the upcoming year. We intend to maintain our course of accelerated digitization and plan to achieve our ultimate goal – launching a comprehensive omni-channel platform for even more agile and flexible remote banking for our customers. We intend to introduce following digital conveniences to our existing and potential clientele:

- Gpay – an electronic wallet for Android users in our country;
- SMS signature;
- Digital cards;
- ATM card activation service and PIN code via SMS;
- Installation of contactless readers on ATMs.
- We intend to actively promote our Plastic Cards business on the market. By the end of upcoming year we plan to increase our Debit Card Portfolio by as much as 40%, as well as launch new interesting incentives to boost our Credit Card market share.

To ensure improved customer experience and satisfaction, we plan to renovate and redesign our lending processes and procedures, ultimately creating a customer-friendly and customer-centred business environment, where our clientele will gain access to the high-end products and services of improved quality, delivered through faster and more flexible procedures.and ref

Our Digital Strategy

PROJECT DEVELOPMENT AND BUSINESS ANALYSIS DEPARTMENT

Our philosophy of offering superior experience to customers using digital technology remained unchanged in 2020. Even in these difficult circumstances caused by Covid-19 virus spread, we continued to invest in our technology, data sciences and operations capabilities to enhance customer offerings and launch new digital solutions. The year saw some innovative products being launched for the Group's customers. Designing solutions that are convenient and comprehensive had been made possible by placing the customer at the centre of business operations and exploiting digital capabilities. The Group's ability to leverage technology combined with analytical insights and partnerships have created new ways of serving customers through their digital journeys.

Our digital collection initiatives under severe lockdown and mobility restrictions during the last year brought a number of new interesting digital products and services for our customers.

Bloomberg Bmatch Platform - a new feature was introduced for the users of remote banking channels, as part of the National Bank's new initiative aimed at improving competition in the foreign exchange market, making it easier for non-bank participants to access the interbank FX market, enhance liquidity and improve transparency. The new product allows end users to submit applications for FX trading on Bloomberg Bmatch platform. For the same purpose the internal infrastructure was set up for the Brokerage structural unit at Basisbank's Group that allows brokers to manage submitted applications and negotiate trades with multiple counterparties on Bmatch. Brokers are able to input trading results in the system leading to live updates in the Internet Banking platform on Customers' end. Customers will have the choice to either subscribe to the Bloomberg terminal themselves or trade FX directly through it or place orders with the help of the bank. As a result, they will no longer be tied with one bank, rather will trade with whole banking community and / or companies that offer them the best price. This ensures greater market concentration, more liquidity and a favourable price. Basisbank was the first and only bank in 2020 to provide this service to customers.

Zoho Online Chat

We selected a high-end Zoho online chat to substitute an obsolete online consulting system prior employed by the Bank. Currently any customer has ability to access online consulting via any of the following channels: www.basisbank.ge, https://bank.ge and https://www.bankonline.ge/. The client can reach our website or mobile app widget to reach and receive live customer support in real time. Unlike the predecessor, the new system is highly flexible and offers vast opportunities for further development. Introduction of a new solution ultimately has led to improved Customer Service Quality.

State Subsidy for Mortgages

The Group continues to support financial assistance programs for households and businesses introduced by Government due to Covid-19 outbreak. We introduced a new technical functionality to existing Loan Management System (LMS) to enable our clients to access State Subsidy when applying for a Mortgage loan as flexibly and swiftly as possible matching our high standards to customer satisfaction. Under the State Subsidy for Mortgages program, the government subsidizes 4% of the interest rate of mortgage loans for five years. The subsidy is issued for loans not exceeding 200,000 GEL aimed for those households taking mortgages for the purchase of residential apartments that are newly built or under construction, from 1 June 2020 to 1 January 2021. The favourable terms increase access to homeownership for many families who might not otherwise qualify. Under the State Subsidy program, the government encourages demand and ensures the completion and consequently support of ongoing construction and development sector.

A New Module for Managing Collection and Arrest Applications

We digitalized a manual process for managing collection and arrest applications submitted to the Bank on the daily basis by introducing a new Module, ultimately harvesting following improvements:
1. Savings in Human Resources for daily operational works;
2. An obsolete, paper-based process riddled with shortcomings got systematized.

Video Banking

The Pandemic highlighted the relevance of banking clients having access to remote channels. In the nearest past a client had to personally visit the Group's service centres to activate remote channels. In order to eliminate inconveniences and health risks associated with the practice of the past, our Customer Service introduced a new functionality – Video Banking. The latest feature allowed our professionals to identify and verify customers remotely and render vast range of banking services, including activation of Remote Banking Channels. To make Video Banking operations as smooth as possible we set up a new business-process and integrated Zoom software in our digital system. Ultimately, we achieved improved customer satisfaction and increased number of users for our remote channels.

Automatic Approval of Blank Loans via Mobile Bank

Our customers are able to submit Blank Loan Application via our mobile app and in seconds get access to pre-approved credit limit. The instant lending products, the focus on seamless on-boarding of customers, simplifying processes to enable smooth transactions are together creating a rewarding digital experience for our customers.

Apple Pay – a unique payment method for Basisbank Group's cardholders (Visa & MasterCard) allowing customers to make instant payments at POS terminals, apps, online shops via iPhone, iPad, Mac, or Apple watch.

Instant Cards

We introduced a new product – Instant Card – a non-personalized card for any willing client can get immediately after submitting application at any of our service points. We developed a designated software to enable our front-office professionals deliver the service with the speed and quality it requires.

3D Security

We made E-commerce even safer for Basisbank Group's Visa & Mastercard Cardholders. - making a payment with our cards at online merchants, whose payment platforms support the high-end 3Dv2 standard. In order to obtain 3D Security, a one-time password submission is required that will be delivered to the mobile phone number of the customer registered within the Group.

Primary Dealer

Within the framework of the project initiated by the Ministry of Finance and the National Bank, the Bank received the status of Primary Dealer, under which the bank is authorized to buy securities for clients at the first auction and also make quotations for the secondary market. Our clients are now able to get hands on a new, Primary Dealer service allowing to submit applications for participation in a Ministry of Finance auction for Treasury Securities. Under the Primary Dealer project, Basisbank Group began buying and selling securities for both commercial banks and any other interested parties. A new business-process was developed specifically to ensure quality processing of client applications with the due feedback. In order to make the Primary Dealer Service convenient, the Group took the process digital: 1. Treasury Securities are now digitally accounted; 2. Submitted applications are managed via designated software.

Certificate of Deposit (CD)

We introduced a new product – Certificate of Deposit, along with the designated system functionality that allows flexible and quality disbursement and management of the said product.

PIN by SMS

Restoring a PIN-code now takes only a few seconds for Basisbank Group's Cardholders. The only requirement is to complete simple identification/ verification process at our service point or via Customer Service. After the successful verification, the client receives a new PIN-code on a mobile phone number registered with the Group. The innovation eliminated the inconvenience of changing a card in case of a lost PIN-code, ultimately leading to improved customer satisfaction.

Public Transportation

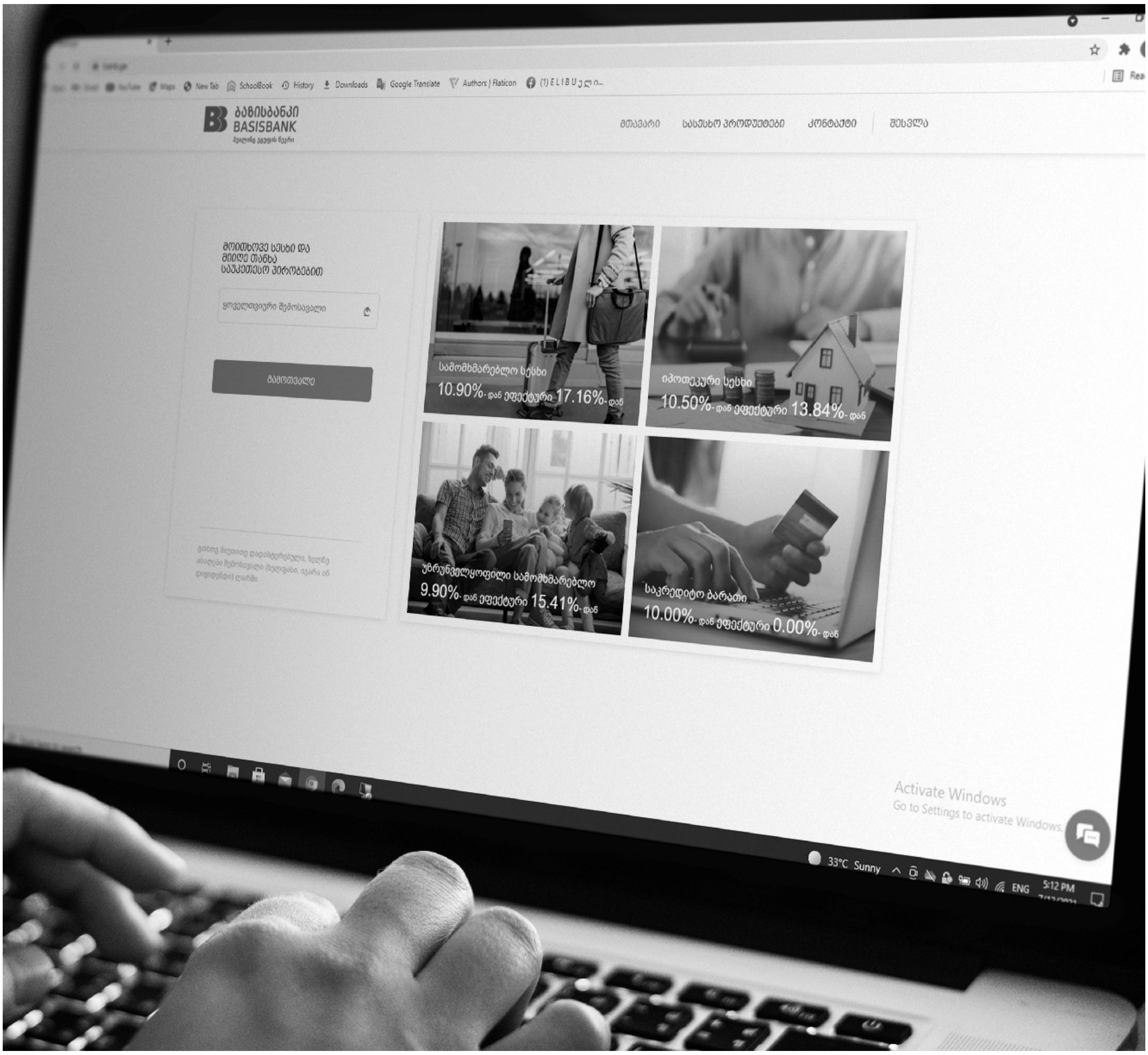
Basisbank Visa&MC Cardholder can now pay for the public transportation services using their banking cards.

Service Package

We introduced a new product – Service Package – allowing clients to use several services simultaneously and pay a unified fee. Currently we offer a single package that includes SMS Banking, Internet Banking, one Card and Standing Orders.

Bank.ge- ID&V

Users of the https://bank.ge platform (majority of whom are not current clients of the bank) are able to get individual credit limit approved after completion of a simple identification/ verification procedure. Funds within the approved limit will be made available to willing customers at our service centres. To deliver on this innovation we have employed a designated AI-based software that allows us to verify identities of our prospective clients.



STRATEGIC PROJECTS LAUNCHED IN 2020

In 2020 we launched a new project envisaging renewal of Basisbank Group's official web-site. Our aim is to achieve:
1. Web-site with flexible and user-friendly UX/UI;
2. Easily managed web-site with constantly update/ content development ability.

We are already piloting the project and intend to take the web-site online in February 2021.

In 2020, we introduced BAW, an IBM (Business Automation Workflow) software for Business-Process Management, with following features: 1. Process modelling; 2. setting baseline parameters; 3. Process monitoring; 4. Identifying bottlenecks and optimizing processes.

The pilot process is planned to be exported to the system for Mortgage lending. The renewed process will be commissioned in February 2021.

In 2020, with a joint effort of our foreign partners and team of internal professionals we introduced BackBase platform which we see as a core foundation for digital development of our Bank.
According to the schedule, MVP (Minimum Viable Product), scope of which includes digital on-boarding will be launched in the first half of the year for Retail Banking. By the end of year we plan to add the broader range of products offered by our Group (insurance and leasing products included).

IT DEPARTMENT

In the wake of the Covid-19 outbreak, Basisbank Group have demonstrated tremendous resilience over the past year and have shown that, regardless of the circumstances, we will go over and above to support our customers and employees, while working to deliver for our shareholders. We moved quickly to provide tailored support to employees to help them manage through the pandemic.

Our IT Department team deserves special mention as they worked tirelessly to ensure and keep our systems stable and secure without interfering with business continuity process. As a result the whole back office employees were able to work from home, and safe infrastructure at the offices for frontline staff was organized at the same time. In 2020, at the initial outbreak of Covid-19, our IT Department made rapid arrangements for several key activities to be performed through secure work-from-home (WFH) technology solutions. While rolling out these solutions, appropriate controls have also been implemented for information security. Further, detailed advisories have been issued on Dos and Don'ts for employees to follow when they work from home. This is also being followed up with regular communication on information security best practices.

Basisbank Group believes that cyber security is an important risk focus considering the rapid digitization, increasing transaction intensity and connectivity to various digital networks. It is vital to protect the Group's employee and customers' assets and ensure continued trust of all stakeholders. We continued to strengthen our multi-layered cyber security defence with cyber security solutions. We enhanced the cyber security and control baselines of systems supporting essential banking services through stronger authentication and database monitoring. Under the project framework we substituted all key hardware with a solutions from the leading manufacturers of the world.

It is impossible to execute digital transformation of the Bank without developing a software. Immense effort of our team of certified professionals resulted in significant and innovative services, rolled out throughout the year, as well as updated mobile and internet banking platforms. Additionally we laid ground to approaches to so called Omni Channel architecture that envisages servicing clients in a single environment, regardless of the channel they use.

In 2021, we will continue to invest in innovative security with our digital transformation. We will continue to enhance our customer experience and offerings through new innovations on the digital side and investments in API, artificial intelligence and big data. We will continue to make considerable investments in technology and infrastructure to strengthen the core of our digital services.

Customer Service

Understanding customer expectations and responding through appropriate products and services has been central to Basisbank Group's strategy. The demand for convenience, speed and quality solutions with quick turnaround and innovative, flexible services requires a dynamic approach in the Group.

Customer orientation acquires greater importance in our reality. The role of each employee in this area is tremendous, as our activities are directly or indirectly related to the customer satisfaction and ultimately serve to meet their needs and gain loyalty - which in turn is a key to success of the Group.

Customer outreach/information retrieval channels are becoming more diverse and easily accessible in the era of service digitization. Consequently, the consumers have better awareness of and sensitivity to the quality of services available on the market. They can easily and quickly share the experience of using the service/product with thousands of people through different means. The customers can find the desired information faster, compare conditions and services through digital channels and make decisions on the best choice. That is why it is important to monitor the pulse on a daily basis to understand what the customers want, what their needs are and what experience they will actually get as a result of our service and product.
Favourite brands are created as a result of customer orientation and care. When a company operates it always thinks first of the customer needs. When a company listens to the questions of the customer to meet the needs and desires of the customer, as a result, it develops into reality and delivers solutions to the customer. To achieve this, Basisbank takes care of its customers in this area on a daily basis. The Bank's vision and steps are aimed at ensuring that customer relations are based on mutual respect and shared profit/benefit.

Accordingly, the activities of the Customer Experience Management and Quality Assurance Division at Basisbank Group are completely customer-centric. Each area in the division works directly or indirectly to create a tailor-made experience for the customer, to offer quality services and products and to protect their interests. The daily activities of the division further strengthens the culture of customer orientation in the Group - "the customer as the core value of the company".

During 2020, mapping of customer journeys across products, processes and channels was undertaken and based on the insights, key customer service initiatives were implemented. Here are the key tasks performed by the Customer Experience Management and Quality Assurance Division during 2020:

To improve the quality of customer service, competency-based trainings were conducted regularly as well as upon necessity on demand for the employees working for the customer sales channels, as well as for their support areas. Basic trainings for Basisbank Group's products, procedures and work programs, theoretical and practical trainings were conducted for the new employees. Against the backdrop of the pandemic, competency-based training was quickly adapted and switched from face-to-face training to online with the help of modern technology. As a result, 733 employees underwent trainings with total of 763 training hours to improve quality of customer service.

The quality of the call centre/online consultation service was measured at scheduled intervals by analyzing the calls/online consultation, followed by feedback and coaching with the aim of developing and increasing customer satisfaction.

The descriptions and procedures of the company's products/services were updated on a daily basis and the detailed information was updated for the employees working in the customer service channels through the Knowledge Base, which is equipped with a search engine and simplifies finding the necessary up-to-date information.

In the process of creating each new product or project, the unit responsible for standards development participated and created a detailed instruction/guide for conducting training and informing employees. The Knowledge Base has been updated 2251 times.

The competency-based tests based on products and services were developed to test employee knowledge and increase competency based on the results; the development process is a continuous cycle.

During the year, series of research were planned and conducted in different areas:
NPS survey of Unique users to define their recommendation and preferences. Despite the satisfaction of the customers and the high scores of the research, recommendations for further development were prepared, incorporating the needs and desires of the users.

Surveys were conducted to identify the so called “customer persona", with the participation of both external and internal customers (employee as customer and as a service provider). According to the results, customer personas were identified, and the company continues to serve their preferences/needs on a permanent basis.
Daily TRX NPS (Transactional Net Promoter Score) surveys were launched in various customer service channels, such as service center, call center, internet banking, and bank.ge. According to the baseline data, users are mostly satisfied and recommend Basisbank Group, but further development of digital channels should be continued to gain and maintain customer loyalty - and this is where development is central in the Group's priorities.

During the course of each project over the past year, the division was involved in the process of making recommendations in terms of customer needs and experience. After creating the product/project, the division participated in the user acceptance test process and raised the issues before their final correction - in order to deliver a quality, simple and necessary product to the customer.

The following projects were introduced in 2020 directly by the Customer Experience Management and Quality Assurance Division:

- A modern online consulting solution, placed in Basisbank Group's digital service channels to provide customer consultation and instant assistance as needed.
- Central system for recording customer issues, which allows to record customer communication (complaints, problems) with employees from different channels and centrally manage this process. Staff can view the status, which allows for a quick response. The system allows to monitor the flow. The division ran the system in test mode in 2020 with own resources. During the trial period (4 months), 700 applications were reviewed by the division.
- Research software for conducting daily surveys with customers, to get to know them better and to listen to and consider their emotions and opinions.
- Research software for conducting daily surveys with customers. It allows to get to know the customer better and to listen to their emotions, opinions and to satisfy them, to make Basisbank values - flexibility, speed and quality, more clear to our customers on a daily basis.

GOALS FOR 2021

A new Customer Experience Management and Quality Assurance Unit will be added to manage the customer issues, the full process of problems and concerns detected from various customer service channels. The analysis of the identified gaps/issues will not only address one customer concerns, but also generalize segment issues, analyze and develop by incorporating and involving relevant functional/business units to ultimately achieve a better user experience on a large scale.

The performance measurement of the employees working in the customer sales channels will be systematized.
It is planned to develop and standardize the User Acceptance Test process. It will be monitored according to the needs of the research whether the new product/service fits and is tailored to the needs of the customer - to make sure it is simple, fast, and of high quality.

Significant attention and work will be directed to improve the customer experience in digital channels by monitoring the service process, analyzing the results obtained and further development.

It is planned to automate daily surveys of user channels and manage the entire research process, analyze issues based on results and take care of development to improve pre-agreed and established KPIs.

In today's reality, through digital channels, customers have endless possibilities to meet their needs quickly, easily and with quality - to search, compare, select and gain experience using the appropriate service or product. Therefore, the above activities, along with other factors, are important to meet customer demands in a competitive environment. Empathy for customers and constantly thinking that we are all customers in different situations is a necessary prerequisite for creating and maintaining a customer-centric company. This is the ultimate goal of the division and the Group as a whole. In the digital and real space, with the joint efforts of our staff, we will always remain one of the best choices for our customers.

Our People

In order to be recognized as the leading financial institution for customer service, we acknowledge that we must continue to adapt to changes in employee satisfaction and motivation as well as customer behavior and their financial needs.

2020 turned out to be a year of unforeseen and difficult challenges for the HR department. Covid-19 has radically changed the essence of HR area and, along with other key responsibilities, HR Department has taken on such important functions as:

- Creating a safe work environment
- Employee healthcare
- Ensuring business continuity
- Maintaining high efficiency amidst remote working conditions

Throughout 2020, we continued to make investments that prioritize our staff well-being, reconfigured workspaces to reduce density, increased sanitization and regular deep cleaning, protective glass dividers and appropriate markings were installed in the service centres and distribution of face shields, hand sanitizer, masks, wipes and cleansers. Full access to medical support and advice, including on-site or virtual consultations along with the World Health Organization recommendations were provided to our employees on a continuous basis.

A group of employees working on positions important to business continuity was identified and transferred to remote mode of operation;

As a result, we have enabled 87% of the Group's employees to work remotely by providing monitors and keyboards to remote workers. To ensure business continuity, the staff of the service centre network and central warehouse switched to a two-week rotation schedule.

Daily checking and recording of employees' health status is underway with the use of non-contact temperature measurement thermometers. HR Department was monitoring the full compliance of the workspace with the requirements of the Ministry of Healthcare on a daily basis.

We started getting used to the new reality: Stay Positive - Test Negative! Prioritizing mental health supportive actions for the staff had been put in place, HR Department introduced, an informative course 'how to be well in isolation' - sessions on self-care and parenting during the pandemic as well as Covid-19 prevention training were urgently developed and the entire staff was trained online.

Zoom and Microsoft Teams platforms have been introduced to organize online meetings and maintain efficiency.

The process of developing a new remote service channel, video bank, for the provision of uninterrupted service to customers has commenced, and consequently it has become necessary to train staff in this area.
A number of documents were developed and improved to manage the current unusual situation:

- Action plan in case of identification of a risk employee in the work environment
- How to work from home effectively
- Rule of body temperature monitoring
- General rules of office work
- Audio training on COVID-19 prevention

At the request of the bank, special permits were issued to employees important for the continuity of business processes.

Greater focus was placed on career development, training and skills development of our human capital while many significant investments were also made towards enhancing the productivity of our staff by the Group in the areas of effective sales, stress management and communication, services and sales, information security and working remotely, course in being well in isolation. Moreover, in collaboration with our partner institutions FiM, EFSE, GGF, EBRD, and ADB, despite the distancing, different technical assistance projects were sponsored to assist employees in this tumultuous period. International courses and consultancy in various key areas were provided for the staff during 2020.

- The Mechanics of Asset and Liability Management - IFF & Middlesex University London
- Managing Interest Rate Risk - American Bankers Association
- Certificated Anti-Money Laundering Specialist certification - (EBRD)
- Certification program for Certified Anti-Money Laundering Specialist (CAMS) - (ADB)
- GEFF Training in Green Lending – EBRD
- Risk Management: Regulation for Banks (Basel) – NBG (Luxemburg)
- Credit Risk & Cash flow analysis – NBG (Luxemburg)
- Alternative Delivery Channels (Digital) - Inspiring Development (Frankfurt)
- Internal Audit & Control – NBG (Luxemburg)

Despite the pandemic, at the end of the year we identified the well-deserved employees of 2020 and handed over the traditional gifts. It should be noted that 30% of the employees already have this status, which makes us very proud and shows that Basisbank Group is a preferred employer.

Corporate Social Responsibility

With the people being the cornerstone of our values and understanding that our performance and success is intertwined with that of our society, despite the unprecedented challenges and obstacles the year 2020 had brought by, Basisbank Group remained dedicated to all Corporate Social Responsibility undertakings and implemented all planned projects, to share its' strength and abilities during the time of need.

Strengthening the Healthcare System

The global pandemic that unraveled in the beginning of the year 2020, brought by the uncertainty of unmatched scale for business and incomprehensible challenges for the healthcare system. Our shareholder together with Basisbank Group acknowledged vital and decisive importance of capacity building in National Healthcare System for prevailing over outstanding challenges, donating 200,000 GEL to the national StopCov Social and Health Support Fund.

Building Intellectual Society

Our Group has always strived to uphold our core values, education and out-of-box thinking at the heart in our society. We understand that in contemporary times, the strongest instrument we can equip our population with is education, along with the auxiliary skills that help developing miscellaneous cognitive capabilities. 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.

In our quest to build more educated and intellectual society, back in 2014 we joined efforts with Ilia State University and its' Pascal Scholarship Program. Each year, 3000 GEL scholarship is awarded to up to 10 young scholars, affiliated with Ilia State University, with an internationally acclaimed publication in one of the scientific journals referenced in the Thomson Reuters database. During the years of fruitful cooperation, dozens of the brightest minds of our society, were awarded with a scholarship to honour their scientific accomplishments and aid them to take their knowledge and work to even higher levels.

It has already been 8 straight years that Basisbank Group stands with the highest-rated Intellectual game on national television – What? When? Where? In a clash of the members of national Intellect Club and ordinary citizens who wish to challenge their knowledge and logical thinking, we support audience group, awarding our card with deposited GEL 500 to each successful participant. If the audience prevails in the Grand Finale, the author of the best question throughout the series is awarded the Grand Price of GEL 5000. During the year 2020, our organization disbursed over 100 awards to the successful participants of the intellectual game.

STRONG MIND GOES WITH STRONG BODY

We strongly believe that mind and body go hand-in-hand thus have always been promoting a healthy lifestyle. In our latest endeavour, we took up an official sponsorship of football team with Batumi Shota Rustaveli State University.

Although both global and national environments are far from being stable and there is still lack of certainty, we intend to stand strong in upholding and spreading our core values by building strong, intellectual and educated society that we believe to be the necessary precondition for our continued growth and success.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OPERATING AND FINANCIAL REVIEW

Economic Environment

Since early 2020 macroeconomic and operating environment was dominated by the COVID-19 pandemic. The impacts of the pandemic on economies were huge, unpredictable and protracted waves of COVID-19 infections, lockdown restrictions resulting in halted social and economic activities, compressing business environment turning into unprecedented declines in almost all countries in 2020.

COVID_19 outbreak early in March put significant uncertainty on operating environment and Georgia was facing adverse impacts on businesses and weakening of macro parameters caused by the pandemic and significant deterioration in economic conditions worldwide in general.

Decline in the domestic consumption triggered by the lockdowns coupled with the uncertainty created in the economy, and strong dependence on external markets hindered the economic growth for Georgia in 2020. During the year severe restrictions were imposed on certain sectors, the most impacted were businesses engaged in HORECA sector, all major retail outlets and shopping centres were closed throughout the country, services related to tourism sector ceased functioning during the announced lockdowns. The negative demand shock had also spill over effect on supply-side activities as well as real estate, education, financial services. On the other hand some positive trends were observed in areas which in long-term would positively be impacted – Agriculture, production, healthcare, remote services and communication.

