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ბაზისბანკი
BASISBANK

Hualing Group Member



ANNUAL REPORT 2018



2018

ANNUAL REPORT



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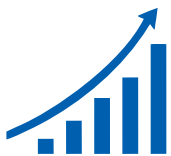
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THE BANK

6th
BY ASSETS

5th
BY CORPORATE &
RETAIL LENDING



LONG -TERM B+
SHORT - TERM B
OUTLOOK - STABLE
FITCH RATINGS



127,000
CUSTOMERS



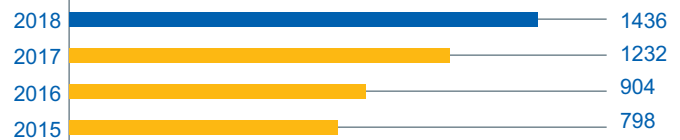
62
ATM

BASISBANK'S KEY

17% ↑

Total Assets

GELm



18% ↑

TOTAL LENDING

GELm



8% ↑

Customer Deposits

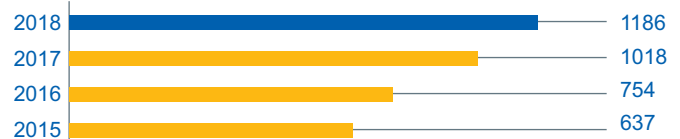
GELm



17% ↑

Total Liabilities

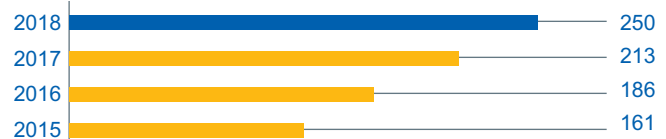
GELm



16% ↑

Total Shareholders' Equity

GELm

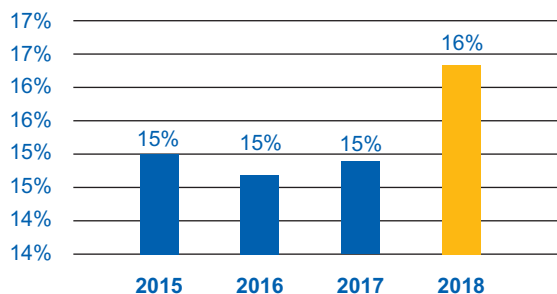


GROUP

HIGHLIGHTS

THE GROUP

ROAE

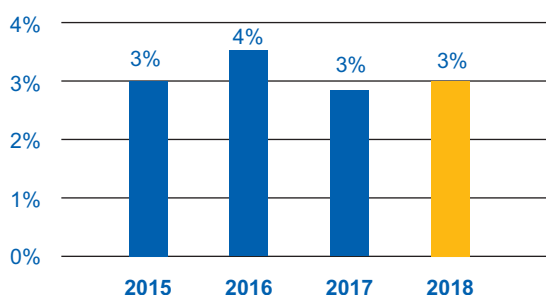


GEL 37,588M

NET PROFIT



ROAA



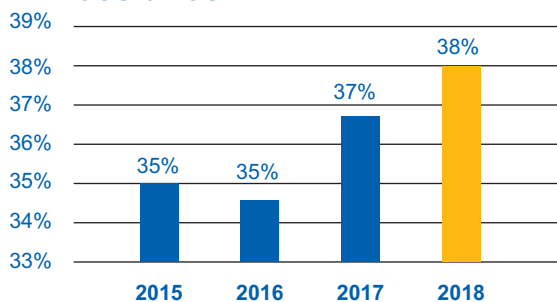
**HUALING
INSURANCE**



**ლზონები
LEASING**

NEW BUSINESS LINES

COST/INCOME

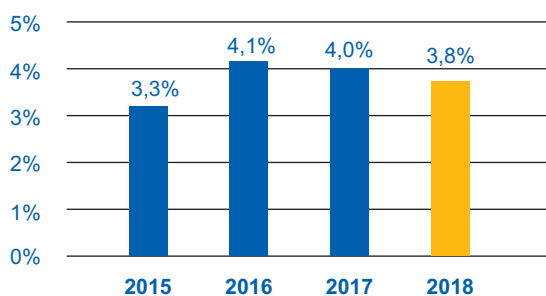


22

BRANCHES



NPLS



463

EMPLOYEES



MANAGEMENT REPORT

Zhang Jun
Chairman of Supervisory Board,
JSC Basisbank



Letter from the Executive Chairman of the Supervisory Board

Let me extend my congratulations to the management and staff of Basisbank and the Group¹ for the successful completion of the year 2018 and great results.