In 2020 the economy contracted by 6.1% y/y[3]. The significant impact caused the pandemic on Georgia's economy was the large current account deficit and markedly high public debt with a significant portion of liabilities denominated in foreign currency.

In 2020, foreign currency inflows in the country limited through FDI and tourism sector were partially compensated by a reduction of net trade deficit due to lower imports and relatively diversified trading partners, and stronger than expected currency inflows through remittances. Net trade deficit reduction was exceeded by a sharp drop in inward tourism revenues (which reduced to 2% from 12% of GDP in 2019) and lower FDIs amounting to US$ 616 mln that is down by 57% y/y. As a result Georgia's current account deficit (CAD) have widened to 12.4%[4]. To finance the deficit and respectively support the recovery the government of Georgia raised domestic and foreign debt in 2020 which reached to 60% of GDP.

The country responded to the COVID-19 pandemic with extensive fiscal and monetary support measures. The Government support as a fiscal stimulus was key instrument supporting macro parameters financed from borrowed resources, relieving the pressure from closed businesses, increased unemployment, widening current account deficit. The government support included wage subsidies, cash transfers to pre-specify households, utility financing, increased social benefits, tax reliefs for businesses, and support for real estate developers through mortgage financing have helped sustain economic activities.

In 2020 inflation remained above the target (3%). The price level was mainly affected by disruptions in supply chains coupled with the depreciated lari against the US dollar in 2020. In the second half of the year, sluggish aggregate demand combined with the post-lockdown recovery in supply chains relaxed the pressure on the price level. Inflation is expected to converge to the target by the end of 2021.

To mitigate the impact of the pandemic on the real economy the NBG has taken macro-prudential policy measures. To increase the supply of cheap lari resources to the banking system and to promote economic

[3]Source Geostat
[4]Source NBG

activity the NBG reduced the monetary policy rate by 1 pp in the second quarter of the year, however at the beginning of 2021 due to increased inflationary pressure (which was stemming from higher commodity prices, the impact of a weaker lari), NBG increased policy rate by 1.5 pp and will maintain it tight since headline inflation fell below the NBG's target of 3.0%.

At the same time, the central bank was actively participating in the foreign exchange market and provided the economy with sufficient foreign currency. The NBG sold US$ 873 mln foreign currency reserves in 2020 through the foreign exchange interventions. The international foreign currency reserves increased during 2020 and reached to of US$ 3.9 bln. The financial support received from the international financial institutions keeps reserves at an adequate level and increases the opportunities for the NBG to support the economy with the necessary foreign currency resources. Macro-prudential measures and interventions in the foreign exchange market have supported financial stability and smoothed exchange rate volatility.

The COVID-19 impact on the economy was reflected on Georgia's sovereign rating. In August 2020, Fitch affirmed Georgia's long-term foreign-currency issuer default rating at 'BB' level with a negative outlook. The outlook downgrade was related to the significant impact of the pandemic on Georgia's economy with a large tourism sector, large current account deficit and markedly high public debt with a significant portion of liabilities denominated in foreign currency. A high share of foreign-currency denominated debt gives rise to exchange rate risk. A high geopolitical risk further exaggerates the balance of payment risk and can affect currency developments.

Outlook

Projected growth for 2021 is estimated at 4.3%.[5] The forecasts remain highly sensitive to the duration of the crisis and evolution of certain (related) external factors, including oil prices, tourism and remittances flows. In baseline scenario economy growth will be supported by the fiscal stimulus and lending growth, the forecast is vulnerable to uncertainties attached to the evolution of the pandemic and the efficacy of the vaccination rollout, as well as gradual recovery of tourism sector in second half of the year.

Following the severe GDP contractions in 2020, we expect economic recovery to unfold in the course of 2021 as COVID-19 vaccination becomes more available and additional fiscal stimulus is provided. An easing of restrictions since February 2021 have supported to GDP growth dominantly driven by the domestic demand and higher infrastructure spending driving investments. Net exports of goods should benefit from increased demand from key trading partners. Economic activity begun improving faster than expected and macro parameters begun to improve supported by the robust growth in exports and remittances, increased banking financing and removal of restrictions on major businesses engaged in service sectors.

[5] Source IMF

The Banking Industry

The Georgian banking sector remained resilient regardless of the economic lockdowns related to the Covid-19. Additional capital and liquidity requirements imposed by the NBG in the pre-pandemic period coupled with the adoption of responsible lending practices and larization policy helped the banking sector to meet the economic lockdowns with sound initial capital and liquidity positions.

To mitigate the pressure on the banks' capital and liquidity requirements the NBG allowed the utilization of the capital and liquidity buffers during the financial stress.

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.

That allowed the banking sector to absorb potential losses and continue ordinary business activities to support the economy.

In addition, to guarantee access to sufficient liquidity during the financial stress the NBG activated swap operation.

In 2021, the NBG is planning to announce the plan according to which banks will be required to gradually refill the utilized capital buffers in the post-pandemic period.

Also, to support the SME financing the NBG launched a new liquidity instrument. Through this, commercial banks are able to receive liquidity support from the NBG by pledging the SME loan portfolio. The economic lockdowns caused significant financial distress for households and corporations. In this regard, loan deferral programs offered by lenders significantly relaxed the financial stress of temporarily insolvent borrowers.

Despite the slowdown of economic activities in 2020, the loan portfolio growth for the banking sector remained robust, partially supported by government subsidies on lari-denominated mortgage loans. As of 2020, the loan portfolio for the banking sector increased by 20%.

The financial position of banks were hampered by the recession of the economy hitting directly to the customers' ability to pay, which is more marked in the sectors directly impacted by the lockdown. In the time of emergency, the Banking sector offered short payment holidays to certain retail customer and businesses engaged in the sector most impacted by the crisis and postponed the scheduled payments until agreed recovery period.

Despite the considerable amount of loan loss reserves created in response to increased expected credit losses and loan deferral programs offered by lenders, capital and liquidity adequacy remain solid. The resilience of the banking sector is strongly supported by the substantial profitability over the past few years, coupled with the regulatory actions taken by the NBG beforehand. The profitability of the banking system gradually recovered during 2020 will remain solid in 2021.

The pandemic impact led Fitch to revise the outlook on the Georgian banking sector to "NEGATIVE" from "STABLE" in 2020. The core factors that affected the outlook revision were the economic contraction and high dollarization of the loan portfolio.

However early in 2021 outlooks were positively revised and returned to "STABLE". The coordinated actions by the regulator, the government and the banks that implied temporarily relaxing the capital requirement and providing support to households and business entities operating in the most vulnerable economic sectors help the banking system to remain resilient in key financial metrics. The improved expectations on economic recovery will support business activities and credit growth in 2021, improving revenues prospects for banks compared with 2020. Significant provisioning in 1Q20 against potential pandemic-driven deterioration in asset quality also forestall the risk of additional losses for provisioning in 2021.

FINANCIAL PERFORMANCE OF THE GROUP

BB Group Performance

The group succeeded to cope with the challenges in a highly demanding and risky business environment due to spread of the COVID_19 infection early in 2020. Uncertainty, economic downturn, lockdowns and other consequences of health crisis has slowed the growth of the group in 2020. However, the group succeeded recording sustainable positioning and performing on the market.

Against this backdrop, the group demonstrated a resilient performance. Despite the vulnerability of the broad economy, the group sound asset base and low risk tolerance in previous years preserved the group from dramatic deficiencies. Reported revenues before provision was Gel 35.7 million, a fall of 13%, and profit before tax was Gel 25.7 million, down 35%. The group strengthened its asset base, recording quite reasonable ROAE of 8.2%. Besides core banking operations the group provided insurance and leasing service to it's clientele. Revenues generated by Insurance and leasing business compose 10% of the group profit despite lower economic activities the new businesses performed well and retained healthy profitability track.

2021 is concentered on further progress of its businesses gaining greater values especially during the difficulties facing the downturn of the economy. 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 results are presented and discussed based on the Group's consolidated financial results except when otherwise stated.

The Group Key Performance Indicators

Key Performance Indicators	2020	2019
Operating results (In million GEL)		
Net operating revenues	66.9	73.4
Pre-impairment operating profit	35.7	41.0
Income (loss) before income taxes	25.7	39.9
Net income (loss)	24.2	37.3
Profitability measurements		
Cost/income ratio	46.6%	44.2%
Pre-impairment operating profit on average equity	12.1%	15.4%
Pre-impairment operating profit on average assets	2.0%	2.7%
Pre-tax return on average equity	8.7%	15.0%
Return on Equity (Profit After Tax/ Tot. Equity)	8.2%	14.1%
Return on Assets (Profit After Tax/Tot. Assets)	1.4%	2.4%

Source: Internal calculations

- Despite the overall economic downturn and pandemic the group's managed to record net operating revenue of GEL 66.9 million with 9% decline on y/y basis (2019: GEL 73.4 million) which is lower than in 2019 where absolute growth reached +6% y/y, (an increase of GEL +3.9 million from 2018). The main driving force of changes in net operating revenues during 2020 is net interest income that contributes 81% of revenue (the same as in 2019). Non-interest income impact on the revenue maintained stable. As a result of lockdowns and reduced activities shortage of fee and commission income was offset with increasing revenues from leasing activities.
- In 2020 revenues growth from Interest income activities was not as strong as in 2019. Different factors (ongoing economic uncertainty, spread compression, increased finding cost compounded by increased average liquidity (during the year the bank kept its liquidity higher than average demand to secure any pressure on funds from clients during the lockdown) influencing the interest income in 2020 lowering the growth to loans +5% y/y in 2020 (+15 y/y in 2019), and total interest income to +7% y/y in 2020 (+17 y/y in 2019). However, growing high yield asset base supported half of the interest income growth. Pressure coming from the more expansive interbank borrowing (restrictive monetary policy by the NBG) during 2020 offset interest income growth leading to negative growth of net interest income of -8% y/y in 2020.
- The pandemic significantly affected credit impairment charges on loans. The group used conservative approaches to account for the expected losses that led to the increased cost of risk on average loans of 0.87% in 2020 (0.08% in 2019). In total, provision expenses increased by GEL 9 million (GEL -0.2 million reduction in 2019) significantly affecting the net income.
- Moderate growth of revenues was accompanied with the slightly declining administrative expenses that enforced Pre-impairment operating profit of GEL 35.7 million (GEL -1.2 million y/y at y/e 2020). Accompanied with the growing capital and asset base, pre-impairment operating profit on average equity accounted for 12.1% at y/e 2020 (15.4% at y/e 2019) and pre-impairment operating profit on average assets 2.0% at y/e 2020 (2.7% at y/e 2019).
- The year was dedicated to comply with the stricter business environment. The group reverted the course to more efficient use of resources by lowering administrative expenses. In absolute terms, the group managed to reduce administrative expenses GEL -1.2 million at y/e 2020 (GEL +6.6 million y/y in 2019). By the end of year 47% of net revenues were expensed on employee compensation and other administrative occupations (44% at y/e 2019). 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 24.2 million (GEL 37.3 million at y/e 2019), which has recorded 8.2% of Return on Shareholder's equity (ROAE), and 1.4% on Average assets (ROAA), in 2019 - 14% and 2.6% respectively.
- Capitalization standing at 17.5%, well above regulatory minimum requirement. Despite pressure on the capital ratios by increased RWA weights due to appreciation of FX denominated assets and increased risk exposures utilizing the capital by allocating reserves against stresses portfolio, the CAR was sufficiently supported by the yearly revenues covering the increased charges on Capital and standing of the Bank challenged due to increased market risk and downturn of the economy in 2020.

Financial Performance of the Group

Reported Results on Income Statement

In million GEL	End of 2020		End of 2019		Change of Consolidated Results
	Bank Standalone	Consolidated	Bank Standalone	Consolidated	y/y pct.
Net interest income	53.0	54.4	58.5	59.4	-8.5%
Non-interest income (net)	8.9	12.5	10.7	14.0	-10.6%
Total net revenues	61.9	66.9	**69.2**	**73.4**	-8.9%
Operating expenses	(28.7)	(31.2)	(30.4)	(32.4)	-3.8%
Pre-impairment operating profit	33.2	35.7	**38.8**	**41.0**	-12.9%
Provision for loan impairment	(9.9)	(10.0)	(1.1)	(1.1)	-
Income(loss) before income taxes	23.3	25.7	**37.7**	**39.9**	-35.7%
Income tax expense (benefit)	(1.2)	(1.5)	(2.3)	(2.6)	-43.7%
Net Income	**22.0**	**24.2**	**35.4**	**37.3**	**-35.1%**

- The group managed to record considerable income in spite of sharp economic downturn during 2020. Strong asset base and low risk tolerance ensured controllable losses at the reporting year. This is expected to recover for the following year as economy slowly stared re-opening and forecasts for 2021 are positive.
- The group accumulated GEL 24.2 million of net profit in 2020 (GEL 37.3 million in 2019). Net income is supported by stable interest income from loans and other assets (securities occupy growing share into the liquid assets – 14% of total assets at y/e 2020, 12% at y/e 2019) recording increasing revenues in total interest income, in 2020 composing 15% (12% in 2019). However, growth of interest revenues are offset with growing funding requirements and related costs resulting into -8.5% decline in net interest income in 2020.
- Non-interest income increased on the other hand was reduced due to lower income from operations and transaction generated during lockdowns, however income leasing and insurance operations supported non-interest income significantly composing 30% of total non-interest income of the group in consolidated statements.

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

Net Interest Margin (NIM) (in million GEL)	2020	2019	Change in pct.
Total interest and similar income	121.2	115.5	5%
Total interest expenses	(66.8)	(56.0)	19%
Net interest income	54.4	59.5	-8%
Average interest-earning assets[1]	1,566	1,352	16%
Average interest-bearing liabilities[2]	1,174	978	20%
Gross interest yield[3]	7.7	8.50	(0.8) ppt
Gross interest rate paid[4]	5.7	5.70	(0.0) ppt
Net interest spread[5]	2.1	2.80	(0.8) ppt
Net interest margin[6]	3.5	4.40	(0.9) 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. Interest income maintains its importance into income generation process; 83% of interest income originates from the growing loans, while securities gain increasing importance to gain more revenues 15% of interest income originated from securities at y/e 2020 (84% and 12% respectively at y/e 2019). Interest revenue grew by 5% y/y in 2020 (+17% y/y in 2019). The growth was significantly driven with growing debt securities. However, moderate growth of interest income was counterbalanced with interest expenses. Interest expenses growth accounted +19% y/y 2020 (+30% y/y 2019). Expenses were mostly increased on financing costs in Lari due to increased refinancing rate of NBG and increased share of long term funding in total FX resources, as well as increased share of funds bearing low or negative Interest rate deposited with banks.

Cost of Funds. Gross interest paid increased during 2020 with +19%, the bank has attracted additional recourses from different international institutions. Due to increased risks on the market funding costs from IFIs increased, funding denominated in GEL gains increasing share into the group's resources contributing to a bit higher interest expense; 19% of the loans from IFIs are denominated in GEL at y/e 2020 that are more expensive than FC loans. GEL resources become even more expansive due to the restrictive monetary policy and inflationary pressure in 2020. Growing interest payments was significantly driven with expensive local borrowings, too. Expenses on local borrowings more than tripled during the reporting year while it was stable in 2019.

On the other hand, maintenance of stable business operations needs to be supported with the stable funding. The group, positions with sound liquidity compiling with the distress of 2020. Total liquid assets share grew from 37% to 44% at y/e 2020. Customer deposits had minor influence of growing interest expenses; 75% of interest expense growth came from local borrowings, 21% from IFI borrowings and remaining part came from deposit balances.

The growth in interest revenue was corresponded with growth of interest expenses GEL +11 million reaching GEL 67 million in 2020 (GEL 56 million in 2019). Therefore, net interest income amounted to GEL 54.4 million at y/e 2020 (GEL 59.4 million in 2019).

Net Interest Margin. Different factors affecting the net interest margin resulted into reduced NIM by 0.9 percentage points at y/e 2020 (3.5%: 2020, 4.4%: 2019). The NBG maintained high monetary policy rate during the year. The transmission gap had negative impact on the net interest spread. Despite growing interest income from loans and securities, gross interest yield on AIEA discloses slight reduction. Yields on Securities and GLP remained almost flat during 2020. In addition, despite growing share of securities low yield NPG reserves has increased significantly in order to comply with the uncertainty in the economy. While high borrowing expenses on local currency and relatively stable loan yield narrowed interest spread. These factors gave rise to the lower gross interest yield of 7.7% at y/e 2020 (8.7% at y/e 2019).

Effect of Larization policy and increased liquidity requirement on FX denominated recourses was maintained in 2020 keeping the gross interest paid at the same level of 5.7% at y/e 2020 (5.7% at y/e 2019). Thus, lowering gross interest yield and stable gross interest paid had a negative effect on Net Interest Margin (NIM). Increase of average interest-earning assets by Gel 214 million with low or even negative earning has also significantly contributed to lowering of NIM. Still NIM remains solid to support the additional growth of net revenues y/y in the following years under the positive expectations and increasing share of high earning assets in general.

Net Non-interest Income. Non-interest income supports stability of the income generation. Still 19% of revenues derived from the non-interest activities. The pandemic slowed down growth of the groups subsidiaries. However, leasing and insurance fuels 30% of non-interest activities. Leasing as the fast growing company more than tripled its revenues, while insurance net income remained relatively stable. Fee and commission income had negative impact on the non-interest income generation. Decelerated economic activities lowered net fee and commission income due to relatively limited turnover in operations which declined by 10% as compared to year 2019. As a result, non-interest income growth accounted -10.6% at y/e 2020.

Operating Expenses. During the reporting year, the group's attempt to maintain operating expenses at reasonable level was successful. The group, managed to shorten administrative expenses by 3.8% (GEL 31.2 million at y/e 2020, GEL 32.4 million at y/e 2019). The bank achieved efficiency through the reduction of bonuses for the bank management and other cost saving adjustments. Financing of strategic projects continued steadily during 2020.

Majority of funds expensed on staff composition - 58% of administrative expenses in 2020, and 61% in 2019. Financing of advertising and marketing campaigns keeps its pace in 2020. This helped us to deliver positive results in 2020 in line with the group's objectives. C/I ratio stands at 46.6%, where 26.9% is allocated for compensation ratio and 19.7% for other costs in operating expenses (non-compensation ratio).

Cost of Risk. Economic downturn and uncertainty about the future development, temporary lockdowns and the group's conservative approaches led to the higher provisioning of loans. Stage 3 loans share in GPL amounted 7.5% at y/e 2020 (5.4% - 2019). Sound asset base and efficient management of impaired assets weaken severe effects of stricter business conditions.

Cost of Risk on GLP (gross loan portfolio) amounted to GEL 9 million (2019: GEL 0.7 million) reflecting overall economic slowdown. Consequently, cost of risk to GLP ratio increased to 0.87% at y/e 2020 (0.08% at 2019). 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 10.0 million (2019: GEL 1.1 million).

Income Tax Expenses. Income tax expenses amounted to GEL 1.5 million (2019: GEL 2.6 million), reduced by GEL 1.1 million related to lower earnings before taxes (EBT).

Net Results of the Year. Moderate growth of revenues and drastic effects on the expenses summed to GEL 5.3 million lower net income before provisions. However, impairment charges had further negative impact on the year end result recording GEL 24.2 million net income (2019: GEL 37.3 million).

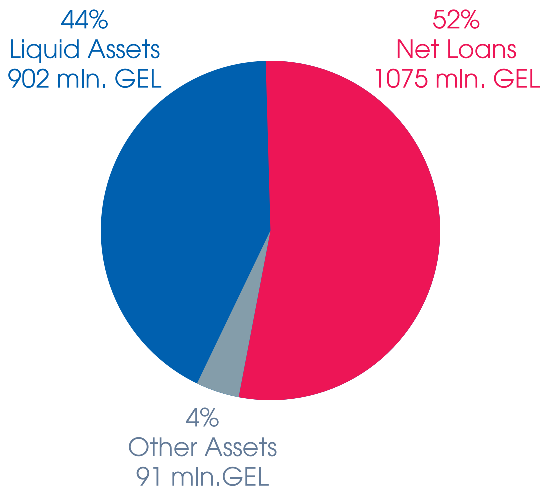
Financial Performance of the Group

Balance Sheet Position

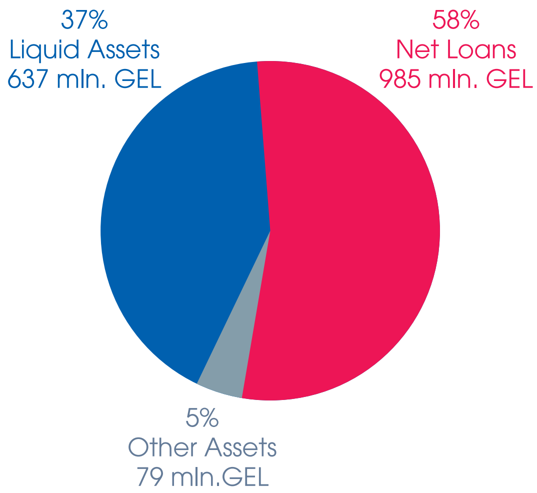
In million GEL	2020		2019		Change Y/Y 2019 of Consolidated results	
	Bank Standalone	Consolidated	Bank Standalone	Consolidated	Amount	In %
Securities	285	286	202	203	83	41%
Gross loan portfolio (GLP)	**1,101**	**1,101**	**1,000**	**1,000**	**101**	**10%**
thereof:						
Business loans	885	885	797	797	88	11%
Retail loans	216	216	203	203	13	6%
Loan Impairment provision	(26)	(26)	-15	-15	(11)	69%
Net loans	**1,075**	**1,075**	**985**	**985**	**90**	**9%**
Total assets	**2,058**	**2,069**	**1,689**	**1,701**	**368**	**22%**
Gross Customer deposits	**940**	**939**	**770**	**769**	**170**	**22%**
thereof:						
Demand Deposits	490	489	368	368	121	33%
Time deposits	450	450	402	401	49	12%
Borrowings from IFIs	477	477	429	429	48	11%
Total liabilities	**1,754**	**1,760**	**1,409**	**1,417**	**343**	**24%**
Total equity	**304**	**309**	**280**	**284**	**25**	**9%**

Sound and high quality asset pool support sustainable growth of the group and competitive performance indicators. Despite the slowdown, the group's assets are growing steadily and it maintains positions on the market.

Asset Structure 2020



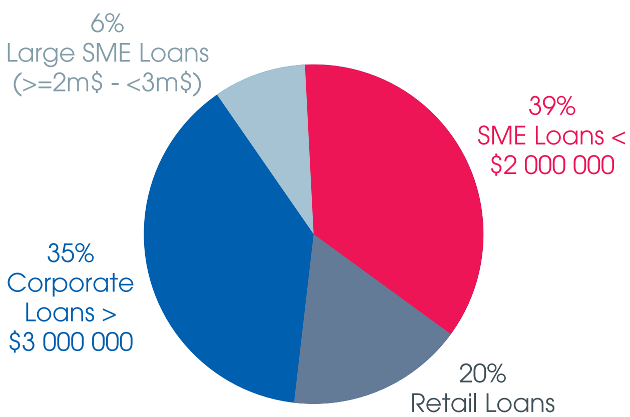
Asset Structure 2019



Total assets expanded by GEL 368 million or +22% y/y growth, as a result the total consolidated assets amounted to GEL 2.1 billion as at y/e 2020 (2019: GEL 1.7 billion). The growth mainly originated from expansion of GLP and boosting securities portfolio and placements with banks. Net loan portfolio growth contributed 25% and securities 23% to the total assets growth. While almost 48% of annual growth came from exposures with banks and mandatory reserves with NBG. Increasing liquidity prepares sound base for growth as economy recovers in the following year.

Gross loan Portfolio. Gross loan portfolio continues its growth path even in 2020. It recorded +10% growth y/y reaching to GEL 1.1 billion at y/e 2020. Historically, the bank outperforms with its familiar business clientele supporting the sustainable growth year to year. The business segment constitutes 80% of the portfolio and fuelling 88% of GLP growth and 24% of total asset growth. The retail segment grew as well (+6% y/y at y/e 2020) holding stable share (20% as in 2020 as in 2019) into the GLP.

Loan Portfolio Composition



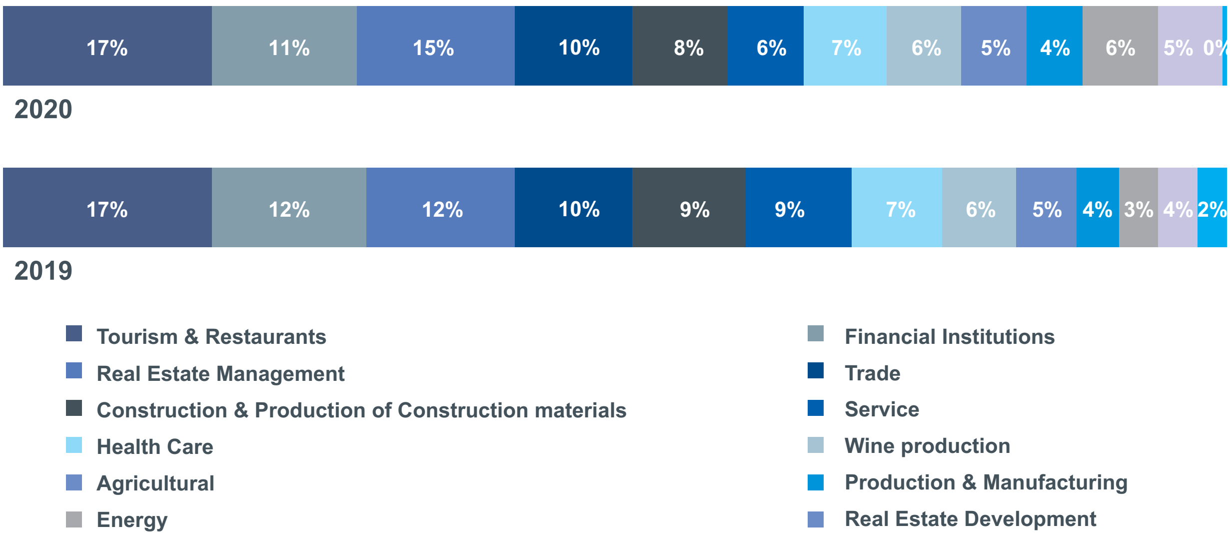
The business segment growth accounted GEL 88 million y/y and retail segment growth GEL 13 million at y/e 2020. Corporate and SME loans take the major part in formation of total portfolio. In spite of local currency depreciation, GLP composition changed towards slightly growing share of LC loans at 45% (2019: 44%).

LOAN PORTFOLIO COMPOSITION

The business portfolio continues diversification just the same way as in previous years. Despite the pandemic hit sharply HORECA and service sectors, they are still well represented in the portfolio and the internal risk managing policies ensure loans from these sectors to perform adequately. In addition, the bank and the government incentives are referred to give these businesses to recover from the current hard situation and to comply with the deteriorated conditions. Expectations has reverted that the economy slowly starts recovering from the slowdown.

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



The attraction of the retail segment remains one of the challenges to the group. Thus, the group retains strategic development of different and high quality fine-tuned products and services. The bank elaborated different products to correspond to the different needs of customers and to keep up with the evolving and continuously advancing digital banking services. The bank builds long-term relationships with customers and it aims to strengthen PR campaigns to reach each individual to bring out the existing products and services of the bank. During 2020, the retail segment share remained flat of total portfolio at 20%.

Assets Quality and Provision for Credit Losses. 10% annual growth of GLP growth was accompanied with the growth of non-performing loans. Share of NPL-s accounted 6.2% at y/e 2020 (2019: 2.7%) due to the hard economic conditions. However, internal risk appetite still ensures sound composition of GLP. Accounting policy concerning the possible losses already incorporated deteriorating creditworthiness by growing LLP. LLP covers more than half of the expected losses as shown is NPL coverage ratio of 56% at y/e 2020 (2019: 56%).

Portfolio Quality	**2020**	**2019**
in million GEL		
Gross loan portfolio (GLP)	**1,101**	**1,000**
Stage 3 loans	83	54
Stage 3 loans as of GLP	7.5%	5.4%
thereof:		
NPLs[1]	66	27
NPLs as of GLP	6.0%	2.7%
Loan loss provision	**26**	**15**
LLP ratio	2.4%	1.5%
NPL coverage[2]	40%	57%

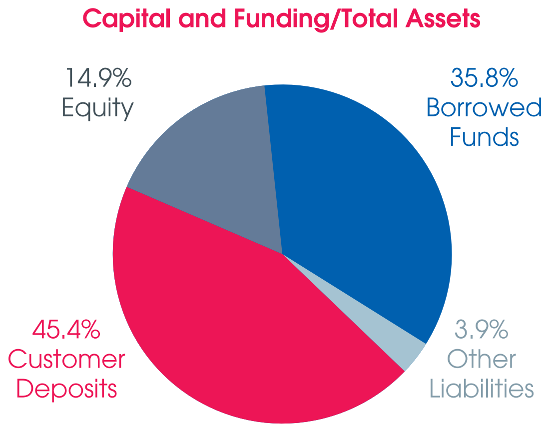
[1] NPL means – loan in arrears of more than 90 days and exposures whose repayment is dough full as per management assessment

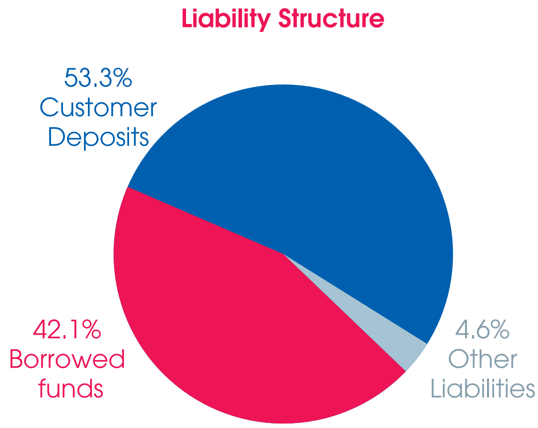
[2] NPL coverage means Loan loss provision divided by NPL exposure

Total Liabilities Changes. The group supports it business operations with stable funding attracted from loyal customers and from the long-standing partner 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 24% y/y leading to GEL 1.8 billion at y/e 2020 (2019: GEL 1.4 billion).

On liability side BB has retained its customer base and profile, improving the concentration structure and the maturity of funding base. Loyal and long standing customers support stable funding to the bank. At the begging of the reporting year there were risks about massive withdraws of customer account balances. However, the opposite occurred. Deposit base remained stable and even more their expansion supported half of the growth of funds. Total funds increased by GEL 343 million y/y at y/e 2020.

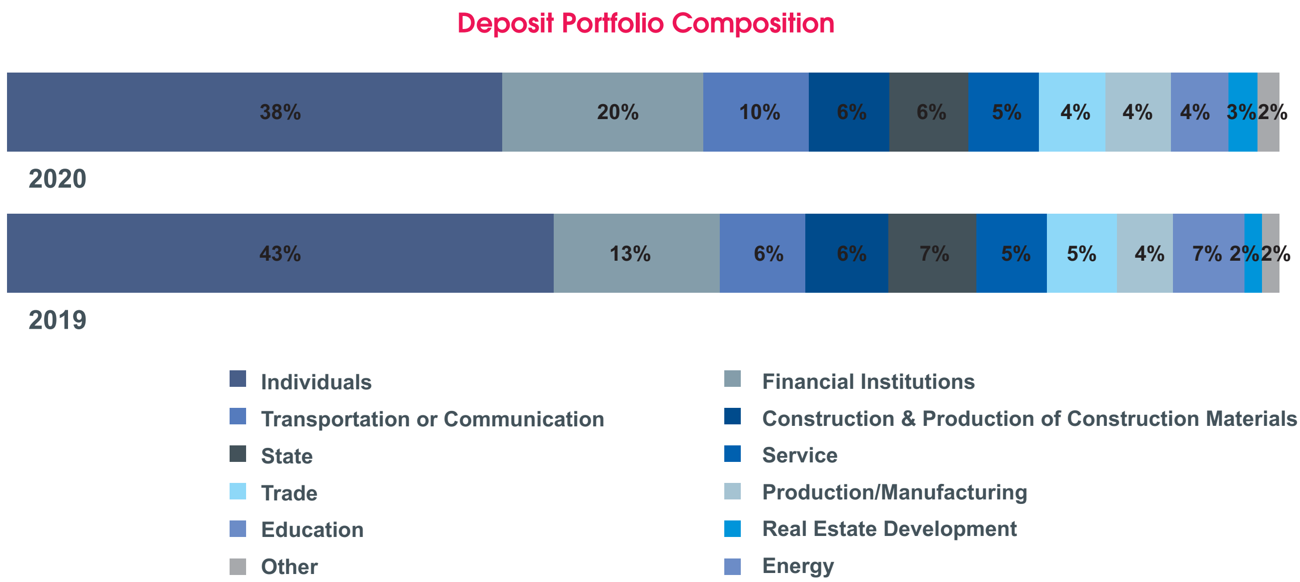
Financial Performance of the Group





Major source of liabilities are customer deposits followed by borrowings from IFI-s and from other domestic financial institutions. Furthermore, customer accounts and placements of other banks fuel the annual growth of total funds. IFI borrowing take relatively modest role to the funding annual growth of 2020 (14% of total liabilities growth is financed with IFI borrowings; 50% with customer deposits and 35% with bank placements).

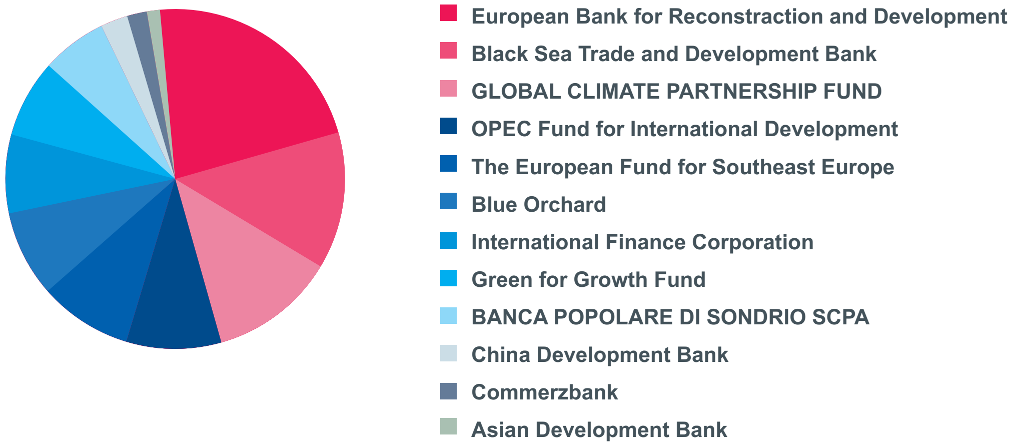
Customer Deposits. The year is convincing in prudence of customers to the bank. Customer accounts supports stability of funding recourses to the group. Despite the uncertainty customers place more funds on the term and current/demand accounts. Customer deposits book value increased by GEL 170 million y/y amounting to GEL 939 million at y/e 2020. Among them GEL 49 million came from term deposits and GEL 121 million from current and demand accounts. Individuals hold still significant share into total customer deposits; 38% as at y/e 2020 (2019: 43%).
Notably, individuals increased placements within the bank accounts by GEL 24 million at y/e 2020; and the majority of the growth referred to the term deposits. 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, service, education and real estate development companies.



Other Funding. The second source of financing constitutes term loans from international financial institutions with GEL 477 million and interbank borrowing supporting GEL 304 million of total funding in 2020. Total borrowings increased by 27% y/y and it compensated 47% of the total assets growth from funding side.

The bank signs new agreements with EBRD, ADB, CDB, EFSE and others 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 184 million equivalent additional funds during 2020 from senior partners like European Bank for Reconstruction and Development (EBRD), CDB, ADB, Commerzbank, Black Sea Trade and Development Bank (BSTDB), BANCA POPOLARE DI SONDRIO SCPA and Finance in Motion.

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 diversify and balance various longer and shorter-term funding, gaining efficient proportion of short, medium and long term financial resources and revolving lines of credit in different currencies, sectors and product combinations, ensuring that way that the attracted financing is optimally cost effective at the margin, taking into account maturity characteristics and product flexibility as well. These projects will ensure BB's short term liquidity needs under special arrangements as well as longer tenor projects directed to support SMEs in the key economic sectors such as energy, production, construction, including retail in mortgages, etc.

Changes in Equity. . The shareholder's equity increased by GEL 25 million y/y contributing to total capital of GEL 309 million at y/e 2020. The capital consists of authorized capital of GEL 91 million that expands through retained earnings of GEL 206 million at y/e 2020. Notably, 96% of shareholders capital comprise of tangible equity, the remaining part is formed of revaluation reserve for premises.

Financial Performance of the Group

Key Figures of Financial Position and Performance of Hualing Insurance

In millions of GEL	2020	2019	Change in 2020	
Cash and cash equivalents	9.4	7.8	1.6	21.0%
Insurance Assets	5.7	7.3	(1.6)	-21.8%
Total assets	17.4	15.5	1.9	12.1%
Insurance liabilities	6.4	7.7	(1.3)	-16.9%
Total liabilities	6.8	8	(1.2)	-14.9%
Total equity	10.6	7.5	3.1	40.6%
Net operating revenues	3.9	4.4	(0.6)	-12.7%
Pre-impairment operating profit	1.5	2.3	(0.9)	-37.2%
Income (loss) before income taxes	1.6	1.9	(0.3)	-16.6%
Net income (loss)	1.4	1.6	(0.3)	-17.1%

The Pandemic had a significant impact on the HI operations in terms of growth opportunities. At the beginning of the year 2020, growth prospects were high accompanied with the low expected claims of 19% as of April 2020. However, during the year demand on the insurance service was narrowed. The lockdown restrictions significantly impacted areas which comprise significant part of Georgia's economy, mostly businesses related to hotels, restaurants and catering (“HORECA, public places such as shops/shopping malls and sectors of services, including transport, markets, stimulating consumer demand, which has a direct impact on non-health insurance business. Significant decrease in retail insurance activity was observed on the market, due to lockdown period, population's willingness to buy Motor Insurance (key product of the company) was decreasing. Many clients have requested to cancel or pause insurance policies during that period. Corporate activity decreased as well, although with lower scale.

However some directions like hotel business were seriously impacted by COVID-19, thus majority of them hesitated to renew the ongoing policies. Under these circumstances the company maintains sound liquidity and asset pool to continue growth as the economy starts gradual recovery.

Considering the impacts of the pandemic, HI closed the year with quite good performance. Net operating revenues accumulated to GEL 3.9 Million that is 0.6 lower to the previous year revenue. Efficient distribution/expenditure of revenues contributed to net income GEL 1.4 million (GEL -0.3 million y/y).

Pre-impairment operating profit accounted for 16.0% of average equity and 8.8% of average assets. Such income ensured high profitability figures on AROE 15.0%, and on AROA 8.3% at y/e 2020.

Key Figures of Financial Position and Performance of BHL Leasing

In thousands of GEL	2020	2019
Cash and cash equivalents	6480	1,655
Finance lease receivables	5069	3,126
Total assets	**12,114**	**5,027**
Total equity	**11,803**	**4,983**
Net operating revenues	1,927	398
Administrative expenses	(1,090)	(412)
Net profit	**837**	**(14)**

Second year of operations turned out to be quite challenging to the BHL leasing. The company managed to reach more customer and to expand it's leasing portfolio by GEL 2 million accounting GEL 5.1 million by the y/e of 2020. Despite the destructive economic conditions PR campaigns facilitated to widen the target customers market outreach. The company does not use any significant leverage. Almost all activities are financed with shareholder's equity of about GEL 12 million.

2020 was a challenging year for businesses and retailers, with more cautious spending, triggered by economic uncertainty around coronavirus pandemic impacting consumer confidence and flattening demand. Last year more than ever, networking at many different levels was critical for companies. This is the only way to deal with the current challenges and exploit synergies and opportunities meaningfully and in a future-proof manner. When the risk of a pandemic appeared and the country's economy lockdown was unavoidable, BB leasing has individually worked with every client and offered 3 months moratorium period for payments to 41% of its customers, thus adopting clients' financial situation with the lease payment schedule. In addition, the company took cautious measures through tightening its risk appetite, increased volume of down-payment requirements, and temporarily suspending financing of the sectors vulnerable to the crisis: tourism and taxis services.

The first year operations accumulated net operating revenues of GEL 2 million. In the following years BHL will strengthen activities for reaching wider clientele base by providing advanced products to them.

Liquidity and Capital

The group cope with the destructive economic conditions during 2020. Despite the challenging economic environment, funding , funding and liquidity positions are strong and overall assets quality is sound enough to ensure stability and reasonable growth of the group. Capital and liquidity positions are under permanent control to meet with the minimal requirements. Furthermore, the group maintains strong liquidity and capital buffers over minimum regulatory requirements.

The group liquid assets are ensured with the long standing loyal customers, IFI partners and strong inter-bank relations. Liquid assets take increasing part of total assets and they cover more than half of the total liabilities. Expanding customer accounts had a greater growth rate than GLP did that is captured with lower loans to deposits ratio.

The liquidity ratios declare the obvious improvement of liquidity positions.

Funding	2020	2019
loans/deposits	117%	130%
Liquid Assets/ Total liabilities	51%	44%
Liquid Assets/ Total assets	44%	31%

*Liquid assets include total cash and cash equivalent and securities portfolio.

Liquid assets contributing 44% to total assets grew by 42% y/y bases at y/e 2020. The growth came through the high quality liquid assets (HQLA) that have grown by 56% y/y. HQLA consists of cash on hand, cash equivalents and securities portfolio eligible for REPO. That ensures stable liquidity coverage ratio standing at 167% at y/e; notably the bank improved its liquidity positions in spite of the economic distress.

The bank reports liquidity coverage ratio (LCR) on daily bases to the NBG. 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 funding.

The LCR and NSFR Positions of the Bank are Illustrated Below:

Liquidity requirements in million Lari	2020	2019
High quality liquid assets	625	401
Gross inflows	44	26
Gross outflows	419	270
Net outflows	375	244
LCR ratio in %	167%	164%
Available stable funding	1,080	1,009
Required amount of stable funding	833	789
Net stable funding ratio in %	129.7%	127.9%

Credit Rating

In November Fitch Ratings has completed rating review and affirmed Basisbank's Long-Term Issuer Default Rating (IDR) at 'B+' with Negative Outlook (In June 2021 the outlook was revised to “Stable”). The rating reflects financial standing of the bank in terms of quality, profitability and capitalization. Negative outlook reflects the weak economic environment and Fitch's concerns about vulnerability of small Georgian economy to the overall distress, health crisis and lockdowns.

Recent COVID-19 outbreak resulted in rating revision for Georgian Banks from stable to negative in light with the economic and financial market downturn and uncertainties for estimated time of recovery. The measures taken by the Government of Georgia and stimulating tools initiated by the NBG, and measures taken by the banks reduced pressure on borrowers and created basis for recovery. The payment holidays allowed local businesses to find a room for future development is spite of pandemic. 2020 proved the strong financial standing of Georgian banking system inspiring positive expectations that could promote revision of the “negative” outlook.

Capital Adequacy and Regulatory Compliance

The year ended up with quite high and sound capital adequacy. The total capital adequacy ratio stood at 17.5% at y/e 2020 (2019: 19.0%). The NBG diminished minimal requirements due to the sharp economic environment in the economy. The measures taken by the NBG ensures quite high cushions above the minimum requirements of the regulatory capital.

The capital requirement is calculated based on the new initiative introduced by the NBG “Regulation on Capital Adequacy Requirements for Commercial Banks” which has become effective on 31 December 2017. The principals of the regulation are based on capital framework established by the Basel Committee on Banking

Financial Performance of the Group

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 2020 and 2019 are as Follows:

In million GEL	2020	2019
Risk Weighted Assets for Credit Risk	1,385	1,244
Balance sheet items	1,320	1,151
Off-balance sheet items	65	93
Risk Weighted Assets for Market Risk	17	3
Risk Weighted Assets for Operational Risk	117	112
Total Risk Weighted Assets	1,519	1,359

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 of 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 buffer has eliminated during 2020 as a consequence of economic distress.
- 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 2020 and 2019 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 2020 and 2019.

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

	2020		2019	
Capital Adequacy	**Minimum requirement**	**Actual**	**Minimum requirement**	**Actual**
Total CAR	≥7.24%	17.5%	≥10.74%	19%
Tier 1 Ratio	≥12.27%	15.3%	≥16.18%	16.8%

Capital adequacy is maintained at reasonable levels through strong regulatory capital that has increased about GEL 7 million; 45% of that growth came from the tier 1 capital (undistributed income represents major source of growth) and 55% from secondary capital instruments. On the other hand, risk weighted exposures have increased due to the growing corporate loans. To mitigate risk the bank purchased some derivative contracts in order to hedge FX position leading to lower requirement on unhedged currency risk buffer. Concentration of FX loans in business loans is down from 56% in 2019 to 55% in 2020, which has contributed the improvement of CAR demand on business segment reducing concentration buffer requirement by 0.72 pp.

COVID-19 – created 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 moderated during the year.

During 2020 regulatory capital requirements were reduced by the NBG to prevent the banking sector from breach of CAR covenants due to exceptionally hard pressure on CAR level resulted from:

- Sharp depreciations of lari exchange rate impacting and sharply appreciating RWAs weights nominated in FX
- Reduced capital level due to reserve charges created against COVID-19 impacted portfolios.

NBG has took the following measures to loosen the pressure on capital:

- Postponing the phasing in of additional capital requirements planned in March on CET 1;
- Release of the capital conservation buffer (2.5% of the risk-weighted assets);
- Release of the portion of the pillar 2 buffer (2/3 of the currency induced credit risk buffer);'
- Leaving open the possibility of releasing all pillar 2 buffers (CICR, HHI and Net Grape buffers);

Allowing the buffers reduction option however prevents the banks from distributing any capital in any from (including dividend payments and capital investments) until the buffers are fully recovered to the initial level.
At year-end 2020 the BB's capital ratio stood at 17.5%. The CAR development during pandemic outbreak was driven by:

- Sharp depreciation of FX exchange rate affecting directly the risk weights of FX exposures in RWAs.
- Provisions booked for COVID-19 related impacts for GEL 24.1 million under regulatory standards;
- 160 basis points of capital was absorbed as a result of higher reserve allocations.

By the end of 2020 CAR has increased by 162 point mainly as a result of increased operating revenues, adjusted provisions and recovery of some non-performing assets. In total the period income reduced the loss recorded under local standards due to extra provisioning and full recovery of incurred losses during 2020 was achieved by the end of the year.

Under new decree conservation buffer 2.5% and +2/3 of CICR have been removed from the capital requirements. As of year-end 2020 the Bank reports CAR over current regulatory requirements and above the fully re-loaded capital buffers as well.

The bank maintains sufficient capitalization to support the BB's growth in accordance with the plan outlined by the group. The fully –loaded capital covenant is 16.2%, bank is reserving actual CAR at 17.5%.

No dividend payment or the increase of investments is planned to reduce the CAR. Partial recovery of provision charge on Capital under NBG requirment for GEL 24.1 million is expected in 2021 on COVID-19 restructured loans and additional charges are not anticipated which should boost the operating revenues in support of building up CAR at higher level.

Capital recovery plan by NBG - NBG will require the Banking sector to recover the minimum reg. level including buffers released during next 2 years.

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. The Risk Strategy defines key priorities, sets targets for the execution and deals 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.

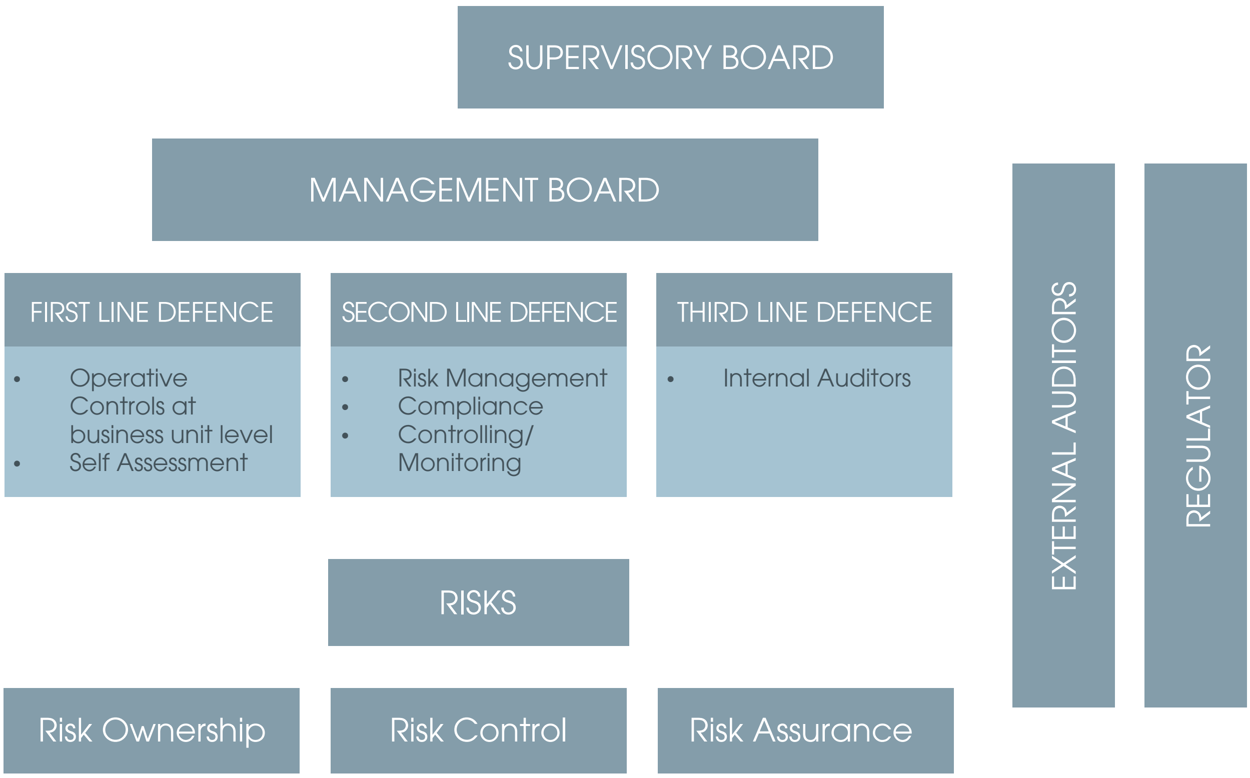
Lines of Defense

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

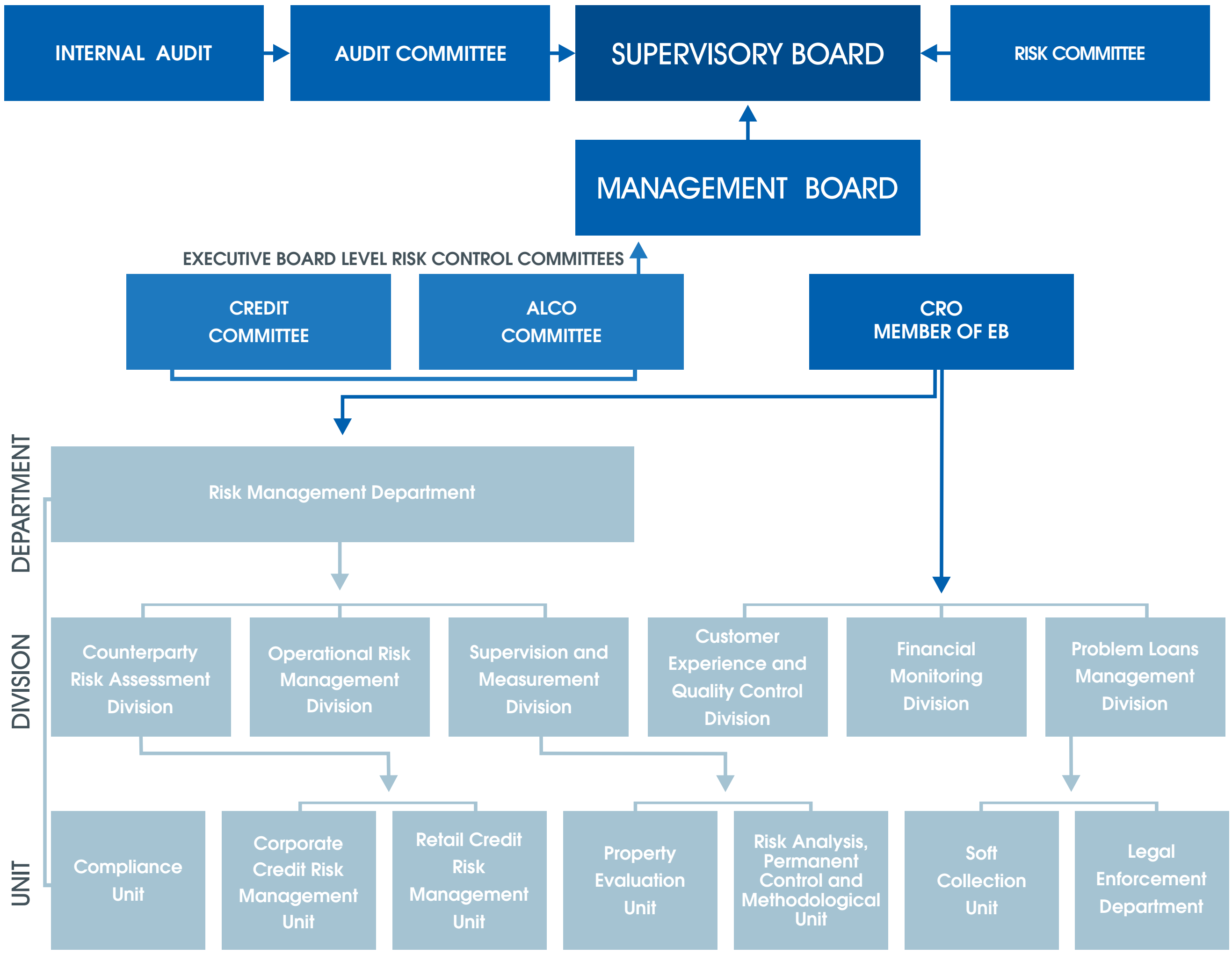
- Business unit level - operational day-to day management of risks are the task of business units and back support functions that originate risks, and have primary responsibility in the management of those risks. Each risk owner establishes and reviews the risk management tools and structure for the 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.

The Supervisory Board and the Executive Board have a sound understanding of risk management and its importance to the sustainable and strategic development of the Bank.

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 Management

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 standing and their ability to repay the loan; reviews loan applications and makes decisions within the authority delegated to the committee; reviews loan collection practices to improve loan underwriting and collection efforts.

Deputy General Director - Risk Management (CRO) is a member of the Executive 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; setting risk limits and creating risk maps; 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, makes assessment of expected credit losses (ECL); 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 executive 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

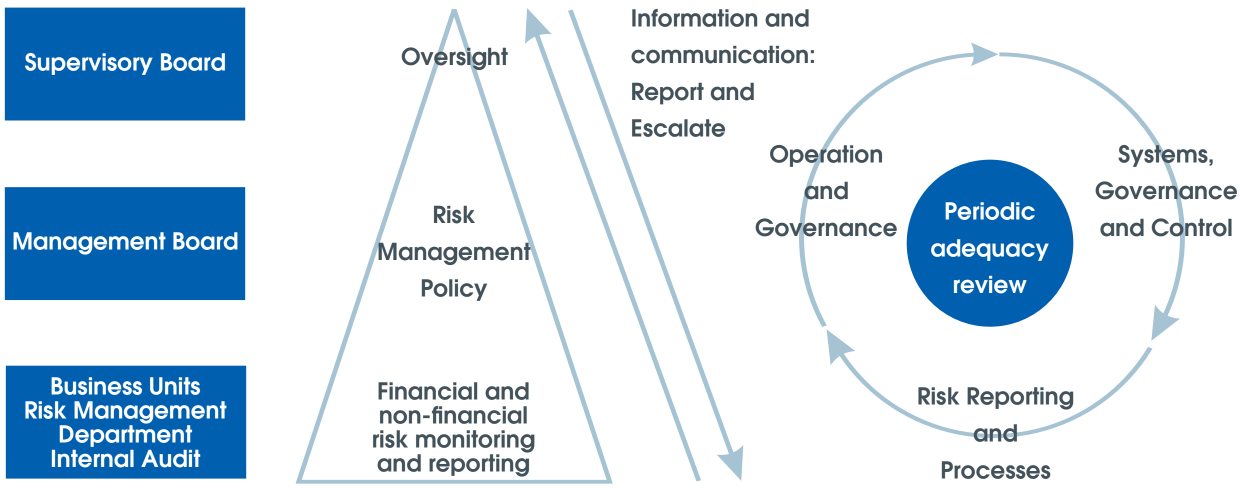
At a strategic level, risk management objectives supported by the risk governance structure are:

- 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.

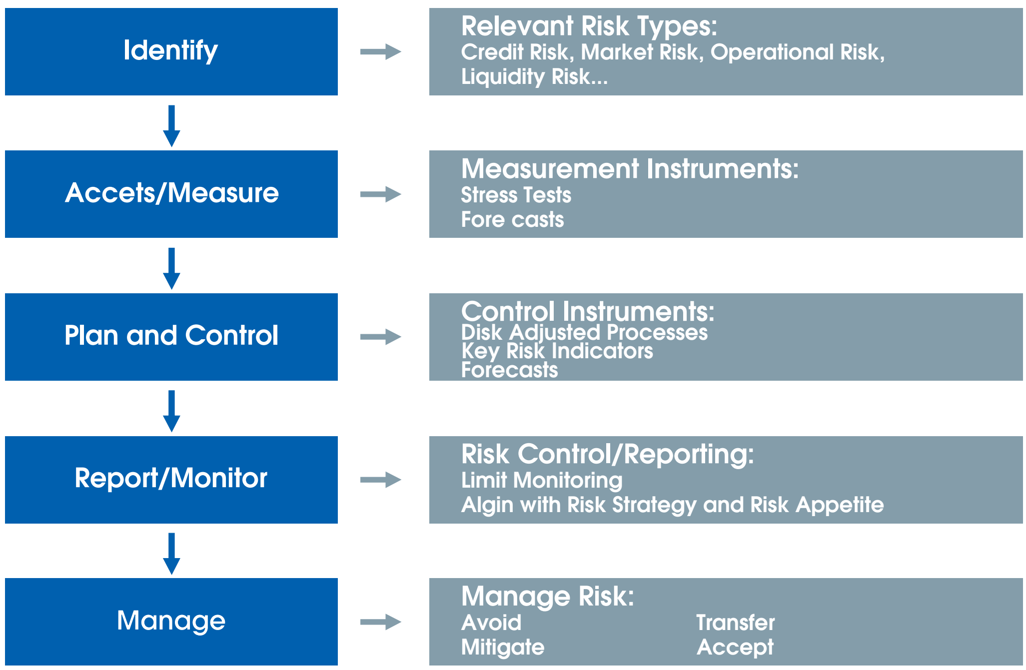
Individual policies for Credit, Operational and Anti-Money Laundering (AML) policies enable the Bank to measure, aggregate and report risk internally, as well as use this information for regulatory purposes. Further, Bank's internal methodologies and manuals provide description of processes from credit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

Continuous Risk Governance



The Bank maintains and adheres to the best Corporate Governance standards. Basisbank is a signatory to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia (CG Code) in 2009. Our operations are regulated and supervised within banking supervision framework by NBG which focuses on licensing, capital adequacy, liquidity requirement, risks' concentration, Corporate Governance Code as well as organizational and reporting requirements. Supervision framework also provides guidelines for the regulation of Risk management in Commercial banks, risk governance principles, internal control systems, etc.

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.

Management of each material risk types are defined within the Risk framework of the Bank. 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 has to define internal methodology to calculate the respective capital needed to cover the risk. Other relevant risk types that cannot be quantified are to be treated through appropriate internal processes. Internal processes shall aim to minimize potential losses arising from non-quantified risk types. If the risk is found irrelevant, no special treatment is necessary.
However, the regular review of ICAAP ensures that at least yearly all risk types are assessed, and risk types that were irrelevant and became relevant over time are addressed in an appropriate matter.

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:

Financial risk comprises credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits.

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.e.

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. During 2020 the Bank has re-evaluated representative sample of all collaterals that were left out of scope of mandatory yearly re-evaluations. This process has not revealed any significant deviations from the value according to the last valuation acts. 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.

Provision Assessment. Starting from 1 January 2018, the Group assess credit risk and allocates provisions for expected losses according to IFRS 9. Loss reserves for asset and other contingent liabilities must be sufficient to cover all expected losses in the Bank's credit portfolio. Key risk parameters, taken into account in the scope of loss allowance calculations are: (a) the probability of default (PD) by the counterparty on its contractual obligations; b) expected losses in case of default of a counterparty (LGD) and Exposure at Default (EAD). Forward-looking information is included in the final ECL (expected credit loss) assessment. IFRS9 allows financial institutions more precise assessment of loan-loss provisions and allowances by means of incorporating forward-looking information obtainable without undue cost or effort. ECL assessment approach under IFRS 9 takes into consideration past events, current conditions and forecasts of future economic conditions in the process of ECL estimation. The bank has incorporated macroeconomic forecasts, published by National Bank of Georgia in the internal impairment models.

Governance over the Expected Credit Loss (ECL) calculation process is shared between Financial Reporting and Risk functions. Under IFRS 9, validation and back-testing of all applied parameters and significant assumptions is an inherent part of ECL assessment process. 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 2020 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 2020 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:

- Recovery time used in LGD assessment models – analysed data suggested that in average more than one year passes since the default of the client, until the auction is held and underlying collateral is repossessed, therefore recovery time has been modified in order to anticipate additional time needed to recover the liability form the time-point of default. The effect of this modification is increase of provisions of GEL 1,839 thousand.

COVID-19 caused great uncertainty on the worlds' markets and greatly affected Georgia's economy as it is strongly dependent on the external markets and therefore another important part of ECL assessment process during 2020, was incorporation of the expected negative effect through Covid-19 pandemic in final ECL estimates. The final effect of COVID-19 on the Group's businesses will largely depends on duration and incidence of the pandemic on the world and Georgian economy.

Stress Testing - The Bank regularly 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 National Bank's stress-test methodology manual. During 2020, the Bank's portfolio was tested to detect possible negative effects of Covid-19, with the stress scenario parameters which were adopted to new challenging environment. For this purpose SICR and default criteria have been extended and loans and counterparties which have been affected by the pandemic have been classified in stage 2 or Stage 3 according to the stress test results, which has been performed in order to anticipate Covid-19 impact.

To assess possible impact of COVID-19 pandemic, the Bank has performed the analysis of its portfolio under stress scenarios defined by the national regulator (NBG), scenarios were provided for both retail and business portfolios. Portfolio reviewed under the stress conditions included following sectors: Real estate development and Real estate management, Hospitality (Hotels, Restaurants, Cafes & Bars and Tourism service), all clients in top 100 borrowers' groups, as well as randomly selected borrowers from other sectors in Business and Retail portfolio. In Retail segment the selection included those borrowers who requested modification of their loan schedules during the lockdown period. In assessing whether the credit risk of the borrowers who accepted payment holidays has significantly increased, the Group identified a series of qualitative and quantitative criteria based on analysis of various factors. Debt Service Coverage Ratios (DSCR) for business borrowers and Payment to Income (PTI) ratios for retail borrowers have been calculated according to the stress scenarios and thus group has facilitated the early identification of increased risk exposures.

Loans with full grace granted (i.e. grace on principal as well as interest) were transferred to either Stage 2 or Stage 3 depending on PTI and DSCR, prolongation period and other relevant parameters. For business borrowers availability of the recent financial monitoring was of high importance.

Forward-looking information used in ECL assessment process had been also modified according to the macroeconomic forecasts published by NBG.

As a result of modifications GEL additional ECL provisions have been booked in 2020 either on individual borrower level or incorporated in the macroeconomic scenarios. Gross portfolio ECL coverage increased from 1.54% at 31 December 2019 to 2.34% at 31 December 2020 (ca. 51% increase).

Payment holiday doesn't affect ECL assessment process in the Bank, as the allocation of loans to stages and calculation of provisions is done using current as well as maximum overdue days during last twelve months.

Regulatory capital adequacy ratio ("CAR") moderated after additional provisions booked under NBG standards by 2.8% but subsequently was recovered with the operating income generated during the year. As at 31 December 2020 the Bank reports 5.2% capital adequacy ratios over current requirements.

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.

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. 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 Supervisory Board.

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.

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, reprising maturity gap.

Operational Risk - Liquidity risk is defined as the risk of inability of the bank to honour its financial obligations under normal or stressed conditions. Liquidity is the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, affects markets as a whole. Virtually every financial transaction or commitment has implications for a bank's liquidity. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behaviour.

The bank relies on Basel 3 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 (AML) 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)).

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 units/departments 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, carried out by operationally independent, appropriately trained and competent staff, on the other hand.

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.

Operational Risk Department also identifies potential breaches of PDP law via analysing 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.

During the unprecedented spread of covid-19, Basisbank developed a business continuity plan to ensure proper response to health issues and operational risks. The Bank has taken precautionary measures to protect the health and safety of both employees and customers, to ensure the continuity of necessary services, and to reduce all operational and financial risks. All business continuity measures are coordinated with GoG and the NBG and are based on their guidelines and instructions. Bank offices and branches operate in compliance with additional safety standards, including strict hygiene standards. The bank will continue to follow the instructions of local and international health organizations and make informed decisions.

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.

“FCA” announced that LIBOR group banks could maintain LIBOR benchmarking until 2021 and they should simultaneously move to another benchmarks other than “LIBOR”. The reform implementation and transition process creates operational risk that could lead to uncertainty of income generation and customer complaints.

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 behaviour. 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 behaviour 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. 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. 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.

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.

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, in 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 labour, illegal pharmaceuticals, production/trade of certain pesticides and herbicides, gambling and casinos, etc. These documents are based on the active 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 implemented limit system by introducing 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 unfavourable authority opinion and actions.

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.

CORPORATE GOVERNANCE

Corporate Governance

Good Corporate Governance (CG) is crucial to the proper functioning of the company and well-governed company is the corner stone of any good business, especially in an emerging market economy. We believe that implementation of good CG 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 good CG, Basisbank adheres to the Corporate Governance Code for Commercial Banks adopted by the National Bank of Georgia (NBG). Additionally, the Bank is guided by the principles on corporate governance for banks issued by the Basel Committee as well as various other standards and guidelines related to the implementation of good corporate governance.

In line with the principles of above mentioned regulations, the Bank established CG structure suitable with the size, complexity, structure, economic significance, risk profile and business model of the Bank and its Group.

Shareholder

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, 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 and makes decision on appointment and / or dismissal of the Board members.

Supervisory Board

The Supervisory Board (the Board or SB) 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 in Risk Management). 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 SB adheres to and comply with requirements and principles of the Law of Georgia on Commercial Banks Activities, the Corporate Governance Code for Commercial Banks, the Code of Ethics and Standards of Professional Conduct, and internationally recognized standards in their work.
Board meetings are based on the principles of open dialogue, accountability and transparency, and members have the opportunity to be fully involved in the work process. Decisions are made in a transparent manner, with all members being equally involved in the dialog and decision-making process, except for the exclusion provided by the Bank's internal regulation on the Management of Conflict of Interests. Board's decisions as well as related material are submitted to the National Bank of Georgia on an ongoing basis.

The Supervisory Board held 29 regular and ad-hoc meetings in 2020.

The Board Members

The Board consists of five members, two of which are independent members of the Board. All members of the Supervisory Board are selected in accordance with the eligibility criteria set by the National Bank of Georgia. Board members are elected by the General Meeting of Shareholders.

The board's composition is an appropriate mix of knowledge, skills and experience that aligns with the Bank's strategy. The diversity of gender, age, nationality and functionality ensures different views in the process of discussion, evaluation from different perspectives and increases Board's performance.

The members of our Supervisory Board are: Mr. Zhang Jun –Executive Chairman of the Board, Mr. Zhou Ning – Vice Chairman (independent member), Mr. Mi Zaiqi - Vice Chairman, Mr. Zaza Robakidze – Member (independent member), Ms. Mia Mi – the Board Member. 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 delegates specific areas of responsibility to its committees: the Audit Committee and the Risk Management Committee. The functions of the committees are separated from each other, the issues are not discussed in duplicate. The committees report regularly to the Supervisory Board and facilitate informed decisions by the Board.

The Committees have unrestricted access to the Bank's internal information and documents related to any matter within the competence of the Committee.

The committees have full access to the Management Board and the risk management functions, however, they have the opportunity to meet independently, without the presence of the members of the Management Board, the employees of any unit of the bank as well as and external auditors, and to request and receive reports.
The committees have the right and opportunity to independently invite external consultants, and, if necessary, to receive consultations and services on legal, technical, accounting, financial, risk management, statistical and other issues.

Audit Committee. The Audit Committee is established by the Supervisory Board members and two of the three members are independent.

During the reporting period, the Audit Committee convened 6 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;
- Oversight and monitoring the quality of the Bank's accounting and financial reporting;
- Ensuring that the Management Board takes necessary steps to correct the identified control weaknesses, non-compliance 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.

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

Risk Management Committee - The Risk Management Committee is established by three members of the Supervisory Board, two of them are independent members.
During the reporting period, the Risk Management Committee convened 5 times, and among others, was responsible for:

- Oversight of the Bank's risk strategies and policies and their effective implementation
- Assessment and oversight of the Bank's risk profile and limits
- Oversight of the subsidiary's risk management function, 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.

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 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, his Deputies and other Directors.

Management Board of the Bank consists of 7 members: 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 16 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 in 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 21 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 in 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 in 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 in 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 Basisbank's 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.

Sustainable Finance

In 2020, the National Bank of Georgia in cooperation with IFC adopted the sustainable development manual which encourages commercial banks to manage ESG risks and incorporate ESG risk assessment into their lending policies.

Basisbank is among a few other commercial banks, which have incorporated the Environmental and Social (E&S) due diligence into their lending procedures – actually, the E&S risks screening, review, categorization and monitoring is the part of the Bank's credit review process already starting 2018. The internal E&S Policy defines principles of sustainable financing and sets the list of activities, which are excluded from financing. The excluded activities list includes activities associated with Weapons and munitions/paramilitary materials, forced / Child Labour, gambling etc.

Before financing, the Bank checks the E&S situation of the project and requests all the necessary information/permits. On the basis of these information, the project is assigned in high, medium of low E&S risk category. In case if deficiencies in environmental /social performance of client are detected, the Bank may include respective covenants to the agreement with client. Progress is monitored during monitoring visits.

Social Factors

As a responsible employer, Basisbank's Supervisory and Management Boards establish and communicate enterprise-wide standards for ethical behaviour and integrity. The Bank's policies and procedures ensure whistleblower protection, equality, employee protection, workplace health and safety. The Bank as an employer is committed to an environment free from harassment, discrimination and to a work environment in which all individuals are treated with respect and dignity at all levels of employment.

The Bank's Management Board dedicated to maintaining compliance with all applicable labour laws and regulations as well as International labour standards.

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 by dedicated internal Commission composed of the Head of Audit Committee, Heads of HR and Compliance functions, 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 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 STATEMENTS OF BASISBANK GROUP

BasisBank Group

Consolidated and Separate Financial Statements
and Independent Auditor's Report
for the Year Ended 31 December 2020

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INDEPENDENT ASSURANCE REPORT

To Shareholders and Management of JSC BasisBank:

Introduction

We have performed an independent reasonable assurance engagement in respect of the Management Report of JSC BasisBank ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2020 prepared in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

Management's Responsibility for the Management Report

Management is responsible for the preparation of the Management Report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the Management Report that is free from material misstatement, whether due to fraud or error.

Scope of Reasonable Assurance Engagement

Our responsibility is to issue a report on the Management report based on our reasonable assurance engagement. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) applicable to assurance engagements. The firm applies International Standard on Quality Control (ISQC) 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We have previously audited, in accordance with International Standards on Auditing, the consolidated and separate financial statements of the Bank and the Group for the year ended 31 December 2020 and have expressed an unqualified opinion thereon dated 31 March, 2021. The audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated and separate financial statements for the year ended 31 December 2020. The events described in the Management Report that occurred after the date of our report on the audited financial statements were not audited by us.

We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Group's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

Conclusion

In our opinion:

- The Management Report for the year ended 31 December 2020 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The Management Report for the year ended 31 December 2020 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the Management Report is consistent, in all material respects, with the audited consolidated and separate financial statements for the year ended 31 December 2020.

Srbuhi Hakobyan
On behalf of Deloitte & Touche LLC
Deloitte & Touche
Tbilisi, Georgia
16 August 2021

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated and Separate Financial Statements for the Year Ended 31 December 2020

Management of JSC BasisBank (the "Bank") is responsible for the preparation of the consolidated and separate financial statements that present fairly the financial position of JSC BasisBank and its subsidiaries (collectively – the "Group") as at 31 December 2020, and the related consolidated and separate statements of profit or loss, comprehensive income for the year then ended, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated and separate financial statements (the "consolidated and separate financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated and separate financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated and separate financial statements for the year ended 31 December 2020 were approved by the Management Board of the Group dated 31 March 2021.

On behalf of the Management Board:

David Tsaava
General Director

31 March 2021

Lia Aslanikashvili
Deputy General Director, Finances

31 March 2021

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC BasisBank

Opinion

We have audited the consolidated and separate financial statements of JSC BasisBank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2020, 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 ("IFRSs").

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated and separate financial statements of the Group and the Bank for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 20 March 2019.

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 ("IFRSs"), 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 Banks'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 to cease operations, or has no realistic alternative but to do so.

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Those charged with governance are responsible for overseeing the Group'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 skepticism 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 and 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 and separate 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.

Stuart Leighton
On Behalf of Deloitte & Touche LLC

Tbilisi, Georgia
31 March 2021

Consolidated and Separate Statements of Financial Position
As at 31 December 2020

		31 December 2020		31 December 2019	
In thousands of Georgian Lari	Note	Bank Separate	Consoli-dated	Bank Separate	Consoli-dated
ASSETS					
Cash and cash equivalents	7	403,190	405,089	246,711	248,700
Mandatory cash balances with the NBG	8	198,238	198,238	177,989	177,989
Due from other banks	9	-	13,424	-	7,186
Investments in debt securities	10	285,333	285,633	202,269	202,569
Investments in equity securities	11	63	63	63	63
Investment in subsidiaries	44	20,796	-	13,097	-
Loans and advances to customers	12	1,075,253	1,075,253	984,994	984,994
Finance leases to customers	13	-	5,108	-	3,126
Insurance assets	14	-	5,846	-	8,798
Investment properties	15	-	583	367	959
Current income tax prepayment	35	2,253	2,253	1,472	1,472
Other financial assets	16	1,294	1,334	1,157	1,204
Other assets	17	36,044	38,669	28,293	30,615
Premises and equipment	18	25,796	27,510	26,948	27,016
Intangible assets	18	3,795	3,909	2,033	2,199
Right of use assets	19	4,153	4,153	3,536	3,536
Non-current assets held for sale	20	1,614	1,673	291	486
TOTAL ASSETS		**2,057,822**	**2,068,738**	**1,689,220**	**1,700,912**
LIABILITIES					
Due to other banks	21	304,163	304,163	183,984	183,984
Customer accounts	22	940,377	938,715	770,050	768,870
Other borrowed funds	23	477,012	477,012	428,926	428,926
Lease liabilities	19	4,812	4,812	3,737	3,737
Insurance liabilities	24	-	6,119	-	8,828
Other financial liabilities	25	5,918	6,302	2,151	2,557
Deferred income tax liability	35	3,068	3,075	1,848	1,855
Provisions for liabilities and charges	40	586	586	1,010	1,010
Other liabilities	26	1,978	2,696	2,638	3,097
Subordinated debt	27	16,368	16,368	14,410	14,410
TOTAL LIABILITIES		**1,754,282**	**1,759,848**	**1,408,754**	**1,417,274**
EQUITY					
Share capital	28	16,057	16,057	16,057	16,057
Share premium	28	74,923	74,923	74,923	74,923
Share based payment reserve		1,842	1,842	1,822	1,822
Revaluation reserve for premises		9,165	10,003	9,165	9,165
Revaluation reserve for debt securities at FVOCI	30	173	173	-	-
Retained earnings		201,380	205,892	178,499	181,671
TOTAL EQUITY		**303,540**	**308,890**	**280,466**	**283,638**
TOTAL LIABILITIES AND EQUITY		**2,057,822**	**2,068,738**	**1,689,220**	**1,700,912**

Approved for issue and signed on 31 March 2021.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 10-135 form an integral part of these consolidated and separate financial statements

Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2020

		2020		2019	
In thousands of Georgian Lari	Note	Bank Separate	Consoli-dated	Bank Separate	Consoli-dated
Interest income calculated using the effective interest method	31	121,705	123,081	114,884	115,468
Interest expense	31	(66,830)	(66,773)	(56,394)	(56,031)
Losses from modification of financial assets measured at amortised cost, that did not lead to derecognition	12	(1,914)	(1,914)	-	-
Net margin on interest and similar income		**52,961**	**54,394**	**58,490**	**59,437**
Credit loss allowance		(9,935)	(10,034)	(1,064)	(1,075)
Net margin on interest and similar income after credit loss allowance		**43,026**	**44,360**	**57,426**	**58,362**
Fee and commission income	32	7,227	7,185	8,473	8,399
Fee and commission expense	32	(3,165)	(3,165)	(3,368)	(3,368)
Net insurance revenue		-	2,652	-	3,132
Net insurance claims incurred		-	(583)	-	(284)
Finance income from leases		-	1,629	-	474
Gains less losses from financial derivatives		(1,243)	(1,243)	-	-
Gains less losses from trading in foreign currencies		4,732	4,732	4,644	4,644
Foreign exchange translation gains less losses		(1,052)	(1,065)	(372)	(372)
Provision for credit related commitments		415	415	(552)	(552)
Other operating income, net	33	2,001	1,967	1,924	1,938
Administrative and other operating expenses	34	(28,656)	(31,197)	(30,358)	(32,442)
Profit before tax		**23,285**	**25,687**	**37,817**	**39,931**
Income tax expense	35	(1,240)	(1,466)	(2,288)	(2,604)
PROFIT FOR THE YEAR		**22,045**	**24,221**	**35,529**	**37,327**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Gains less losses arising during the year on debt securities at FVOCI	30	173	173	-	-
Items that will not be reclassified to profit or loss:					
Revaluation of premises	30	838	838	-	-
Other comprehensive income for the year		**1,011**	**1,011**	-	-
Total comprehensive income for the year		**23,056**	**25,232**	**35,529**	**37,327**

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Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Retained earnings	Total Equity
Balance at 1 January 2019		**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**	**181,671**	**283,638**
Profit for the year		-	-	-	-	-	24,221	24,221
Other comprehensive income	30	-	-	-	173	838	-	1,011
Total comprehensive income for 2020		-	-	-	173	838	24,221	25,232
Share Based Payment accruals	29	-	-	20	-	-	-	20
Balance at 31 December 2020		**16,057**	**74,923**	**1,842**	**173**	**10,003**	**205,892**	**308,890**

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Deputy General Director, Finances

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Separate Statement of Changes in Equity for the Year Ended 31 December 2020

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Retained earnings	Total Equity
Balance at 1 January 2019		**16,057**	**74,923**	**1,339**	**-**	**9,284**	**146,557**	**248,162**
Profit / (loss) for the year		-	-	-	-	-	35,529	35,529
Other comprehensive income	30	-	-	-	-	-	-	-
Total comprehensive income for 2019		-	-	-	-	-	35,529	35,529
Share Based Payment accruals	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**	**178,499**	**280,466**
Profit for the year		-	-	-	-	-	22,045	22,045
Other comprehensive income	30	-	-	-	173	838	-	1,011
Total comprehensive income for 2020		-	-	-	173	838	22,045	23,056
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	(838)	838	-
Share Based Payment accruals	28	-	-	20	-	-	-	20
Balance at 31 December 2020		**16,057**	**74,923**	**1,842**	**173**	**9,165**	**201,380**	**303,540**

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Consolidated and Separate Statements of Cash Flow for the Year Ended 31 December 2020

In thousands of Georgian Lari	Note	2020 Bank Separate	2020 Consolidated	2019 Bank Separate	2019 Consolidated
Cash flows from operating activities					
Interest income calculated using the effective interest method received		111,816	113,192	114,256	115,872
Interest paid calculated using the effective interest method		(70,286)	(70,229)	(55,536)	(55,173)
Fees and commissions received		7,298	7,256	8,473	8,399
Fees and commissions paid		(3,165)	(3,165)	(3,368)	(3,368)
Income received from financial derivatives		(1,243)	(1,243)	-	-
Income received from trading in foreign currencies		4,732	4,719	4,644	4,644
Other operating income received		1,506	1,472	1,924	905
Cash inflow from insurance		-	3,907	-	3,818
Cash outflow from insurance		-	(1,486)	-	(801)
Finance income from leases		-	1,629	-	474
Proceeds from disposal of foreclosed properties		3,615	3,615	5,425	5,425
Staff costs paid		(17,592)	(19,348)	(17,275)	(18,912)
Administrative and other operating expenses paid		(8,294)	(8,911)	(10,414)	(10,774)
Income tax paid		(800)	(1,027)	(3,625)	(4,215)
Cash flows from operating activities before changes in operating assets and liabilities		**27,587**	**30,381**	**44,504**	**46,294**
Net (increase)/decrease in:					
- due from other banks and mandatory cash balances with NBG		10,809	4,571	7,594	408
- loans and advances to customers		961	961	(41,859)	(44,996)
- Insurance assets		-	1,697	-	(5,290)
- other financial assets		148	(1,926)	-	-
- other assets		(12,362)	(12,637)	(22,367)	(22,184)
Net increase/(decrease) in:					
- due to other banks		116,647	116,647	(9,081)	(9,081)
- customer accounts		88,263	87,780	2,211	2,212
- other financial liabilities		3,013	2,991	1,219	1,625
- insurance liabilities		-	(1,806)	-	4,815
- other liabilities		441	552	81,942	87,668
Net cash from operating activities		**235,507**	**229,211**	**64,163**	**61,471**
Cash flows from investing activities					
Injection of cash in subsidiary		(6,262)	-	(3,000)	-
Proceeds from disposal/redemption of debt securities	10	114,937	114,937	14,542	14,542
Acquisition of debt securities	10	(192,780)	(192,780)	(41,198)	(41,680)
Acquisition of premises and equipment	18	(952)	(989)	(2,524)	(2,524)
Proceeds from disposal of premises and equipment	18	9	9	-	-
Disposal of investment properties	15	358	367	670	606
Acquisition of intangible assets	18	(2,223)	(2,251)	(999)	(999)
Net cash used in investing activities		**(86,913)**	**(80,707)**	**(32,509)**	**(30,055)**

Consolidated and Separate Statements of Cash Flow for the Year Ended 31 December 2020

		2020		2019	
In thousands of Georgian Lari	Note	Bank Separate	Consoli-dated	Bank Separate	Consoli-dated
Cash flows from financing activities					
Proceeds from other borrowed funds	23	253,971	253,971	290,934	290,934
Repayment of other borrowed funds	23	(267,174)	(267,174)	(217,290)	(217,290)
Proceeds from subordinated debt		-	-	14,383	14,383
Dividends paid		-	-	(3,729)	(3,729)
Repayment of principal of lease liabilities		(1,461)	(1,461)	(1,168)	(1,168)
Net cash used in financing activities		**(14,664)**	**(14,664)**	**83,130**	**83,130**
Effect of exchange rate changes on cash and cash equivalents		**22,549**	**22,549**	**1,655**	**1,655**
Net increase in cash and cash equivalents		**156,479**	**156,389**	**116,439**	**116,201**
Cash and cash equivalents at the beginning of the year		246,711	248,700	130,272	132,499
Cash and cash equivalents at the end of the year	7	**403,190**	**405,089**	**246,711**	**248,700**

During the years ended December 31, 2020 and December 31, 2019 the Group performed the following non-cash transactions. These non-cash transactions were excluded from the consolidated statement of cash flows and presented separately below:

	2020	2019
Loans to customers settled by means of collateral repossession	7,782	11,894
Investment in Subsidiary in a form of PPE	1,714	-

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David Tsaava
General Director

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Deputy General Director, Finances

The notes set out on the pages 10-135 form an integral part of these consolidated and separate financial statements

1 Introduction

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 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 2020 and 2019 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	**2020**	**2019**
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 15,000 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 (2019: 24) branches within Georgia. The Group had 470 employees at 31 December 2020 (2019: 550 employees), of which 433 are the bank's employees and 37 of the subsidiaries (2019: 510 related to the Bank and 40 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:

Name	Country of incorporation	Principal activities	Ownership % at 31 December 2020	2019
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
BB Insurance JSC	Georgia	Insurance	100%	100%
BB 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. The capital of Basis Asset Management – Holding LLC as at 31 December 2020 was GEL 3.8 million (2019 GEL 3.8 million).

BB Insurance JSC (former Hualing Insurance JSC) 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 BB Insurance as at 31 December 2020 was GEL 6 million (2019: 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.

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

BB Leasing JSC (former BHL Leasing JSC) 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 BB Leasing as at 31 December 2020 was GEL 11 million (2019: GEL 5 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 separate 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 0 provides more information of how the Group incorporated forward-looking information in the ECL models.

Starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Following to COVID-19 outbreak in Georgia early in March 2020 emergency state was announced by the Government of Georgia ("GoG") resulted in disruption of business operations, interruption and closure of some facilities in services sectors, quarantines of personnel, reduced demand.

As the virus continued to spread in Georgia the Group took all necessary measures to follow all recommendations and adhere to safety measures of Ministry of Health and GoG. The financial sector continued unhindered service to customers, depositors and borrowers. The banking sector have agreed with the National Bank of Georgia ("NBG") to grant grace period to certain retail customers and businesses engaged in sectors most impacted by the crisis and to postpone the current scheduled payments until the end of the crisis.

The situation affects Georgia's economy through various channels, the most negative impact was on tourism sector, trade, HORECA. The GoG in consultations with Banks, NBG and business associates elaborated solutions to help affected businesses in restructuring their obligations. The measures also include tax benefits, loan restructuring, subsidizing interest payments, elaborating new financial facilities to support the sectors recovery.

NBG introduced facilitating incentives to support the banking sector with liquidity sources and eased the regulatory pressure on capital requirements by partially releasing Tier 2 capital buffers to prevent the Banks from regulatory breach.

The depreciation of Georgian "Lari" against US "Dollar" triggered deterioration of portfolios adding additional burden on the qualitative metrics of the Banks' financial positions.

COVID-19 caused great uncertainty on the worlds' markets and greatly affected Georgia's economy as it is strongly dependent on the external markets.

The Group may face increasing negative impact of COVID-19 as a result of its continued effect on global and local economies and financial markets. The significance of impact of COVID-19 on the Group's businesses largely depends on duration and incidence of the pandemic on the world and Georgian economy.

To assess possible impact of COVID-19 pandemic, the Bank has performed the analysis of its portfolio under stress scenarios defined by the national regulator (NBG), scenarios were provided for both retail and business portfolios. Portfolio reviewed under the stress conditions included following sectors: Real estate development and Real estate management, Hospitality (Hotels, Restaurants, Cafes & Bars and Tourism service), all clients in top 100 borrowers' groups, as well as randomly selected borrowers from other sectors in Business and Retail portfolio. In Retail segment the selection included those borrowers who requested modification of their loan schedules during the lockdown period. Based on the stress tests results, clients with potential significant increase of credit risk since origination or potential default trigger events have been identified and have been provisioned according to stage 2 or stage 3 provisioning rules. For details on Stage 2 and Stage 3 provisioning rules please refer to Note 0.

Forward-looking information used in ECL assessment process had been also modified according to the macroeconomic forecasts published by NBG.

As a result of modifications GEL additional ECL provisions have been booked in 2020 either on individual borrower level or incorporated in the macroeconomic scenarios. Gross portfolio ECL coverage increased from 1.54% at 31 December 2019 to 2.34% at 31 December 2020 (ca. 51% increase).

Payment holiday doesn't affect ECL assessment process in the Bank, as the allocation of loans to stages and calculation of provisions is done using current as well as maximum overdue days during last twelve months.

Regulatory capital adequacy ratio ("CAR") moderated after additional provisions booked under NBG standards by 2.8% but subsequently was recovered with the operating income generated during the year. As at 31 December 2020 the Bank reports 5.2% capital adequacy ratios over current requirements. The Bank's financial standing as of capital and liquidity are disclosed in Notes 0 and 39.

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, 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. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

These consolidated and separate financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

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.

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 subsidiaries 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.

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 (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. 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.

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.

The Group uses discounted cash flow valuation techniques to determine the fair value of Foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the Foreign exchange forwards. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

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 0 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 0 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.

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 0 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 0. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 0 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 0.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by GEL 2,266 thousand as of 31 December 2020 (31 December 2019: higher by GEL 1,371 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.

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, i.e. 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.

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 (e.g. 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 assess 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.

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 0 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 realizable 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.

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. The Group has conducted appropriate appraisal of 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 to ensure that the fair value of the property has not changed significantly to lead to revaluation and is satisfied that sufficient market based evidence is available to support the current 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.

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
ATM	10
Leasehold improvements	1 to 5
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 without functional maturity is amortised on a straight line basis over expected useful lives of 10 years. Licenses without functional maturity is amortised on a straight line basis over expected useful lives of 8 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;
- 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 of GEL 15 thousand and less 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. The 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 model using 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.

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, currency and interest rate swaps, 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. 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.

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.

IBNR. The assumptions used in the estimation of insurance assets and liabilities are intended to result in reserves which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen. Reserve is made at the statement of financial position date for the expected ultimate cost of settlement of all claims notified in respect of events up to that date, whether reported or not, less amounts already paid. The Group makes estimate of the ultimate liability arising from claims under life insurance contracts that are incurred but not yet reported at the reporting date. The ultimate cost of IBNR is calculated by using actuarial method for life insurance. The primary underlying assumption of the method are mortality rates in Georgia, maximum delay period for reporting of claims and monthly probability of claim identification.

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.

At 31 December 2020, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 3.2766 (2019: USD 1 = GEL 2.8677), EUR 1 = GEL 4.0233 (2019: USD 1 = GEL 3.2095).

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.

When as a result of qualitative analysis, the Bank did not identify any criteria that leads to derecognition, additional quantitative test needs to be performed. Doing so, a modification is generally deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is at least 10 per cent different from the net present value of the remaining cash flows of the financial asset prior to the modification, both discounted at the original effective interest rate of the financial asset prior to the modification.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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 leased assets are

transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

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 Note44.

Accounting for subordinated loans from Shareholder. The shareholder (“Xinjiang Hualing Industry & Trade (Group) Co Ltd’) provided subordinated loans to the group 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.

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 0 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 of the consolidated statement of financial position that are not analysed in Note 0.

	December 31, 2020			December 31, 2019		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
In thousands of Georgian 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	405,089	-	405,089	248,700	-	248,700
Mandatory cash balances with the NBG	198,238	-	198,238	177,989	-	177,989
Due from other banks	13,424	-	13,424	7,186	-	7,186
Investments in debt securities	127,361	158,272	285,633	85,901	116,668	202,569
Investments in equity securities	-	63	63	-	63	63
Loans and advances to customers	361,037	714,216	1,075,253	331,298	653,696	984,994
Finance leases to customers	125	4,983	5,108	149	2,977	3,126
Insurance assets	5,846	-	5,846	8,798	-	8,798
Investment properties	-	583	583	-	959	959
Current income tax prepayment	2,253	-	2,253	1,472	-	1,472
Other financial assets	1,172	162	1,334	1,061	143	1,204
Other assets	5,201	33,468	38,669	1,332	29,283	30,615
Premises and equipment	-	27,510	27,510	-	27,016	27,016
Intangible assets	-	3,909	3,909	-	2,199	2,199
Right of use assets	-	4,153	4,153	-	3,536	3,536
Non-current assets held for sale	1,673	-	1,673	486	-	486
TOTAL ASSETS	**1,121,419**	**947,319**	**2,068,738**	**864,372**	**836,540**	**1,700,912**
LIABILITIES						
Due to other banks	304,163	-	304,163	183,984	-	183,984
Customer accounts	848,563	90,152	938,715	717,211	51,659	768,870
Other borrowed funds	281,493	195,519	477,012	235,880	193,046	428,926
Lease Liabilities	949	3,863	4,812	3,737	-	3,737
Insurance Liabilities	6,119	-	6,119	8,828	-	8,828
Other financial liabilities	6,092	210	6,302	2,557	-	2,557
Deferred income tax liability	-	3,075	3,075	-	1,855	1,855
Provisions for liabilities and charges	586	-	586	1,010	-	1,010
Other liabilities	2,696	-	2,696	3,097	-	3,097
Subordinated debt	-	16,368	16,368	-	14,410	14,410
TOTAL LIABILITIES	**1,450,661**	**309,187**	**1,759,848**	**1,156,304**	**260,970**	**1,417,274**

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 0. 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 2020:

		Assigned	Assumption for:		
Variable	**Scenario**	**weight**	**2021**	**2022**	**2023**
CPI Inflation %	Base	50%	3.00%	3.00%	3.00%
	Upside	25%	4.00%	3.00%	3.00%
	Downside	25%	6.00%	2.50%	2.50%
Real GDP Growth rate %	Base	50%	5.00%	4.50%	4.50%
	Upside	25%	6.00%	5.00%	5.00%
	Downside	25%	1.00%	4.00%	4.00%
Nominal Effective Exchange Rate NEER (1995=100)	Base	50%	252.00	252.00	252.00
	Upside	25%	259.60	267.30	267.30
	Downside	25%	222.40	229.10	229.10
Real Estate price index in GEL (YoY	Base	50%	100.00	103.00	103.00
	Upside	25%	103.00	103.00	103.00
	Downside	25%	100.00	105.00	105.00
GEL/USD Nominal Exchange Rate (YoY)	Base	50%	100.00	100.00	100.00
	Upside	25%	95.00	95.00	95.00
	Downside	25%	110.00	95.00	95.00
Unemployment (%)	Base	50%	16.60%	16.30%	16.00%
	Upside	25%	16.10%	15.40%	15.10%
	Downside	25%	17.60%	18.60%	18.60%
Country Sovereign risk premium in%	Base	50%	2.75%	2.75%	2.75%
	Upside	25%	2.70%	2.70%	2.70%
	Downside	25%	2.90%	2.90%	2.85%

The assumptions and 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%	260.10	264.80	269.50
	Upside	25%	271.10	276.50	276.50
	Downside	25%	233.00	240.00	247.20
Real Estate price index in GEL (YoY	Base	50%	104.00	102.50	103.00
	Upside	25%	103.50	103.00	103.00
	Downside	25%	97.00	103.00	103.00
GEL/USD Nominal Exchange Rate (YoY)	Base	50%	97.00	97.00	97.00
	Upside	25%	90.00	97.00	100.00
	Downside	25%	115.00	95.00	95.00
Country Sovereign risk premium in%	Base	50%	2.50%	2.50%	2.50%
	Upside	25%	2.50%	2.50%	2.50%
	Downside	25%	4.00%	2.50%	2.50%

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 104 thousand at 31 December 2020 (31 December 2019: by GEL 138 thousand). A corresponding change towards the upside assumptions would result in a decrease in ECL by GEL 61 thousand at 31 December 2020 (31 December 2019: by GEL 6 thousand).

A 10% increase in PD estimates would result in an increase in total expected credit loss allowances of GEL 80 thousand at 31 December 2020 (31 December 2019: GEL 311 thousand). A 10% decrease in PD estimates would result in an decrease in total expected credit loss allowances of GEL 79 thousand at 31 December 2020 (31 December 2019: GEL 307 thousand).

A 10% increase in LGD estimates would result in an increase in total expected credit loss allowances of GEL 740 thousand at 31 December 2020 (31 December 2019: GEL 863 thousand). A 10% decrease in LGD estimates would result in a decrease in total expected credit loss allowances of GEL 740 thousand at 31 December 2020 (31 December 2019: GEL 716 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 137 thousand at 31 December 2020 (31 December 2019: increase or decrease by GEL 258 thousand).

Premises valuation. Premises are stated revalued amounts and 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. Premises have been revalued at fair value in December 2018 by an independent firm of valuers. As at the reporting date the Group has performed internal valuation and concluded that the carrying amounts of premises are not significantly different from their fair values. 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.

Repossessed assets valuation. All repossessed assets is measured at the lower of cost or net realisable value. The Group performs regular internal valuations to make sure that the carrying amount is not higher than the net realisable value. Valuations are based on available information on market prices, for repossessed real estate on market prices per squatter meter.

Insurance contract liabilities. Major assumptions refer to uncertainty regarding insurance contract liabilities. For insurance contract provisions estimates have to be mostly for unearned premium and claims (“UPR”) and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (“IBNR”). The Group makes estimates of UPR and IBNR claims reserves on an undiscounted basis. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, UPR reserve form a significant part of the insurance contract liabilities. Adoption of New or Revised Standards and Interpretations

5 Adoption of New or Revised Standards and Interpretations

The following amendments and interpretations are effective for the Group effective January 1, 2020:

Amendments to IFRS 9, IFRS 7	Basic interest rate reform
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Materiality
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards
Amendments to IFRS 16	Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

The above standards and interpretations were reviewed by the Group's management, but did not have a significant effect on the consolidated financial statements of the Group.

The Group also early adopted the amendment to IFRS 16 COVID-19 Related Rent Concessions. This amendment is effective for annual reporting periods beginning on or after 1 June 2020. Applied retrospectively in accordance with IAS 8, but does not require revise prior periods.

Amendments to IFRS 3 Definition of a business: The Group has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 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.

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.

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16: In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

1) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
2) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
3) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

Impact on accounting for changes in lease payments applying the exemption

The Group has applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B, and has not restated prior period figures.

The Group has benefited from a temporal monthly payment reduction in total GEL 61 thousand in 2020.

6 New Accounting Pronouncements

New and revised IFRS Standards in issue but not yet effective: At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
Amendments to IAS 1 (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles)	Classification of Liabilities as Short-Term or Long-Term
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to IFRS 3	Business combinations - Reference to the Conceptual Framework
Amendments to IAS 16	Property and equipment - Proceeds before Intended Use
Amendments to IAS 37	Provisions, contingent liabilities and contingent assets - Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 1, IFRS 9, IAS 41; and illustrative examples accompanying IFRS 16.	Annual Improvements to IFRS 2018-2020 cycles

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

IFRS 17 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after January 1, 2023 (previously – on or after January 1, 2021).

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 1 Classification of Liabilities as Short-Term or Long-Term (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles). The amendments are intended to facilitate the understanding that a liability is classified as long-term if the organization expects and has the authority to refinance the liability or postpone its maturity by at least 12 months after the reporting period under the existing credit line with the previous lender, on equal or similar terms.

The amendments only amend the presentation of liabilities in the statement of financial position, i.e. not regarding the amount, the moment of recognition or disclosure of information.

The amendments clarify that the classification should be based on the existence at the end of the reporting period of the right to defer repayment of a liability for at least 12 months. Thus, the amendments explicitly indicate that only those rights that exist "at the end of the reporting period" should affect the classification of the liability. Moreover, the classification does not depend on expectations as to whether the organization will use the right to defer repayment of the liability, which means transferring funds, equity instruments, or other assets or services to a counterparty.

The amendments apply retrospectively to the periods beginning on or after January 1, 2023. Early application is acceptable.

The management of the Group does not expect that the application of these amendments could have an impact on the Group's financial statements in future periods.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform — Phase 2. The changes in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) relate to the impact of the interest rate benchmark reform on the modification of financial assets, financial liabilities and lease liabilities, hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

Modification of financial assets, financial liabilities and lease liabilities. The IASB introduces a practical expedient for changes in contractual cash flows as a direct consequence of the interest rate benchmark reform provided that the new cash flow basis is economically equivalent to the original basis According to the practical exception these modifications are accounted prospectively for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

Disclosures. The amendments require that an entity discloses additional information in order to allow users to understand the nature and extent of risks arising from the IBOR and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendments are effective for annual periods beginning on or after 1 January 2021 and are to be applied retrospectively. Early application is permitted. Restatement of prior periods is not required, however, an entity may restate prior periods if, and only if, it is possible without the use of hindsight.

The management of the Group does not expect that the application of these amendments could have an impact on the Group's financial statements in future periods.

Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date has yet to be set; however, earlier application of the amendments is permitted.

The management of the Group does not expect that the application of these amendments could have an impact on the Group's financial statements in future periods should such transactions occur.

Annual Improvements to IFRS 2018-2020 Cycles. The list of amendments includes amendments to the three standards, as well as annual improvements to the Board, which are changes that clarify the wording or eliminate minor inconsistencies, omissions or contradictions between the requirements in the standards.

The amendments to IFRS 3 Business Combinations update the reference in IFRS 3 to the Conceptual Framework for Financial Statements without changing the accounting requirements for a business combination.

Amendments to IAS 16 Property, Plant and Equipment prohibit deducting from the value of property, plant and equipment the amounts received from the sale of manufactured goods while preparing the asset for its intended use. Instead, these sales revenue and related costs are recognized in profit or loss.

Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" determine the costs to be included in assessing whether the contract is unprofitable.

Annual improvements introduce minor amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and illustrative examples accompanying IFRS 16 "Leases".

All amendments are effective on January 1, 2022, early application is permitted.

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	December 31, 2020	December 31, 2019
Cash on hand	42,705	37,439
Cash balances with the NBG (other than mandatory reserve deposits)	195,464	41,991
Correspondent accounts and overnight placements with other banks	91,554	56,127
Placements with other banks with original maturities of less than three months	75,945	113,455
Less credit loss allowance	(579)	(312)
Total cash and cash equivalents	**405,089**	**248,700**

The cash and cash equivalent balances under the bank's separate financial statement as at 31 December 2020 amount GEL 403,190 thousand (2019: GEL 246,711 thousand). Subsidiaries attributed GEL 1,905 thousand to the Group's balance at 31 December 2020, (2019: GEL 1,989 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2020. Refer to Note 0 for the description of the Group's credit risk grading system. Amounts are presented net of credit loss allowance:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks, with maturity of less than three months	Total
- Excellent	-	84,382	75,867	**160,249**
- Good	195,090	6,842	-	**201,932**
- Satisfactory	-	137	-	**137**
- Special monitoring	-	66	-	**66**
Total cash and cash equivalents, excluding cash on hand	**195,090**	**91,427**	**75,867**	**362,384**

The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019 is as follows:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent 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**

As at 31 December 2020 there were no significant placement with unrated Georgian banks, (2019: four placement with unrated Georgian banks with aggregate amount of GEL 258 thousand.)

At 31 December 2020 the Group had two counterparty banks (2019: two banks) with aggregated cash and cash equivalent balances above 10% of equity. The total aggregate amount of these balances was GEL 154,709 thousand (2019: GEL 146,536 thousand) or 38% of the cash and cash equivalents (2019: 58%).

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 0 for the ECL measurement approach.

Interest rate analysis of cash and cash equivalents is disclosed in Note 0. 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 2020, Fitch Ratings 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 0 for the ECL measurement approach.

9 Due from Other Banks

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Placements with other banks with original maturities of more than three months	13,424	7,186
Less credit loss allowance	-	-
Total due from other banks	**13,424**	**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 amounts due from other banks. Refer to Note 0 for the ECL measurement approach.

The credit quality of due from other bank balances based on credit risk grades are as follows:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
- Excellent	3,012	-
- Good	1,812	105
- Not rated	8,600	7,081
Total due from other banks	**13,424**	**7,186**

Due from Other Banks represent term placements of subsidiaries with other Georgian banks.

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 0. Information on related party balances is disclosed in Note 44.

10 Investments in Debt Securities

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Debt securities at FVOCI	23,868	-
Debt securities at AC	261,765	202,569
Total investments in debt securities	**285,633**	**202,569**

The table below discloses investments in debt securities at 31 December 2020 by measurement categories and classes:

In thousands of Georgian Lari	**Debt securities at FVOCI**	**Debt securities at AC**	**Total**
Georgian government treasury bonds	23,914	202,793	226,707
Georgian government treasury bills	-	28,191	28,191
Corporate bonds	-	31,390	31,390
Total investments in debt securities (gross carrying value)	**23,914**	**262,374**	**286,288**
Credit loss allowance	(46)	(609)	(655)
Total investments in debt securities (carrying value)	**23,868**	**261,765**	**285,633**

The Bank is participating in Georgian Government Market-making Pilot Program “Primary Dealer”, the participation requires from the eligible participants to comply with the requirements and criteria set by the rules of the program such as regular participation in treasury bond issue auctions and minimum purchase volumes. Debt securities at FVOCI are intended for trading and were purchased with the purpose to participate in the program.

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
NBG certificates of deposit	12,013	12,013
Total investments in debt securities (gross carrying value)	**203,077**	**203,077**
Credit loss allowance	(508)	(508)
Total investments in debt securities (carrying value)	**202,569**	**202,569**

a) Investments in debt securities at FVOCI

The credit loss allowance and the gross amortised cost amount of Georgian government bonds at FVOCI were originated in 2020 and they have not influenced movements among stages. Refer to Note 0 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 FVOCI.

Movements in the credit loss allowance and in the gross amortised cost amount of Georgian government bonds at FVOCI were as follows.

	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 2019	-	-	-	-
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(46)	(46)	23,564	23,564
Changes in accrued interest	-	-	177	177
Revaluation	-	-	173	173
Total movements with impact on credit loss allowance charge for the period	**(46)**	**(46)**	**23,914**	**23,914**
At 31 December 2020	**(46)**	**(46)**	**23,914**	**23,914**

The debt securities at FVOCI are not collateralized.

b) Investments in debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2020 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 0 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 2020 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	202,793	202,793
Gross carrying amount	202,793	202,793
Credit loss allowance	(265)	(265)
Carrying amount	**202,528**	**202,528**

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Total
Georgian government treasury bills		
- Good	28,191	28,191
Gross carrying amount	28,191	28,191
Credit loss allowance	(25)	(25)
Carrying amount	**28,166**	**28,166**
Corporate bonds		
- Good	31,390	31,390
Gross carrying amount	31,390	31,390
Credit loss allowance	(319)	(319)
Carrying amount	**31,071**	**31,071**
Total investments in debt securities measured at AC (gross carrying amount)	**262,374**	**262,374**
Credit loss allowance	(609)	(609)
Total investments in debt securities measured at AC (carrying amount	**261,765**	**261,765**

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2019.

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	**11,786**	**11,786**
Total investments in debt securities measured at AC (gross carrying amount)	**203,077**	**203,077**
Credit loss allowance	(508)	(508)
Total investments in debt securities measured at AC (carrying amount	**202,569**	**202,569**

The debt securities at AC as at 31 December 2020 are not collateralised (2019: not collateralised).

At 31 December 2020 debt securities at AC with a carrying value of GEL 215,203 thousand have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds (2019: GEL 99,885 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 2019	**(233)**	**(233)**	**145,393**	**145,393**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(93)	(93)	95,269	95,269
Derecognised during the period	27	27	(37,609)	(37,609)
Changes in accrued interest	(1)	(1)	(260)	(260)
Other movements	34	34		
Total movements with impact on credit loss allowance charge for the period	**(33)**	**(33)**	**57,400**	**57,400**
At 31 December 2020	**(266)**	**(266)**	**202,793**	**202,793**
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	-	-	(418)	(418)
Other movements	47	47	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**

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 2019	**(48)**	**(48)**	**45,671**	**45,671**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(35)	(35)	55,915	55,915
Derecognised during the period	62	62	(77,505)	(77,505)
Changes in accrued interest	(4)	(4)	4,110	4,110
Total movements with impact on credit loss allowance charge for the period	**23**	**23**	**(17,480)**	**(17,480)**
At 31 December 2020	**(25)**	**(25)**	**28,191**	**28,191**
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**

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

	Credit loss allowance		Gross carrying amount	
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Total**
Corporate bonds				
At 31 December 2019	**(227)**	**(227)**	**12,013**	**12,013**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(129)	(129)	18,042	18,042
Changes in accrued interest	(3)	(3)	145	145
Other movements	64	64	-	-
Total movements with impact on credit loss allowance charge for the period	**(68)**	**(68)**	**18,187**	**18,187**
Movements without impact on credit loss allowance charge for the period:				
FX and other movements	(24)	(24)	1,190	1,190
At 31 December 2020	**(319)**	**(319)**	**31,390**	**31,390**
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
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	31 December 2020	31 December 2019
Equity securities at FVOCI	63	63
Total investments in equity securities	**63**	**63**

All of the equity securities are carried 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 2020	Fair value at 31 December 2019
Georgian stock market	6	6
United Clearing centre	57	57
Total investments in equity securities at FVOCI	63	63

At 31 December 2020 securities at FVOCI include equity securities with a carrying value of GEL 63 thousand which are not publicly traded (2019: 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	December 31, 2020	December 31, 2019
Gross carrying amount of loans and advances to customers at AC	1,101,318	1,000,429
Less credit loss allowance	(26,065)	(15,435)
Total carrying amount of loans and advances to customers at AC	**1,075,253**	**984,994**

As at 31 December 2020 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 2020 and 31 December 2019 are disclosed in the table below:

	December 31, 2020			December 31, 2019		
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	**885,338**	**(21,425)**	**863,913**	**796,951**	**(12,465)**	**784,486**
Loans to Large entities	697,923	(17,155)	680,768	635,309	(10,181)	625,128
Loans to SME	187,415	(4,270)	183,145	161,642	(2,284)	159,358
Loans to individuals	**215,980**	**(4,640)**	**211,340**	**203,478**	**(2,970)**	**200,508**
Mortgage loans	153,520	(2,955)	150,565	137,575	(1,351)	136,224
Consumer loans	59,449	(1,514)	57,935	61,540	(1,368)	60,172
Credit cards	3,011	(171)	2,840	4,363	(251)	4,112
Total loans and advances to customers at AC	**1,101,318**	**(26,065)**	**1,075,253**	**1,000,429**	**(15,435)**	**984,994**

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

- Loans issued to large business 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 USD 1 million;

As at December 31, 2020 and 2019 a significant amount of loans (79% and 78% of total loans to customers) is granted to companies and individuals operating and residing in Georgia, which represents a significant geographical concentration in one region.

Mortgage loans with carrying amount of GEL 64,390 thousand and SME loans with carrying amount of GEL 19,017 thousand are pledged for short term loan from NBG at 31 December 2020 (2019: mortgage loans GEL 60,492 thousand and SME loans nil pledged for short-term loans from NBG). Refer to Note 21.

12 Loans and Advances to Customers (Continued)

The table below summarizes an analysis of loans to customers by type of impairment:

	December 31, 2020			December 31, 2019		
	Carrying value before allowance	Allowance for expected credit losses	Carrying value	Carrying value before allowance	Allowance for expected credit losses	Carrying value
Loans to customers individually determined to be impaired	41,980	(15,294)	26,686	25,473	(8,848)	16,625
Loans to customers collectively determined to be impaired	40,975	(7,494)	33,481	28,096	(3,763)	24,333
Unimpaired loans	1,018,363	(3,277)	1,015,086	946,860	(2,824)	944,036
Total	**1,101,318**	**(26,065)**	**1,075,253**	**1,000,429**	**(15,435)**	**984,994**

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
Loans to Legal entities								
At 31 December 2019	**(1,770)**	**(394)**	**(10,301)**	**(12,465)**	**667,811**	**89,726**	**39,414**	**796,951**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	1,130	(1,639)	-	(509)	(97,194)	97,194	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1,751	445	(8,327)	(6,131)	(31,309)	(23,825)	55,134	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(649)	1,119	51	521	48,240	(47,517)	(723)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	(4,610)	-	-	(4,610)	-	1,329	(1,329)	-
- Changes due to modifications that did not result in derecognition	-	(66)	88	21	(471)	(23)	(73)	(567)
New originated or purchased	(2)	-	(22)	(24)	613,435	-	-	613,435
Repayments	3,179	1,853	5,645	10,677	(715,635)	(96,615)	(35,124)	(847,374)
Other movements*	(656)	(1,961)	(4,323)	(6,939)	202,805	30,477	2,939	236,221

	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
Total movements with impact on credit loss allowance charge for the period	**143**	**(249)**	**(6,888)**	**(6,994)**	**19,871**	**(38,980)**	**20,824**	**1,715**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	46	46	-	-	(46)	(46)
Foreign exchange gains and losses and other movements	(281)	(248)	(1,483)	(2,012)	67,656	12,969	6,093	86,718
At 31 December 2020	**(1,908)**	**(891)**	**(18,626)**	**(21,425)**	**755,338**	**63,715**	**66,285**	**885,338**

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**
Loans to Legal entities								
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
Repayments	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**

*Other movements include additional disbursements on earlier originated loans and utilisation of credit lines reflecting the increase in exposure and changes in reserve rates.

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**
Mortgage loans								
At 31 December 2019	**(229)**	**(23)**	**(1,099)**	**(1,351)**	**123,688**	**3,823**	**10,063**	**137,574**
Changes in Assumptions								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	25	(94)	-	(69)	(5,393)	5,393	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	59	30	(1,031)	(942)	(3,323)	(2,205)	5,528	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(23)	38	14	29	2,282	(2,105)	(177)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	(268)	-	-	(268)	49,432	-	-	49,432
- Changes due to modifications that did not result in derecognition	-	(96)	242	146	-	1,698	(1,698)	-
New originated or purchased	-	-	(4)	(4)	(721)	(42)	(24)	(787)
Repayments	186	26	590	802	(42,811)	(1,560)	(3,276)	(47,647)
Other movements	159	122	(1,419)	(1,138)	4,811	219	576	5,606
Total movements with impact on credit loss allowance charge for the period	**138**	**25**	**(1,608)**	**(1,444)**	**4,277**	**1,398**	**929**	**6,604**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange gains and losses and other movements	(17)	(10)	(133)	(160)	7,914	347	1,081	9,342
At 31 December 2020	**(108)**	**(7)**	**(2,840)**	**(2,955)**	**135,879**	**5,568**	**12,073**	**153,520**

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
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
Repayments	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
Consumer loans								
At 31 December 2019	**(346)**	**(24)**	**(998)**	**(1,368)**	**54,509**	**3,271**	**3,760**	**61,540**
Changes in Assumptions								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	40	(68)	-	(28)	(4,439)	4,439	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	16	71	(638)	(551)	(1,271)	(2,340)	3,611	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(24)	26	22	24	1,096	(1,016)	(80)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(29)	85	56	-	442	(442)	-
- Changes due to modifications that did not result in derecognition	(2)	-	(13)	(15)	(475)	(45)	(40)	(560)
New originated or purchased	(224)	-	-	(224)	34,729	-	-	34,729
Payments	407	45	502	954	(37,340)	(3,129)	(2,053)	(42,522)
Other movements	(187)	(40)	(1,074)	(1,301)	4,374	1,884	321	6,579
Total movements with impact on credit loss allowance charge for the period	**26**	**5**	**(1,116)**	**(1,085)**	**(3,326)**	**235**	**1,317**	**(1,774)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	949	949	-	-	(949)	(949)
Foreign exchange gains and losses and other movements	-	(1)	(9)	(10)	442	69	121	632
At 31 December 2020	**(320)**	**(20)**	**(1,174)**	**(1,514)**	**51,625**	**3,575**	**4,249**	**59,449**

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-onths 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 2019	**-**	**(38)**	**(213)**	**(251)**	**-**	**4,031**	**332**	**4,363**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	7	(5)	-	2	(405)	405	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	121	1	(173)	(51)	(403)	(127)	530	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(15)	13	-	(2)	1,688	(1,688)	(1)	-
New originated or purchased	(136)	-	-	(136)	1,804	-	-	1,804
Payments	26	292	123	441	(2,291)	(19,648)	(252)	(22,191)
Other movements	(19)	(531)	(188)	(738)	1,589	18,467	40	20,096
Total movements with impact on credit loss allowance charge for the period	**(16)**	**(230)**	**(238)**	**(484)**	**1,982**	**(2,591)**	**317**	**(292)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	262	302	564	-	(262)	(302)	(564)
Foreign exchange gains and losses and other movements	(1)		1	-	32	(529)	1	(496)
At 31 December 2020	**(17)**	**(6)**	**(148)**	**(171)**	**2,014**	**649**	**348**	**3,011**

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**
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**

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

The provision for impairment 2020 differs from the amount presented in profit or loss for the year due to recovery of amounts equal to GEL 468 thousand, previously written off as uncollectible (2019: GEL 1,066 thousand). The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

12 Loans and Advances to Customers (Continued)

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 0. 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.

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 Legal entities carried at amortised cost is as follows at 31 December 2020:

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**
Loans to legal entities				
- Excellent	77,902	-	-	77,902
- Good	677,436	-	-	677,436
- Satisfactory	-	63,229	-	63,229
- Special monitoring	-	486	-	486
- Default	-	-	66,285	66,285
Gross carrying amount	**755,338**	**63,715**	**66,285**	**885,338**
Credit loss allowance	(1,908)	(891)	(18,626)	(21,425)
Carrying amount	**753,430**	**62,824**	**47,659**	**863,913**

12 Loans and Advances to Customers (Continued)

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
Loans to legal entities				
- 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**

12 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2020:

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	3,218	-	-	3,218
- Good	132,661	-	-	132,661
- Satisfactory	-	5,124	-	5,124
- Special monitoring	-	444	-	444
- Default	-	-	12,073	12,073
Gross carrying amount	**135,879**	**5,568**	**12,073**	**153,520**
Credit loss allowance	(108)	(7)	(2,840)	(2,955)
Carrying amount	**135,771**	**5,561**	**9,233**	**150,565**
Consumer loans				
- Excellent	3,648	-	-	3,648
- Good	47,977	-	-	47,977
- Satisfactory	-	3,156	-	3,156
- Special monitoring	-	419	-	419
- Default	-	-	4,249	4,249
Gross carrying amount	**51,625**	**3,575**	**4,249**	**59,449**
Credit loss allowance	(320)	(20)	(1,174)	(1,514)
Carrying amount	**51,305**	**3,555**	**3,075**	**57,935**
Credit cards				
- Excellent	-	-	-	-
- Good	2,014	-	-	2,014
- Satisfactory	-	649	-	649
- Special monitoring	-	-	-	-
- Default	-	-	348	348
Gross carrying amount	**2,014**	**649**	**348**	**3,011**
Credit loss allowance	(17)	(6)	(148)	(171)
Carrying amount	**1,997**	**643**	**199**	**2,840**

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**

For description of the credit risk grading used in the tables above refer to Note 0.

12 Loans and Advances to Customers (Continued)

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

In thousands of Georgian Lari	December 31, 2020 Amount	%	December 31, 2020 Amount	%
Individuals	215,980	20%	203,478	20%
Tourism & Restaurants	148,918	13%	137,832	14%
Real Estate Management	135,796	12%	96,878	10%
Financial Institutions	94,842	9%	99,384	10%
Trade	87,094	8%	76,766	8%
Construction & Production of Construction materials	72,792	7%	72,302	7%
Health Care	65,364	6%	59,577	6%
Service	53,731	5%	70,428	7%
Wine production	53,657	5%	47,826	5%
Energy	51,027	4%	25,813	2%
Agricultural	45,513	4%	37,370	4%
Real Estate Development	39,610	4%	25,770	3%
Production & Manufacturing	35,330	3%	29,183	2%
Telecommunication	43	0%	53	0%
Other	1,621	0%	17,769	2%
Total loans and advances to customers carried at AC	**1,101,318**	**100%**	**1,000,429**	**100%**

At 31 December 2020 the Group had 12 borrowers' groups (2019: 11 borrowers) with aggregated loan amounts above 5% of the Bank's regulatory capital. The total aggregate amount of these loans was GEL 260,204 thousand (2019: GEL 219,274 thousand) or 24% of the gross loan portfolio (2019: 22%).

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. The table below summarises carrying value of loans to customers analysed by type of collateral obtained by the Group as at 31 December 2020:

In thousands of Georgian Lari	Loans to legal entities	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:					
- real estate	641,517	151,732	30,749	-	823,998
- cash deposits	72,135	661	3,004	-	75,800
- Transport and equipment	22,692	-	343	-	23,035
- other assets	30,485	6	4	20	30,515
Total	**766,829**	**152,399**	**34,100**	**20**	**953,348**
Unsecured exposures	118,509	1,121	25,349	2,991	147,970
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**885,338**	**153,520**	**59,449**	**3,011**	**1,101,318**

12 Loans and Advances to Customers (Continued)

Information about collateral for loans to customers is as follows at 31 December 2019:

In thousands of Georgian Lari	Loans to legal entities	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:					
- real estate	569,328	136,278	27,548	7	733,161
- cash deposits	97,133	35	1,550	-	98,718
- Transport and equipment	17,061	22	337	-	17,420
- other assets	32,527	128	-	20	32,675
Total	**716,049**	**136,463**	**29,435**	**27**	**881,974**
Unsecured exposures	80,902	1,112	32,105	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**	**137,575**	**61,540**	**4,363**	**1,000,429**

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 1,213 thousand (2019: GEL 9,877 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 2020 is as follows.

	Under-collateralised Loans		**Over-collateralised Loans**	
In thousands of Georgian Lari	Carrying value of the loans	Value of collateral	Carrying value of the loans	Value of collateral
Credit impaired assets:				
Loans to legal entities carried at AC	16,765	828	49,520	201,177
Loans to individuals carried at AC				
Mortgage loans	891	-	3,358	19,310
Consumer loans	57	24	12,016	31,986
Credit cards	347	-	-	-

12 Loans and Advances to Customers (Continued)

The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

	Over-collateralised Loans		Under-collateralised Loans	
In thousands of Georgian Lari	Carrying value of the loans	Value of collateral	Carrying value of the loans	Value of collateral
Credit impaired assets:				
Loans to legal entities carried at AC	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

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 2020. Based on the results for the representative sample the possible impact of old valuations on ECL assessment was found insignificant for 2020, 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 2020 and 31 December 2019:

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Loans to Legal entities	46	59
Loans to individuals		
Mortgage loans	-	92
Consumer loans	949	1,055
Credit cards	564	218
Total	**1,559**	**1,424**

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 0. Information on related party balances is disclosed in Note 44.

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to standard lending as at December 31, 2020 is presented as follows:

Loans to legal entities As at December 31, 2020	**Gross loans**	**Provision for expected credit losses**	**Net loans**	**Provision for expected credit losses to gross loans**
Collectively assessed				
Not past due	**697,805**	**(2,847)**	**694,958**	**0.40%**
Overdue:				
up to 30 days	2,170	(29)	2,141	1.30%
31 to 60 days	579	(18)	561	3.10%
61 to 90 days	713	(33)	680	4.60%
91 to 180 days	2,888	(820)	2,068	28.40%
over 180 days	6,801	(786)	6,015	11.60%
Total collectively assessed loans	**710,956**	**(4,533)**	**706,423**	**0.60%**
Individually assessed				
Not past due	139,464	(3,454)	136,010	2.50%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	450	(237)	213	52.70%
61 to 90 days	-	-	-	-
91 to 180 days	19,628	(6,308)	13,320	32.10%
over 180 days	14,840	(6,893)	7,947	46.40%
Total individually assessed loans	**174,382**	**(16,892)**	**157,490**	9.70%
Total legal entity lending	**885,338**	**(21,425)**	**863,913**	**2.40%**

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to standard lending as at December 31, 2019 is presented as follows:

Loans to legal entities As at December 31, 2019	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	760,037	(2,498)	757,539	0.3%
Overdue:				
up to 30 days	3,442	(82)	3,360	2.4%
31 to 60 days	1,331	(56)	1,275	4.2%
61 to 90 days	242	(13)	229	5.4%
91 to 180 days	431	(30)	401	7.0%
over 180 days	5,997	(937)	5,060	15.6%
Total collectively assessed loans	**771,480**	**(3,616)**	**767,864**	**0.5%**
Individually assessed				
Not past due	5,086	(1,822)	3,264	35.8%
Overdue:				
up to 30 days	1,474	(537)	937	36.4%
31 to 60 days	8,496	(3,094)	5,402	36.4%
61 to 90 days	2,173	(791)	1,382	36.4%
91 to 180 days	1,320	(481)	839	36.4%
over 180 days	6,922	(2,125)	4,799	30.7%
Total individually assessed loans	25,471	(8,850)	16,623	34.7%
Total legal entity lending	**796,951**	**(12,465)**	**784,486**	**1.6%**

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to mortgage loans as at December 31, 2020 is presented as follows:

Mortgage loans As at December 31, 2020	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	145,221	(1,165)	144,056	0.8%
Overdue:				
up to 30 days	2,286	(5)	2,281	0.2%
31 to 60 days	664	(182)	482	27.4%
61 to 90 days	573	(147)	426	25.7%
91 to 180 days	806	(228)	578	28.2%
over 180 days	3,968	(1,228)	2,740	30.9%
Total collectively assessed loans	**153,520**	**(2,957)**	**150,565**	**1.9%**
Total mortgage loans	**153,520**	**(2,957)**	**150,565**	**1.9%**

Analysis by credit quality of loans to mortgage loans as at December 31, 2019 is presented as follows:

Mortgage loans As at December 31, 2019	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	131,068	(758)	130,310	0.6%
Overdue:				
up to 30 days	2,182	(148)	2,034	6.8%
31 to 60 days	461	(17)	444	3.7%
61 to 90 days	398	(32)	366	8.0%
91 to 180 days	1,244	(116)	1,128	9.3%
over 180 days	2,220	(280)	1,940	12.6%
Total collectively assessed loans	**137,573**	**(1,351)**	**136,222**	**1.0%**
Total mortgage loans	**137,573**	**(1,351)**	**136,222**	**1.0%**

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to consumer loans as at December 31, 2020 is presented as follows:

Consumer loans As at December 31, 2020	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	55,669	(735)	54,934	1.3%
Overdue:				
up to 30 days	1,356	(57)	1,299	4.2%
31 to 60 days	454	(152)	302	33.5%
61 to 90 days	567	(140)	427	24.7%
91 to 180 days	577	(306)	271	53.0%
over 180 days	826	(124)	702	15.0%
Total collectively assessed loans	**59,449**	**(1,514)**	**57,935**	**2.5%**
Total consumer loans	**59,449**	**(1,514)**	**57,935**	**2.5%**

Analysis by credit quality of loans to consumer loans as at December 31, 2019 is presented as follows:

Consumer loans As at December 31, 2019	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	57,038	(674)	56,364	1.2%
Overdue:				
up to 30 days	1,824	(91)	1,733	5.0%
31 to 60 days	496	(43)	453	8.7%
61 to 90 days	330	(48)	282	14.5%
91 to 180 days	755	(235)	520	31.1%
over 180 days	1,097	(277)	820	25.3%
Total collectively assessed loans	**61,540**	**(1,368)**	**60,172**	**2.2%**
Total consumer loans	**61,540**	**(1,368)**	**60,172**	**2.2%**

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to credit cards as at December 31, 2020 is presented as follows:

Credit cards As at December 31, 2020	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	2,875	(115)	2,760	3.90%
Overdue:				
up to 30 days	15	(6)	9	40.00%
31 to 60 days	64	(27)	37	42.20%
61 to 90 days	12	(5)	7	41.70%
91 to 180 days	44	(18)	26	40.90%
over 180 days	1	-	1	0.00%
Total collectively assessed loans	**3,011**	**(171)**	**2,840**	**5.60%**
Total credit cards	**3,011**	**(171)**	**2,840**	**5.70%**

Analysis by credit quality of loans to credit cards as at December 31, 2019 is presented as follows:

Credit cards As at December 31, 2019	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	4,092	(78)	4,014	1.9%
Overdue:				
up to 30 days	92	(59)	33	64.1%
31 to 60 days	-	-	-	0.0%
61 to 90 days	42	(27)	15	64.3%
91 to 180 days	77	(49)	28	63.6%
over 180 days	60	(38)	22	63.3%
Total collectively assessed loans	**4,363**	**(251)**	**4,112**	**5.8%**
Total credit cards	**4,363**	**(251)**	**4,112**	**5.8%**

Modified financial assets. As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition. Financial assets (with loss allowance based on lifetime ECL) modified during the period:

	December 31, 2020
Gross carrying amount before modification	**350,813**
Net amortised cost before modification	340,924
Net modification loss	(1,914)
Net amortised cost after modification	339,010

At 31 December 2020 loans modified since initial recognition at a time when loss allowance was based on lifetime ECL comprised 19,326 GEL, and gross carrying amount of loans for which loss allowance has changed in the period from lifetime to 12-month ECL cost after modification comprised 5,114 GEL. At 31 December 2019 loans modified since initial recognition was insignificant.

13 Finance Lease Receivables

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Other financial assets at AC		
Financial leases	5,219	3,138
Less credit loss allowance	(111)	(12)
Total other financial assets	**5,108**	**3,126**

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 2020 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	-	-	-	-
- Good	2,382	-	-	2,382
- Special monitoring	-	2,515	-	2,515
- Default	-	-	322	322
Gross carrying amount	2,382	2,515	322	5,219
Credit loss allowance	(4)	(19)	(88)	(111)
Carrying amount	**2,378**	**2,496**	**234**	**5,108**

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 Finance Lease Receivable (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 2019	**(10)**	**(2)**	**-**	**(12)**	**2,865**	**273**	**-**	**3,138**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	19	(19)	-	-	(2,434)	2,434	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	88	-	(88)	-	(322)	-	322	-
New originated or purchased	(107)	-	-	(107)	3,551	-	-	3,551
Payments	6	2	-	8	(1,278)	(192)	-	(1,470)
Total movements with impact on credit loss allowance charge for the period	6	(17)	(88)	(99)	(483)	2,242	322	2,081
At 31 December 2020	**(4)**	**(19)**	**(88)**	**(111)**	**2,382**	**2,515**	**322**	**5,219**

13 Finance Lease Receivable (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**
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 0 for the ECL measurement approach.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

	December 31, 2020	**December 31, 2019**
Present value of lease payments receivable	5,219	3,138
Impairment loss allowance	(111)	(12)
Net investment in the lease	**5,108**	**3,126**
Undiscounted lease payments analysed as:		
Recoverable after 12 months	3,254	2,811
Recoverable within 12 months	1,965	327

Finance lease receivables relate to leases of car and equipment. Estimated collateral held is as at 31 December 2020 amount to GEL 10,543 thousand (2019: 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.

The Group's finance lease arrangements do not include variable payments. The average effective interest rate contracted approximates 24.7 % (2019: 24.3 %) per annum.

The Management of the Group estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the lessees operate, together with the value of collateral held over these finance lease receivables. The Management of the Group considers that no finance lease receivable is impaired.
There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for finance lease receivables.

14 Insurance assets

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Insurance receivables	2,848	3,757
Reinsurance assets	2,998	5,041
Total insurance contracts	**5,846**	**8,798**

Insurance assets comprised of the following:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Unearned Reinsurance Premium	2,523	3,351
Reinsurers' share of provisions	281	518
Reinsurance receivable net	194	1,172
Premiums receivable net	2,848	3,757
Total insurance assets	**5,846**	**8,798**

15 Investment Properties

In thousands of Georgian Lari	**2020**	**2019**
Investment properties at 1 January	**959**	**1,572**
Depreciation	(9)	(7)
Disposals	(367)	(727)
Transfer from other assets	-	121
Investment properties at 31 December	**583**	**959**

As at 2020 GEL nil thousand of investment property were attributable to the Bank (2019: GEL 367 thousand).

15 Investment Properties (Continued)

The separate statement of the Bank's investment properties are as follows:

In thousands of Georgian Lari	2020	2019
Investment properties at 1 January	**367**	**1,037**
Disposals	(367)	(670)
Investment properties at 31 December	**-**	**367**

As of 31 December 2020, the fair value of investment properties was GEL 1,157 thousand (2019: GEL 2,011 thousand). As of 31 December 2020 the fair value of investment properties attributable to the bank was GEL nil thousand (2019: GEL 854 thousand)

The fair value of the Group's investment properties are determined by an independent valuator on their recognition mandatorily for properties with value more than GEL 1 million and revalued in every 3 year, internal valuator is performing the valuations on yearly basis to ascertain that the changes in market prices do not significantly affect the fair value of properties. 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 0 for the disclosure of the income and expenses incurred from investment property.

16 Other Financial Assets

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Other financial assets at AC		
Receivables for credit card services and money transfers	726	453
Receivables related to guarantee fees	344	159
Restricted Cash	164	143
Other receivables	123	800
Subtotal	**1,357**	**1,555**
Less credit loss allowance	(23)	(351)
Total other financial assets	**1,334**	**1,204**

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.

16 Other Financial Assets (Continued)

The carrying amount of other financial assets at AC at 31 December 2020 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 impaired)	Total
- Excellent	211	-	-	211
- Good	957	161	-	1,118
- Default	-	-	28	28
Gross carrying amount	**1,168**	**161**	**28**	**1,357**
Credit loss allowance	(9)	(2)	(12)	(23)
Carrying amount	**1,159**	**159**	**16**	**1,334**

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:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
- Excellent	245	-	-	245
- Good	583	34	-	617
- Default	-	-	693	693
Gross carrying amount	**828**	**34**	**693**	**1,555**
Credit loss allowance	(2)	(34)	(315)	(351)
Carrying amount	**826**	**-**	**378**	**1,204**

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:

	2020			**2019**		
in thousands of Georgian Lari	**Gross carrying amount**	**Credit loss allowance**	**Total**	**Gross carrying amount**	**Credit loss allowance**	**Total**
Balance at 1 January	**1,555**	**(351)**	**1,204**	**913**	**(130)**	**783**
New originated or purchased	613	(9)	604	887	(204)	683
Financial assets derecognised during the period (repaid or written off)	(882)	338	(544)	(268)	2	(266)
Total credit loss allowance charge in profit or loss for the period	1,286	(22)	1,264	1,532	(332)	(1200)
Foreign exchange gains and losses	70	(1)	69	23	(19)	3

	2020			2019		
in thousands of Georgian Lari	Gross carrying amount	Credit loss allowance	Total	Gross carrying amount	Credit loss allowance	Total
Balance at 31 December	**1,357**	**(23)**	**1,334**	**1,555**	**(351)**	**1,204**

or the purpose of ECL measurement other financial assets balances are included in Stage 1, Stage 2 and Stage 3 according to their risk profile. Refer to Note 0 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	December 31, 2020	December 31, 2019
Repossessed collateral	34,482	27,794
Input and withholding taxes	1,166	526
Prepayments for services	1,029	457
Litigation prepayments	568	686
Other	1,424	1,152
Total other assets	**38,669**	**30,615**

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 future. The Bank initiates special offers and marketing actions to sell collateral, including brokers’ services and advertising on locations (such as lands, offices, etc.)

As of 31 December 2020 the value of repossessed collateral attributable to the bank was GEL 32,719 thousand (2019: GEL 25,895). 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 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
Disposals		-	-	-	(92)	(92)
Depreciation						
Depreciation charge	0	(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	3,451	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**
Additions		-	989	989	2,251	3,240
Transfers		820	-	820	-	820
Disposals		-	(915)	(915)	(228)	(1,143)
Revaluation		838	-	838	-	838
Depreciation						
Depreciation charge	0	(456)	(1,651)	(2,107)	(478)	(2,585)
Disposals		-	869	869	165	1,034
Carrying amount at 31 December 2020		**22,449**	**5,061**	**27,510**	**3,909**	**31,419**
Cost or valuation at 31 December 2020		23,338	15,747	39,085	5,475	44,560
Accumulated depreciation		-889	-10,686	-11,575	-1,566	-13,141
Carrying amount at 31 December 2020		**22,449**	**5,061**	**27,510**	**3,909**	**31,419**

Premises have been revalued at fair value in December 2018 by an independent firm of valuers. As at the reporting date the Group has appraised its premises and impact of changes in market prices on valuation of properties. The analysis revealed that changes in prices have no significant impact on valuation, therefore the Group did not perform revaluation of its premises at 31 December 2020.

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 2020, the carrying amount of premises would have been GEL 12,620 thousand (2019: GEL 12,925 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	December 31, 2020	December 31, 2019
Premises at revalued amount in the statement of financial position	22,448	21,247
Revaluation reserve presented in equity, net of tax	10,003	9,165
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	(1,821)	(843)
Premises at cost less accumulated depreciation	**14,266**	**12, 925**

As at December 31, 2020 and 2019 included in property and equipment were fully depreciated assets amounting GEL 7,441 thousand and GEL 8,490 thousand, respectively.

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	Premises
Carrying amount at 1 January 2019	**2,541**
Additions	2,072
Disposals	(79)
Depreciation charge	(998)
Carrying amount at 31 December 2019	**3,536**
Carrying amount at 1 January 2020	
Additions	1,707
Disposals	(25)
Depreciation charge	(1,065)
Carrying amount at 31 December 2020	**4,153**

Interest expense on lease liabilities was GEL 248 thousand (2019: 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	2020	2019
Expense relating to leases of low-value assets that are not shown above as short-term leases	155	296

19 Right of Use Assets and Lease Liabilities (Continued)

Total cash outflow for leases in 2020 was GEL 1,461 thousand (2019: 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.

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	December 31, 2020	December 31, 2019
Non-current assets held for sale at 1 January:	**486**	**4,360**
Disposals	(135)	(1,688)
Transfer to other assets	(292)	(2,462)
Transfer from other assets	1,614	276
Total Non-current assets held for sale (or disposal groups)	**1,673**	**486**

As of December 31, 2020 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 1,672 thousand are contracted by the end of 2021. Assets are classified as Non-current assets held for sale category upon signing of sales contracts.

The Non-current assets held for sale attributable to the bank amounts GEL 1,614 thousand as at 31 December 2020 (2019: GEL 291 thousand).

21 Due to Other Banks

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Correspondent accounts and overnight placements of other banks	1	1
Short-term placements of other banks	40,233	40,838
Short-term placements from NBG	263,929	143,145
Total due to other banks	**304,163**	**183,984**

The Group pledged debt securities as collateral with carrying amount of GEL 215,203 thousand, mortgage loans with carrying amount of GEL 64,390 thousand and SME loans with carrying amount of GEL 19,017 thousand for short term loan with NBG at the end of reporting period (2019: debt securities GEL 99,855 thousand, mortgage loans GEL 60,492 thousand and SME loans nil pledged for short-term loans with NBG). Refer to Note 40.

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 0. Information on related party balances is disclosed in Note 44.

22 Customer Accounts

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
State and public organisations		
- Current/settlement accounts	135,576	82,519
- Term deposits	96,406	44,381
Other legal entities		
- Current/settlement accounts	213,718	154,936
- Term deposits	137,249	155,118
Individuals		
- Current/demand accounts	139,447	130,079
- Term deposits	216,319	201,837
Total customer accounts	**938,715**	**768,870**

State and public organisations exclude government owned profit orientated businesses.

The customer accounts balances under the bank's separate statement as at 31 December 2020 amount to GEL 940,377 thousand (2019: GEL 770,050 thousand)

Economic sector concentrations within customer accounts are as follows:

	2020		2019	
In thousands of Georgian Lari	Amount	%	Amount	%
Individuals	355,765	38%	331,916	43%
Financial Institutions	184,037	20%	97,004	13%
State controlled enterprises	90,018	10%	46,973	6%
Service	57,909	6%	46,939	6%
Transportation or Communication	49,723	5%	54,944	7%
Trade	40,737	4%	41,627	5%
Production/Manufacturing	40,698	4%	39,583	5%
Education	36,561	4%	27,181	4%
Construction & Production of Construction Materials	35,590	4%	50,284	7%
Real Estate Development	26,842	3%	17,705	2%
Energy	2,129	0%	2,319	0%
Other	18,706	2%	12,395	2%
Total customer accounts	**938,715**	**100%**	**768,870**	**100%**

At 31 December 2020, the Group had three customers (2019: two customers) with balances above 10% of total equity. The aggregate balance of these customers was GEL 178,834 thousand (2019: GEL 82,415 thousand) or 19.1% (2019: 10.7%) of total customer accounts.

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 0. Information on related party balances is disclosed in Note 44.

23 Other Borrowed Funds

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Other borrowed funds		
Loans from European Bank for Reconstruction and Development ("EBRD")	95,382	82,575
Loans from Black Sea Trade and Development Bank ("BSTDB")	81,362	56,429
Loans from GLOBAL CLIMATE PARTNERSHIP FUND	50,179	41,017
Loans from The OPEC Fund for International Development (OFID)	49,648	43,770
Loans from THE EUROPEAN FUND FOR SOUTHEAST EUROPE	49,327	32,409
Loans from Blue Orchard	33,848	60,257
Loans from International Finance Corporation ("IFC")	32,817	28,717
Loans from GREEN FOR GROWTH FUND	24,190	26,588
Loans from BANCA POPOLARE DI SONDRIO SCPA	18,715	-
Loans from China Development Bank ("CDB")	16,405	42,972
Loans from Commerzbank	16,122	7,047
Loans from Asian Development Bank ("ADB")	9,017	-
Loans from EFA FINANCIAL INSTITUTIONS DEBT FUND PTE. LTD ("EFA")	-	7,145
Total other borrowed funds	**477,012**	**428,926**

The Group is obligated to comply with financial covenants in relation to its borrowings. Information on compliance with covenants is disclosed in Note 40.

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 0. Information on related party balances is disclosed in Note 44.

24 Insurance Liabilities

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Unearned premium and claims provisions	3,646	4,425
Other insurance liabilities	2,473	4,403
Total insurance liabilities	**6,119**	**8,828**

Other insurance liabilities contains amount for provisions incurred but not reported GEL 6 thousand (2019: GEL 4 thousand).

The movement during the year in insurance contract liabilities is as follows:

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Unearned premium and claims provisions as at 1 January	4,425	2,351
Gross premium during the year	7,428	10,278
Premiums earned during the year	(8,207)	(8,204)
Unearned premium and claims provisions as at 31 December	**3,646**	**4,425**

24 Insurance Liabilities (Continued)

Insurance risk: The Company has exposure to market risk through its insurance and investment activities. The Company manages its insurance risk through the use of reinsurance of risk concentrations, underwriting limits, approval procedures for transactions and monitoring of emerging issues.

Claims management risk: In general, motor claims reporting lags are minor, if any, and claim complexity is relatively low. Overall the claims liabilities for this line of business create a moderate estimations risk. The Company monitors and reacts to trends in repair costs, injury awards and the frequency of theft and accident claims.
The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in the winter months. Motor lines of insurance are underwritten based on the Company's current experience.

Reinsurance risk: The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes. When selecting a reinsurer, the Company considers their relative creditworthiness. The creditworthiness of the reinsurer is assessed mainly from publicly available information.

Reserving risk: There is a risk that reserves are assessed incorrectly and there are not enough funds to pay or handle claims as they fall due. To estimate insurance and reinsurance liabilities, the Company uses actuarial methods and assumptions set by the Insurance State Supervision Service of Georgia.

***Credit risk in respect to insurance*:** The Company is not subject to significant credit risk on receivables arising out of direct insurance operations as policies are cancelled and the unearned premium reserve relating to the policy is similarly cancelled when there is objective evidence that the policyholder is not willing or able to continue paying policy premiums. Management normally fully provides for impaired insurance receivables after they are 365 days overdue.

The movements on claims reserves for the years ended 31 December 2020 and 2019 were as follows:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Reserves for claims, beginning of the year	242	83
Reserves for claims, reinsurance share, beginning of the year	(163)	(10)
Net reserves for claims, beginning of the year	79	73
Plus claims incurred	699	497
Less claims paid	(605)	(491)
Net reserves for claims, end of the year	173	78
Reserves for claims, reinsurance share, end of the year	281	163
Reserves for claims, end of the year	**454**	**241**

24 Insurance Liabilities (Continued)

The movements on unearned insurance premium reserve for the years ended 31 December 2020 and 2019 were as follows:

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Gross unearned insurance premium reserve, beginning of the year	4,183	2,351
Unearned insurance premium reserve, reinsurance share, beginning of the year	(3,352)	(1,904)
Net unearned insurance premium reserve, beginning of the year	831	447
Change in unearned insurance premium reserve	(991)	1,833
Change in unearned insurance premium reserve, reinsurance share	829	(1,448)
Net change in unearned insurance premium reserve	(162)	385
Net unearned insurance premium reserve, end of the year	669	831
Unearned insurance premium reserve, reinsurance share, end of the year	2,523	3,352
Gross unearned insurance premium reserve, end of the year	**3,192**	**4,183**

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.

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 Insurance liabilities.

25 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Other financial liabilities at AC		
Payables for services	2,384	934
Settlement Operations	1,985	917
Debit and credit card payables	1,277	152
Other accrued liabilities	656	554
Total other financial liabilities	**6,302**	**2,557**

25 Other Financial Liabilities (Continued)

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 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	December 31, 2020	December 31, 2019
Accrued employee benefit costs	625	2,083
Prepayments received	966	472
Taxes payable other than on income	279	74
Other	826	468
Total other liabilities	**2,696**	**3,097**

Accrued employee benefits include the provisions created for staff and management benefits, including provisions created under share based payment ("SBP") arrangements. In 2020 all payments and accruals under SBP were halted temporarily due to the restrictions imposed by the regulator. Refer to Note 29.

27 Subordinated Debt

Subordinated debt of GEL 16,368 thousand (2019: GEL 14,410 thousand) 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 0. 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 2019	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2019	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2020	**16,057**	**16,057**	**74,923**	**90,980**

The total authorised number of ordinary shares is 16,181 thousand shares (2019: 16,181 thousand shares), with a par value of GEL 1 per share (2019: GEL 1 per share). The number of ordinary issued shares is 16,181 thousand (2019: 16,181 thousand shares). All issued ordinary shares are fully paid. Each ordinary share carries one voting right.

The table above does not include 124 thousand (2019: 124 thousand) of granted and issued shares to management which are not yet vested. Each ordinary share carries one voting right.

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.

The Banks undistributed reserves under Georgian Accounting Rules as at 31 December 2020 amount to GEL 138,460 thousand (2019: GEL 113,627 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.

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 2020 amounted to GEL 20 thousand (2019: GEL 483 thousand) recognizing liabilities on SBP scheme due for 2017-2019 years. In 2020 due to the constrains imposed by the regulator for accruals to the provisions were temporarily halted and not provided in year 2020 charges. Refer to Note 39.

Tabular information on the scheme is given below:

In thousands of Georgian Lari except for number of shares	2020	2019
Number of unvested shares at the beginning of the year	**220,000**	**218,000**
Number of granted shares	-	-
Change in estimate of number of shares expected to vest based on performance conditions	(42,000)	2,000
Number of unvested shares at the end of the year	**178,000**	**220,000**
Value at grant date per share (in GEL)	12.55	12.55
Expense on equity-settled part	20	483
Expense recognized as staff cost during the year	**20**	**483**

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 1,842 as at 31 December 2020 (GEL 1,822 as at 31 December 2019).

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 2020			
Revaluation of debt securities at FVOCI	10	173	173
Revaluation of premises		838	838
Total other comprehensive income		**1,011**	**1,011**

31 Interest Income and Expense

In thousands of Georgian Lari	2020	2019
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	102,177	97,080
Debt securities at AC	16,953	14,410
Due from other banks at AC	3,087	3,978
Debt securities at FVOCI	864	-
Total interest income calculated using the effective interest method	**123,081**	**115,468**
Interest expense on financial liabilities at AC calculated using the effective interest method		
Other borrowed funds	26,712	25,006
Term deposits of individuals	12,492	10,527
Due to other Banks	9,363	3,274
Term deposits of legal entities	9,275	9,290
Current/settlement accounts	6,979	6,192
Subordinated loans	1,086	368
Term placements of other banks	866	1,374
Total interest expense calculated using the effective interest method	**66,773**	**56,031**
Losses from modification of financial assets	**1,914**	**-**
Net interest income	**54,394**	**59,437**

32 Fee and Commission Income and Expense

In thousands of Georgian Lari	2020	2019
Fee and commission income		
Fee and commission income not relating to financial instruments at FVTPL:		
- Financial guarantees issued (Note 40)	2,532	2,320
- Plastic card fees	1,915	2,556
- Settlement transactions	1,476	1,629
- Cash transactions	365	535
- Performance guarantees issued (Note 40)	247	833
- Distant banking fees	123	294
- Other	527	232
Total fee and commission income	**7,185**	**8,399**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at FVTPL		
- Plastic card fees	2,205	2,415
- Settlement transactions	589	612
- Cash Collection & Transaction fees	128	135
- Expenses Related to Guarantees	97	79
- Factoring services	6	92
- Other	140	35
Total fee and commission expense	**3,165**	**3,368**
Net fee and commission income	**4,020**	**5,031**

33 Other Operating Income

In thousands of Georgian Lari	2020	2019
Gains on disposal of repossessed property and assets held for sale	289	789
Revenues From Fines	836	117
Operating lease income	777	534
Gains on disposal of securities	-	314
Reversal of impairment of repossessed property	315	95
Other	(250)	89
Total other operating income	**1,967**	**1,938**

34 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	2020	2019
Employee compensation		17,991	19,703
Depreciation of premises and equipment	18	2,585	2,377
Professional services		1,869	2,123
Communications and information services		1,489	1,121
Advertising and marketing		1,346	1,374
Depreciation of right of use assets	19	1,065	998
Repairs and maintenance		961	639
Security services		808	684
Taxes other than on income		696	412
Insurance		423	608
Low-value assets lease expense		248	224
Office supplies		175	339
Operating lease expense		155	296
Impairment of litigation prepayments and other financial assets		66	193
Travel and Training		48	170
Other		1,272	1,181
Total administrative and other operating expenses		**31,197**	**32,442**

Included in staff costs are statutory pension contributions of GEL 268 thousand (2019: 266 thousand).

The average number of employees of the Group during 2020 is 470 (2019: 484). The table below discloses the information on the Management Board members including Supervisory Board and employees for respective periods:

	2020		2019	
	Bank separate	**Consolidated**	**Bank separate**	**Consolidated**
Supervisory Board members	5	5	5	5
Management Board members	7	11	7	12
Middle management staff	30	36	25	31
Other employees	391	418	472	493
Temporary employed	-	-	1	1
Average number of employees	**433**	**470**	**510**	**542**

Included in staff costs is the amount of GEL 20 thousand (2019: GEL 483 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 55 thousand in 2020 (2019: GEL 31 thousand) and consisted of costs of utilities, staff costs and expenses related to property tax and security.

As at 31 December 2020 the professional service fees include GEL 400 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 (2019: GEL 399 thousand). The fees related to the Bank as at 31 December 2020 amount GEL 259 thousand, (2019: GEL 345 thousand).

35 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Georgian Lari	2020	2019
Current tax	(245)	(2,400)
Deferred tax	(1,221)	(204)
Income tax expense for the year	**(1,466)**	**(2,604)**

(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 2020 income is 15% (2019: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2019: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	2020	2019
Profit before tax	**25,687**	**39,931**
Theoretical tax charge at statutory rate (2020: 15%; 2019: 15%)	(3,853)	(5,990)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income from Government /NBG's securities and deposits	2,612	2,401
- Other income which is exempt from taxation	148	118
- Income items not recognized in P&L, but taxable from taxation viewpoint	(71)	(2)
- Other non-deductible expenses	(25)	(1)
Tax loss not carried forward	(1,106)	-
Effect of change in tax legislation	829	870
Income tax expense for the year	**(1,466)**	**(2,604)**

At 31 December 2020 the Group has recorded a deferred tax liability in respect of temporary differences of GEL 7 thousand (2019: 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.

0 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 2020**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) directly to equity**	**31 December 2020**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(1,138)	531	-	(607)
Credit loss allowance of loans	(1,303)	(1,758)	-	(3,061)
Right of use assets	131	9	-	140
Guarantees provision	(227)	109	-	(118)
Interbank provision	47	40	-	87
Reversal of securities provision	42	(18)	-	24
Borrowings	(407)	99	-	(308)
Accruals	330	(188)	-	142
Other	581	(47)	-	534
Share Based Payment	89	3	-	92
Net deferred tax liability	**(1,855)**	**(1,220)**	**-**	**(3,075)**

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 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
Guarantees provision	(125)	(102)	-	(227)
Interbank provision	16	30	-	46
Reversal of securities provision	49	(7)	-	42
Borrowings	(284)	(122)	-	(406)
Accruals	250	79	-	329
Other	595	(14)	-	581
Share Based Payment	71	18	-	89
Net deferred tax liability	**(1,671)**	**(203)**	**20**	**(1,855)**

36 Dividends

In thousands of Georgian Lari	2020 Ordinary	2019 Ordinary
Dividends payable at 1 January	-	-
Dividends declared during the year	-	3,729
Dividends paid during the year	-	(3,729)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year (Lari)	**-**	**0.23**

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 activities 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 2019	345,782	-	2,541	348,323
Cash flows	35,012	14,383	(1,250)	48,145
Foreign exchange adjustments	25,170	(332)	115	24,141
Other non-cash movements	22,962	358	2,331	26,463
Liabilities from financing activities at 31 December 2019	428,926	14,409	3,737	447,072
Cash flows	(40,299)	(1,221)	(1,394)	(42,914)
Foreign exchange adjustments	61,992	2,094	508	65,251
Other non-cash movements	26,393	1,086	1,961	28,783
Liabilities from financing activities at 31 December 2020	477,012	16,368	4,812	498,192

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% - 0,3%
Good	3 – 4	BB to B+	0,31% -2,06%
Satisfactory	5 – 6	B, B-	2,07% - 2,95%
Special monitoring	7 – 8	CCC+ to CC-	2.96% - 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 segments determined 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 Retail portfolio. The impact of this simplification was assessed as immaterial. Currently the Group doesn't consider early partial repayment assumptions in ECL assessment for Retail portfolio (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 0.

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 GDP Growth for Retail PD Models and Unemployment 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 2020 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 2020 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:

- Recovery time used in LGD assessment models – analysed data suggested that in average more than one year passes since the default of the client, until the auction is held and underlying collateral is repossessed, therefore recovery time has been modified in order to anticipate additional time needed to recover the liability form the time point of default. The effect of this modification is increase of provisions of GEL 1,839 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 Group's exposure to foreign currency exchange rate risk is presented in the table below:

		USD	**EUR**		**December 31, 2020**
	GEL	USD 1 =3.2766 GEL	EUR 1 =4.0233 GEL	**Other currency**	**Total**
Non-derivative financial assets					
Cash and cash equivalents	214,171	103,505	85,742	1,671	405,089
Mandatory cash balances with the NBG	-	140,591	57,647	-	198,238
Due from other banks	13,424	-	-	-	13,424
Investments in debt securities	261,350	24,283	-	-	285,633
Investments in equity securities	63	-	-	-	63
Loans and advances to customers	486,741	394,663	193,849	-	1,075,253
Finance leases to customers	5,108	-	-	-	5,108
Insurance assets	1,962	3,581	303	-	5,846
Other financial assets	805	507	22	-	1,334
Total non-derivative financial assets	**983,624**	**667,130**	**337,563**	**1,671**	**1,989,988**
Non-derivative financial liabilities					
Due to other banks	263,930	-	40,233	-	304,163
Customer accounts	393,954	426,785	116,440	1,536	938,715
Other borrowed funds	88,244	211,615	177,153	-	477,012
Lease liabilities	306	4,506	-	-	4,812
Insurance liabilities	1,810	4,009	300	-	6,119
Other financial liabilities	3,700	1,689	913	-	6,302
Subordinated debt	-	16,368	-	-	16,368
Total non-derivative financial liabilities	**751,944**	**664,972**	**335,039**	**1,536**	**1,753,491**
OPEN BALANCE SHEET POSITION	**231,680**	**2,158**	**2,524**	**135**	**236,497**
Derivative financial instruments					
Gross settled:					
- foreign exchange forward contracts	1,187	-	(1,187)	-	-
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	1,187	**-**	(1,187)	**-**	-
OPEN POSITION	**232,867**	**2,158**	**1,337**	**135**	**236,497**

38 Financial Risk Management (Continued)

The Group's exposure to foreign currency exchange rate risk at 31 December 2019 is set out below:

	GEL	USD USD 1= 2.8677 GEL	EUR EUR 1= 3.2095 GEL	Other currency	December 31, 2019 Total
Non-derivative financial assets					
Cash and cash equivalents	59,167	150,876	34,835	3,822	248,700
Mandatory cash balances with the NBG	-	155,929	22,060	-	177,989
Due from other banks	7,186	-	-	-	7,186
Investments in debt securities	196,802	5,767	-	-	202,569
Investments in equity securities	63	-	-	-	63
Loans and advances to customers	438,195	380,334	166,465	-	984,994
Finance leases to customers	3,126	-	-	-	3,126
Insurance assets	3,140	5,644	14	-	8,798
Other financial assets	481	709	14	-	1,204
Total non-derivative financial assets	**708,160**	**699,259**	**223,388**	**3,822**	**1,634,629**
Non-derivative financial liabilities					
Due to other banks	171,146	-	12,838	-	183,984
Customer accounts	237,064	449,573	78,479	3,754	768,870
Other borrowed funds	77,496	229,464	121,966	-	428,926
Lease liabilities	385	3,352	-	-	3,737
Other financial liabilities	2,708	6,108	12	-	8,828
Insurance Liabilities	1,878	274	404	1	2,557
Subordinated debt	-	14,410	-	-	14,410
Total non-derivative financial liabilities	**490,677**	**703,181**	**213,699**	**3,755**	**1,411,312**
OPEN BALANCE SHEET POSITION	**217,483**	**(3,922)**	**9,689**	**67**	**223,317**
OPEN POSITION	**217,483**	**(3,922)**	**9,689**	**67**	**223,317**

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 2020 the VaR value amounted GEL 4,287 thousand (2019: GEL 614 thousand).

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:

In thousands of Georgian Lari	At 31 December 2020 Impact on profit or loss	At 31 December 2019 Impact on profit or loss
US Dollar strengthening by 20% (2019: strengthening by 20%)	431	(784)
US Dollar weakening by 20% (2019: weakening by 20%)	(431)	784
Euro strengthening by 20% (2019: strengthening by 20%)	267	1,937
Euro weakening by 20% (2019: weakening by 20%)	(267)	(1,937)

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 daily average exposure to currency risk during the year, with all other variables held constant:

In thousands of Georgian Lari	Average exposure during 2020 Impact on profit or loss	Average exposure during 2019 Impact on profit or loss
US Dollar strengthening by 20% (2019: strengthening by 20%)	210	169
US Dollar weakening by 20% (2019: weakening by 20%)	(210)	(169)
Euro strengthening by 20% (2019: strengthening by 20%)	244	(2)
Euro weakening by 20% (2019: weakening by 20%)	(244)	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 2020						
Total financial assets	651,657	744,819	144,189	380,104	69,219	1,989,988
Total financial liabilities	829,865	369,122	147,508	155,998	250,998	1,753,491
Net interest sensitivity gap at 31 December 2020	**(178,208)**	**375,697**	**(3,319)**	**224,106**	**(181,779)**	**236,497**
31 December 2019						
Total financial assets	252,264	121,069	221,361	777,066	262,869	1,634,629
Total financial liabilities	604,624	151,641	136,003	243,033	276,011	1,411,312
Net interest sensitivity gap at 31 December 2019	**(352,360)**	**(30,572)**	**85,358**	**534,033**	**(13,142)**	**223,317**

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 2020 if interest rates had been 200 basis points lower (2019: 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 3,244 thousand lower (2019: GEL 2,809 thousand lower), mainly as a result of lower interest income on variable interest assets of GEL 5,828 thousand which exceed decrease in interest expense from floating rate borrowings of GEL 2,584 thousand, (2019: 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). If interest rates had been 100 basis points lower (2019: 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 3,030 thousand lower (2019: GEL 1,072 thousand lower), due to lower interest income on variable interest assets of GEL 3,514 thousand which exceeds increase income from floating rate borrowings of GEL 484 thousand (2019: 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).

For the average exposure during 2020 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 3,244 thousand higher (2019: GEL 2,809 thousand higher), mainly as a result of higher interest income on variable interest assets by GEL 5,828 thousand which exceed growth of interest expense from floating rate borrowings of GEL 2,584 thousand (2019: mainly as a result of higher interest income on variable interest assets of GEL 4,629 which exceed growth of interest expenses from floating rate borrowings by GEL 1,820 thousand).

38 Financial Risk Management (Continued)

If interest rates had been 100 basis points higher (2019: 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 3,030 thousand higher (2019: GEL 1,072 thousand higher) with higher interest income on variable interest assets of GEL 3,514 thousand and decrease in income from floating rate borrowings by GEL 484 thousand (2019: mainly as a result of with higher interest income on variable interest assets of GEL 2,070 and decrease in income from floating rate borrowings by GEL 998).

The table below discloses interest rate changes impact on the fixed rate debt securities at FVOCI:

	2020
Interest rate increases by 200 bases points	(156)
Interest rate Decreases by 200 bases points	158
Interest rate increases by 100 bases points	(78)
Interest rate Decreases by 100 bases points	79

The Group monitors interest rates for its financial instruments. The table below summarises weighted average 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:

	2020			2019		
In % p.a.	GEL	USD	Euro	GEL	USD	Euro
Assets						
Cash and cash equivalents	0.1%	0.1%	-0.7%	2.0%	1.7%	-
Mandatory cash balances with the NBG	-	-0.3%	-0.7%	-	1.3%	-0.7%
Due from other banks	11.5%	-	-	11.5%	-	-
Investments in debt securities	8%	8.1%	-	7.7%	11.0%	-
Loans and advances to customers	11.8%	7.8%	6.2%	11.6%	8.4%	5.9%
Liabilities						
Due to other banks	8.5%	-	1.6%	9.3%	-	1.0%
Customer accounts	8.6%	2.8%	1.1%	7.6%	3.4%	1.5%
- current and settlement accounts	8.2%	2.0%	0.7%	7.0%	1.9%	1.4%
- term deposits	8.9%	2.8%	1.2%	8.2%	3.6%	1.5%
Other borrowed funds	11.9%	3.9%	2.4%	12.2%	5.5%	3.0%
Lease liabilities	10.0%	6.0%	-	10.0%	6.0%	-
Subordinated debt	-	7.0%	-	-	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 (2019: no material impact).

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.

38 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2020 is set out below:

In thousands of Georgian Lari	Georgia	China	OECD	Non-OECD	Total
Non-derivative financial assets					
Cash and cash equivalents	246,522	5	158,419	143	405,089
Mandatory cash balances with the NBG	198,238	-	-	-	198,238
Due from other banks	13,424	-	-	-	13,424
Investments in debt securities	285,633	-	-	-	285,633
Investment in equity securities	63	-	-	-	63
Loans and advances to customers	1,055,163	330	1,683	18,077	1,075,253
Finance leases to customers	5,108	-	-	-	5,108
Insurance assets	5,846	-	-	-	5,846
Other financial assets	982	162	101	89	1,334
Total non-derivative financial assets	**1,810,979**	**497**	**160,203**	**18,309**	**1,989,988**
Non-derivative financial liabilities					
Due to other banks	304,163	-	-	-	304,163
Customer accounts	898,648	22,627	6,885	10,555	938,715
Other borrowed funds	-	16,405	451,590	9,017	477,012
Lease liabilities	4,812				4,812
Insurance liabilities	6,119	-	-	-	6,119
Other financial liabilities	6,275	20	7	-	6,302
Subordinated debt	-	16,368	-	-	16,368
Total non-derivative financial liabilities	**1,220,017**	**55,420**	**458,482**	**19,572**	**1,753,491**
Net position in on-balance sheet non-derivative financial instruments	**590,962**	**(54,923)**	**(298,279)**	**(1,263)**	**236,497**
Credit related commitments and performance guarantees	**134,883**	**232**	**16**	**-**	**135,131**
Gross settled:					
- foreign exchange forward contracts	1,187	-	-	-	1,187
Net position on derivative financial instruments	**1,187**	**-**	**-**	**-**	**1,187**

38 Financial Risk Management (Continued)

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.

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
Non-derivative 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 assets	8,798	-	-	-	8,798
Other financial assets	795	150	226	33	1,204
Total non-derivative financial assets	**1,449,543**	**526**	**162,185**	**22,375**	**1,634,629**
Non-derivative 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 non-derivative financial liabilities	**927,102**	**79,171**	**337,135**	**67,904**	**1,411,312**
Net position in on-balance sheet non-derivative financial instruments	**522,441**	**(78,645)**	**(174,950)**	**(45,529)**	**223,317**
Credit related commitments and performance guarantees	**144,745**	**2,929**	**23**	**317**	**148,014**

38 Financial Risk Management (Continued)

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 consideration 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.

The liquidity is calculated and assessed on standalone 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 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 divided 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.

	2020 actual	2020 NBG requirement	2019 actual	2019 NBG requirement
Average liquidity ratio	55%	>=30%	58%	>=30%
Total liquidity coverage ratio	167%	>=100%	164%	>=100%
Liquidity coverage ratio (GEL)	167%	>=75%	172%	>=75%
Liquidity coverage ratio (FC)	166%	>=100%	153%	>=100%

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 2020 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.

38 Financial Risk Management (Continued)

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
Non-derivative financial liabilities and commitments						
Due to other banks	304,163	-	-	-	-	304,163
Customer accounts – individuals	164,478	66,091	88,431	36,743	5,755	361,498
Customer accounts – other	399,169	107,688	28,381	40,101	18,349	593,688
Other borrowed funds	16,506	158,733	72,027	259,408	-	506,674
Lease liabilities	117	506	547	3,080	845	5,095
Insurance liabilities	3,213	510	2,396	-	-	6,119
Other financial liabilities	5,297	212	583	210	-	6,302
Subordinated debt	-	562	562	4,495	16,617	22,236
Total non-derivative financial liabilities	**892,943**	**334,302**	**192,927**	**344,037**	**41,566**	**1,805,775**
Derivative financial instruments						
Gross settled:						
- foreign exchange forward contracts	-	1,187	-	-	-	1,187
Total derivative financial instruments	**-**	**1,187**	**-**	**-**	**-**	**1,187**
Financial guarantees	36,779					36,779
Undrawn credit related commitments	70,872	-	-	-	-	70,872
Total potential future payments of financial obligations	**1,000,594**	**335,489**	**192,927**	**344,037**	**41,566**	**1,914,613**

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
Non-derivative financial liabilities and commitments						
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
Total non-derivative financial liabilities	**593,033**	**289,278**	**261,632**	**297,413**	**27,190**	**1,468,546**
Financial guarantees	57,858					57,858
Undrawn credit related commitments	65,965	-	-	-	-	65,965
Letters of credit	600	518	-	-	-	1,118
Total potential future payments of financial obligations	**717,456**	**289,796**	**261,632**	**297,413**	**27,190**	**1,593,487**

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.

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 Georgian legislation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts 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 2020 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
At 31 December 2020						
Non-derivative financial assets						
Cash and cash equivalents	405,089	-	-	-	-	405,089
Mandatory cash balances with the NBG	198,239	-	-	-	-	198,239
Due from other banks	1,812	3,449	8,163	-	-	13,424
Investments in debt securities	86,703	35,883	28,643	107,201	27,203	285,633
Investment in equity securities	-	-	-	-	63	63
Loans and advances to customers	59,381	177,449	124,207	404,255	309,961	1,075,253
Finance leases to customers	8	43	74	4,983	-	5,108
Insurance assets	657	3,648	1,541	-	-	5,846
Other financial assets	1,171	-	-	-	162	1,333
Total non-derivative financial assets	**753,060**	**220,472**	**162,628**	**516,439**	**337,389**	**1,989,988**
Non-derivative financial liabilities						
Due to other banks	304,163	-	-	-	-	304,163
Customer accounts – individuals	36,176	69,864	92,676	62,441	94,609	355,766
Customer accounts – other	103,149	123,891	33,742	130,581	191,586	582,949
Other borrowed funds	57,218	150,283	73,992	195,519	-	477,012
Lease liabilities	114	397	438	2,958	905	4,812
Insurance liabilities	3,213	510	2,396	-	-	6,119
Other financial liabilities	5,297	212	583	210	-	6,302
Subordinated debt	-	-	-	-	16,368	16,368
Total non-derivative financial liabilities	**509,330**	**345,157**	**203,827**	**391,709**	**303,468**	**1,753,491**
Financial and performance guarantees	313	-	-	-	-	313
Undrawn credit related commitments	7,087	-	-	-	-	7,087
Net liquidity gap based on expected maturities	**236,330**	**(124,685)**	**(41,199)**	**124,730**	**33,921**	**229,097**
Cumulative liquidity gap based on expected maturities	**-**	**111,645**	**70,446**	**195,176**	**229,097**	

38 Financial Risk Management (Continued)

The expected maturities 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
At 31 December 2019						
Non-derivative financial 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 assets	8,798	-	-	-	-	8,798
Other financial assets	575	20	466	-	143	1,204
Total non-derivative financial assets	**509,629**	**125,142**	**226,311**	**505,677**	**267,870**	**1,634,629**
Non-derivative financial liabilities						
Due to other banks	183,984	-	-	-	-	183,984
Customer accounts – individuals	35,710	59,323	87,702	74,442	83,140	340,317
Customer accounts – other	49,253	83,580	106,461	89,154	111,515	439,963
Other borrowed funds	-	35,309	27,446	340,650	25,521	428,926
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	-	-	-	-	14,410	14,410
Total non-derivative financial liabilities	**275,456**	**179,613**	**226,052**	**506,041**	**235,560**	**1,422,722**
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	**226,336**	**(54,987)**	**259**	**(364)**	**32,310**	**203,554**
Cumulative liquidity gap based on expected maturities	**-**	**171,349**	**171,608**	**171,244**	**203,554**	

Mandatory reserve with NBG is classified on on-demand category as they are created to support the bank's capability to meet its obligations in the event of an unforeseen interruption of cash flows. Overdue assets over 90 days are reflected in "over 5 years" time package.

Amounts for financial and performance guarantees and undrawn credit lines are disclosed based on expected cash outflows. 10% of total credit line commitments are expected to be utilised and disclosed as expected cash outflow.

Customer accounts expected maturities are calculated according to VaR methodology, outflow rates are calculated at 95% confidence interval for each time bucket.

38 Financial Risk Management (Continued)

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 2020 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 necessity 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.

Under the current capital requirements the banks are to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level.

39 Management of Capital (Continued)

In response to the COVID-19 outbreak the NBG introduced facilitating incentives which included utilization of capital buffers during the financial stress by lowering the capital requirements allowing to absorb potential charges to the related to COVID-19 impacted assets and continue ordinary business activities and funding removing pressure on Capital ratios.

NBG has introduced following facilitating incentives in Capital Adequacy requirements for commercial banks.

- Release of the capital conservation buffer (2.5% of the risk-weighted assets);
- Release of the portion of the pillar 2 buffer (2/3 of the currency induced credit risk buffer);'
- Postponing the phasing in of additional capital buffer from CAR to CET1 requirements in March 2020.

The Bank have complied with all NBG's capital requirements throughout 2020 and 2019.

The following Capital adequacy report of the Bank is prepared under standalone basis in accordance with NBG standards:

In thousands of Georgian Lari	**2020 Pillar I/II**	**2019 Pillar I/II**
Primary capital		
Share capital	16,181	16,181
Share premium	76,413	76,413
Retained earnings according to the NBG regulations	138,460	113,630
Revaluation reserve	9,513	9,513
Current year profit according to NBG regulations	5,972	24,830
Primary capital Before Correction	**246,539**	**240,567**
Primary capital Corrections	(14,424)	(11,546)
Total primary capital after correction	**232,115**	**229,021**
Secondary capital		
Subordinated debt	16,055	14,052
General reserve	17,313	15,560
Total secondary capital	**33,368**	**29,612**
Total regulatory capital	**265,483**	**258,633**
Risk weighted assets, combining credit, market and operational risks	**1,519,304**	**1,359,786**
Minimum NBG requirement for Tier 1 ratio	***7.2%***	***10.7%***
Tier I ratio	**15.3%**	**16.8%**
Minimum NBG requirement for Regulatory capital ratio	***12.3%***	***16.2%***
Regulatory capital ratio	**17.5%**	**19.0%**

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 was 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 and appealed to court, disputes were not settled as at 31 December 2020. The onsite inspection is concluded, the total accruals made after inspection are given in below table. The Bank has created provision of GEL 59 thousand on positions where it is probable that the Bank will have to make additional payments. For the rest of the disputed amount the Group's management believes that it is not likely that any significant loss will eventuate and no provisions are created.

In thousands of Georgian Lari	**31 December, 2020**
Total disputed amount, including additional tax and penalties	415
Provision created	(59)
Tax contingent liability	**356**

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 2020. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases at 31 December 2020 are as follows:

In thousands of Georgian Lari	**2020**	**2019**
Not later than 1 year	19	17
Total operating lease commitments	**19**	**17**

40 Contingencies and Commitments (continued)

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.

During 2020, the Bank has breached Open credit exposure covenants under the loan agreements with BSTDB, IFC, GGF, EFSE, OFID resulted from the increased exposure of restructured loans affected by the COVID-19 modifications. The Bank has obtained waivers for the covenant and is not in breach of contracts terms as at 31 December 2020.

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.

During 2020 the Bank has breached Capital covenant under the loan agreements with GGF, EFSE. The Bank has obtained waivers for the covenant and is not in breach of contracts terms as at 31 December 2020.

The composition of the Bank's capital calculated in accordance with the Basel Accord is as follows:

In thousands of Georgian Lari	**2020**	**2019**
Tier 1 capital		
Share capital and share premium	90,980	90,980
Retained earnings	201,381	178,499
Total tier 1 capital	**292,361**	**269,479**
Tier 2 capital		
Revaluation reserves	9,165	9,165
Subordinated debt	16,368	14,410
Total tier 2 capital	**25,533**	**23,575**
Total capital	**317,894**	**293,054**

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.

40 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	Note	2020	2019
Financial guarantees issued		36,860	57,858
Undrawn credit line commitments		71,088	65,965
Import letters of credit		-	1,118
Total loan commitments		**107,948**	**124,941**
Less: Provision for financial guarantees	25	(81)	(349)
Less: Provision for loan commitments		(216)	(292)
Less: Provision for Import letters of credit		-	(11)
Less: Commitment collateralised by cash deposits		(14,954)	(17,811)
Total credit related commitments, net of provision and cash covered exposures		**92,697**	**106,478**

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 2019	**81**	**268**	**349**	**57,858**
Movements with impact on provision for credit related commitments charge for the period:				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-
Issued guarantees	58	-	58	24,811
Derecognised during the period	(62)	(268)	(330)	(47,490)
Total movements with impact on provision for credit related commitments for the year	**(4)**	**(268)**	**(272)**	**(22,679)**
Movements without impact on provision for credit related commitments charge for the period:				
FX movements	4	-	4	1,682
Provision for financial guarantees at 31 December 2020	**81**	**-**	**81**	**36,861**

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 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	4	-	4	(301)
Provision for financial guarantees at 31 December 2019	**82**	**267**	**349**	**57,858**

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 2019	**98**	**90**	**104**	**292**	**65,965**
Movements with impact on provision for credit related commitments charge for the period:					
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(14)	14	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5)	(53)	58	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	37	(37)	-	-	-
Issued loan commitments	94	54	-	148	42,675
Derecognised during the period*	(72)	(57)	(104)	(233)	(41,461)
Total charge to profit or loss for the year	**40**	**(79)**	**(46)**	**(85)**	**1,214**
Movements without impact on provision for credit related commitments charge for the period:					
FX movements	4	5	-	9	3,909
Provision for loan commitments at 31 December 2020	**142**	**16**	**58**	**216**	**71,088**

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 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**

* Derecognised during the period line includes expiry of commitments and disbursement of loans.

40 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2020 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 im-paired)	Total
Issued financial guarantees				
- Excellent	5,260	-	-	5,260
- Good	31,600	-	-	31,600
Unrecognised gross amount	**36,860**	**-**	**-**	**36,860**
Provision for financial guarantees	**(81)**	**-**	**-**	**(81)**
Loan commitments				
- Excellent	9,319	-	-	9,319
- Good	51,267	-	-	51,267
- Satisfactory	-	9,590	-	9,590
- Special monitoring	-	48	-	48
- Default	-	-	864	864
Unrecognised gross amount	**60,586**	**9,638**	**864**	**71,088**
Provision for loan commitments	**(142)**	**(16)**	**(58)**	**(216)**

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 im-paired)	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)**

40 Contingencies and Commitments (Continued)

Credit lines on clients which have fallen in stage 3 level at the reporting date and had unutilized credit lines by the end of the date were also assigned of the same stage, but are not entitled to draw these amounts while in default.

Refer to Note 0 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 403 thousand at 31 December 2020 (2019: GEL 321 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.

The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

In thousands of Georgian Lari	**Note**	**December 31, 2020**	**December 31, 2019**
Construction		16,591	13,183
Energy		4,730	4,330
Real Estate Management and Development		1,532	1,832
Service		940	956
Financial Institutions		600	41
Trade		481	1,968
Other		2,838	1,706
Total guaranteed amounts		**27,712**	**24,016**

40 Contingencies and Commitments (Continued)

Movements in provisions for performance guarantees are as follows:

In thousands of Georgian Lari	**Note**	**December 31, 2020**	**December 31, 2019**

Carrying amount at 1 January	**291**	**17**
Initial recognition of issued performance guarantees	156	274
Utilisation of provision	(228)	(10)
FX movements	13	10
Carrying amount at 31 December	**232**	**291**

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

		December 31, 2020		**December 31, 2019**	
In thousands of Georgian Lari	**Notes**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Investments in debt securities at FVOCI	10, 21	23,455	21,957	-	-
Investments in debt securities at AC	10, 21	215,203	200,052	99,855	94,862
Mortgage Loan portfolio pledged with NBG		64,390	51,566	60,492	48,138
SME Loan portfolio pledged with NBG		19,017	18,900	-	-
Total		**322,065**	**292,475**	**160,347**	**143,000**

At 31 December 2020, restricted cash balances are balances of GEL 164 thousand (2019: GEL 143 thousand) are placed as a cover for international payment cards transactions. In addition, mandatory cash balances with the NBG of GEL 198,239 thousand (2019: GEL 177,989 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 2020 and 31 December 2019 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.

Financial assets and liabilities recorded or disclosed at fair value in the consolidated statement of financial position at 31 December 2020 were classified in their entirety based on the lowest level of input that is significant to the asset or liability's fair value measurement. The management considered the impacts of the COVID-19 pandemic on the fair value assessments, and determined no impairment indicators to be present. The Group will continue to monitor these fair values in future periods if, or as, circumstances change.

(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 2020				31 December 2019			
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 debt securities								
- Georgian government bonds	-	23,914	-	23,914	-	-	-	-
Investments in equity securities								
- Corporate shares	-	63	-	63	-	63	-	63
NON-FINANCIAL ASSETS								
- Premises and equipment	-	-	22,447	22,447	-	-	21,246	21,246
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	**-**	**23,977**	**22,447**	**46,424**	**-**	**63**	**21,246**	**21,309**

The non-current assets held for sale are measured at the lower of cost and FV less cost to sell as of 31 December 2020 and 31 December 2019. The fair value belongs to level 3 measurements in the fair value hierarchy. The fair value is GEL 1,672 thousand (2019: GEL 979 thousand).

42 Fair Value Disclosures (continued)

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 2020 and 31 December 2019 are as follows:

	Fair value at 31 December				
In thousands of Georgian Lari	**2020**	**2019**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**
ASSETS AT FAIR VALUE					
NON-FINANCIAL ASSETS					
- Premises	22,448	21,246	Market comparable assets	Price per square meter	Commercial area 3,640-10,831 Office area 2,460-4,100 Garage 1,179-1,591
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**22,448**	**21,246**			

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:

	31 December 2020				31 December 2019			
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**
ASSETS								
Cash and cash equivalents								
- Cash on hand	42,705	-	-	42,705	37,439	-	-	37,439
- Cash balances with the NBG	-	195,090	-	195,090	-	41,859	-	41,859
- Correspondent accounts and overnight placements	-	91,427	-	91,427	-	56,064	-	56,064
- Placements with other banks with original maturities of less than three months	-	75,867	-	75,867	-	113,339	-	113,339
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	13,424	-	13,424	-	7,186	-	7,186
Mandatory balances with the NBG	-	198,238	-	198,238	-	177,989	-	177,989
Loans and advances to customers at AC								
- Corporate loans	-	-	907,250	863,913	-	-	805,945	784,486
- Mortgage loans	-	-	157,318	150,565	-	-	137,497	136,223
- Consumer loans	-	-	61,563	57,935	-	-	64,314	60,172
- Credit cards	-	-	3,184	2,840	-	-	4,623	4,112
***Finance* lease**	-	-	5,108	5,108	-	-	3,126	3,126
Investments in debt securities								
- Georgian government treasury bonds	-	203,667		202,528	-	141,151	-	145,160
- Georgian government treasury bills	-	28,216		28,166	-	45,412	-	45,623
- Corporate bonds	-		34,545	31,071	-	-	14,410	11,786
Insurance assets	-	5,846	-	5,846	-	8,798	-	8,798
Other financial assets	-	1,334	-	1,334	-	1,204	-	1,204
NON-FINANCIAL ASSETS								
- Investment properties	-	-	1,203	583	-	-	2,011	959
TOTAL	**42,705**	**813,108**	**1,170,171**	**1,966,640**	**37,439**	**547,590**	**1,031,926**	**1,635,525**

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 2020				31 December 2019			
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	-	40,233	-	40,233	-	40,838	-	40,838
- Short-term loans of NBG		263,929		263,929	-	143,145	-	143,145
Customer accounts								
- Current/settlement accounts of state and public organisations	-	135,576	-	135,576	-	82,519	-	82,519
- Term deposits of state and public organisations	-	-	106,580	96,406	-	-	46,203	44,381
- Current/settlement accounts of other legal entities	-	213,718	-	213,718	-	154,936	-	154,936
- Term deposits of other legal entities	-		137,813	137,249	-	-	156,305	155,118
- Current/demand accounts of individuals	-	139,447		139,447	-	130,079	-	130,079
- Term deposits of individuals	-	-	222,050	216,319	-	-	210,237	201,837
Other borrowed funds								
- Borrowings from International Financial institutions	-	506,674	-	477,012	-	468,718	-	428,926
Insurance Liabilities	-	6,119	-	6,119	-	8,828	-	8,828
Lease Liabilities	-	4,812	-	4,812	-	3,737	-	3,737
Other financial liabilities	-	6,301	-	6,301	-	2,557	-	2,557
Subordinated debt								
- Subordinated debt	-	22,237	-	16,368	-	20,445	-	14,410
TOTAL	**-**	**1,339,047**	**466,443**	**1,753,490**	**-**	**1,055,803**	**412,745**	**1,411,312**

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 0.

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 and finance lease receivables as of 31 December 2020:

In thousands of Georgian Lari	**Debt and equity instruments at FVOCI**	**AC**	**Finance lease receivables**	**Total**
ASSETS				
Cash and cash equivalents	**-**	**405,089**	**-**	**405,089**
Mandatory cash balances with the NBG	**-**	**198,238**	**-**	**198,238**
Due from other banks	**-**	**13,424**	**-**	**13,424**
Investments in debt securities	**23,868**	**261,765**	**-**	**285,633**
- Georgian government treasury bonds	23,868	202,528	-	226,396
- Georgian government treasury bills	-	28,166	-	28,166
- Corporate bonds	-	31,071	-	31,071
Investments in equity securities	**63**	**-**	**-**	**63**
Loans and advances to customers	**-**	**1,075,253**	**-**	**1,075,253**
- Standard lending	-	863,913	-	863,913
- Mortgage loans	-	150,565	-	150,565
- Consumer loans	-	57,935	-	57,935
- Credit cards	-	2,840	-	2,840
Finance lease assets	**-**	**-**	**5,108**	**5,108**
Insurance receivables	**-**	**5,846**	**-**	**5,846**
Other financial assets	**-**	**1,334**	**-**	**1,334**
TOTAL FINANCIAL ASSETS	**23,931**	**1,960,949**	**5,108**	**1,989,988**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2019:

In thousands of Georgian Lari	**Equity instruments 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 bills	-	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 assets	**-**	**-**	**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**

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 entities:

In thousands of Georgian Lari		2020		2019	
Name	**Principal activities**	**Investment**	**Accumulated Profit/(loss)**	**Investment**	**Accumulated Profit/(loss)**
Basis Asset Management – Holding LLC	Asset management	3,797	(26)	3,797	36
BB Insurance JSC	Insurance	6,000	1,279	4,300	1,789
BB Leasing JSC	Leasing	11,000	961	5,000	(14)
Total		**20,797**	**2,214**	**13,097**	**1,811**

At 31 December 2020, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Ultimate share-holder**	**Other share-holders**	**Immediate parent company**	**Supervisory Board**	**Manage-ment Board**	**Companies under common control**	**Other related parties**
Loans and advances to customers (contractual interest rate: 4% – 16%)	-	559	-	29	1,211	12,843	463
Credit loss allowance at 31 December 2020	-	-	-	-	(2)	(15)	(1)
Customer accounts (contractual interest rate: 2% – 12%)	444	1,918	1,514	1,451	5,932	47,618	1,552
Provisions for liabilities and charges	1	-	-	1	5	-	1
Subordinated debt (contractual interest rate: 7%)		-	16,368	-	-	-	-

The income and expense items with related parties for 2020 were as follows:

In thousands of Georgian Lari	**Ultimate share-holder**	**Signifcant share-holders**	**Immediate parent company**	**Supervisory Board**	**Manage-ment Board**	**Companies under common control**	**Other related parties**
Interest income	1	21	-	4	69	812	35
Interest expense	(24)	(67)	(166)	(35)	(224)	(1,244)	(67)
Credit loss allowance	-	(1)	-	(1)	7	(160)	3
Gains less losses from trading in foreign currencies	-	4	12	2	(4)	379	2
Foreign exchange translation gains less losses	2	(73)	(685)	(39)	(5)	(2,643)	(25)
Provision for credit related commitments	(1)	-	-	(1)	(5)	-	(1)
Administrative and other operating expenses	-	-	-	-	-	-	88

44 Related Party Transactions (Continued)

At 31 December 2020, 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	Manage-ment Board	Compa-nies under common control	Other related parties
Performance Guarantees issued by the Group at the year end	-	-	-	-	-	676	-
Financial Guarantees issued by the Group at the year end	-	-	-	-	-	2,047	-
Undrawn credit line commitments	50	38	-	111	1,491	281	103

Aggregate amounts lent to and repaid by related parties during 2020 were:

In thousands of Georgian Lari	Ultimate share-holder	Signifcant share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Amounts lent to related parties during the year	-	145	-	185	2,183	11,442	166
Amounts repaid by related parties during the year	-	826	-	479	2,295	10,074	209

At 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Other share-holders	Immediate parent company	Super-visory Board	Manage-ment 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	-	-	-	-

44 Related Party Transactions (Continued)

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	Super-visory Board	Manage-ment Board	Compa-nies 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

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	Manage-ment 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

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 its parent Company, as well as their family members. Other related parties include companies under control of the Bank and/or family member of persons who are considered as related party and have right significant influence over the bank or the Group.

Compensation for the members of the Supervisory Board is presented below:

	2020		2019	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	494	-	475	-
Total	**494**	-	**475**	-

Key management compensation is presented below:

	2020		2019	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	1,413	-	1,280	-
- Short-term bonuses	749	-	2,416	1,257
Share-based compensation:				
- Equity-settled share-based compensation	20	-	483	-
Total	2,182	-	**4,179**	**1,257**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services. Key management personnel includes management board members.

45 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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