This year Basisbank is celebrating its 25th anniversary. Since its inception a quarter century ago, we witness and share the success of the bank with proven stability, strong financial standing, widespread recognition and sound performance, which backed the bank's sustainable development path. Over these past few years the Bank has managed to extend the business, diversify its services and enter new sectors on financial market to lay a foundation for transforming the bank into the strong financial group.

The Bank continued to excel its performance with a strong focus on the interests of its clients and delivery on its promises to its stakeholders. The 25th anniversary year saw the bank holding the strong 6th position in the market, being one of top performers in business financing and successfully serving vital segments of the national economy. With stable and steady growth, pursuing high standards in lending and responsible financing, the bank is distinguished among its competitors with its lending technology, speed and quality, elaborated over the years. The strong management, dedicated professional staff, internal control and management systems, and financial strength backed the bank's sustainable development over these 25 years, preparing the foundation for future growth and further success.

We aim to be at the forefront of financial advancements. Our ambition is to emerge as a bespoke provider of comprehensive financial solutions to our clients through a single-window business concept based on in-depth financial expertise, extensive knowledge of industry sectors and established market positions. To turn our ambition into reality, we launched new business lines in insurance and leasing sectors. With less than one year in operations, the new subsidiaries have contributed to the group's final results through complementary product offerings.

I am delighted to see that the trade relations between China and Georgia significantly increased and intensified in 2018, as the Free Trade Agreement between China and Georgia, along with the Free Trade Agreement

¹The group hereafter interchangeably refers to Basisbank and its subsidiaries consolidated.

between Hong Kong and Georgia, came into force in 2018. Georgia-China trade relationship gains significant importance for Georgia's economy. The trade relationship between Georgia and China is one of the fastest growing for the last decade, making China the 3rd largest trading partner after Turkey and Russia.

In addition, Georgia is a member of the 'One Belt, One Road' initiative, a development strategy proposed by Chinese Government that focuses on connectivity and cooperation between Eurasian countries. The strategy underlines China's push to take a larger role in global affairs, with a China-centered trading network. It opens an opportunity for Georgia to become a transit hub of trade between China and Europe and opens the new avenue for the future cooperation with the potentially significant projects for Georgia both on regional and global scale. The opportunities come from growing demand in infrastructure projects, trade and investment channels, tourism activities and financial cooperation brought by the development of the 'One Belt, One Road' Initiative.

As Chinese investors show increasing interest in the Georgian market and as the banking sector is a vital constituent for creating the sound investment climate, it is important to continue embracing opportunities arising from China. We have positioned ourselves well to benefit from building suitable positions in these areas that will have long-term payoffs.

Basisbank group has a major role in becoming a primary center providing full financial services supporting the Chinese individuals and companies interested in doing business with Georgia. Strong capital support and management, its traditional focus on business financing, access to Chinese business partnerships and market, and specially trained staff distinguish the Group on the Georgian financial market landscape.

The Group has had full support from Hualing Group since its entrance as a major shareholder, in its efforts to establish itself as the main financial center and significant facilitator to the Georgian-Asian trade business relations development. In 2018, to ensure the availability of banking services designed specifically for Chinese investors and clients, the Group established a special department staffed with banking professionals, who specifically underwent special trainings in China, have strong command of Chinese language and possess all necessary skills and expertise to provide exceptional financial solutions to Chinese individuals and companies. Remote services including mobile banking, are already available in Chinese, allowing the clients to conveniently manage their financial resources and benefit from the local banking services.

I wish to once again congratulate the Group with its 25th Anniversary of successful operation. My special thanks to the strong management team, their professionalism and devotion, adequately reflected in the annual results and the Group's overall success in this significant Anniversary year, as well as its highly professional, motivated staff, for their efforts in sustaining the successful operations and development over the years.

The Group showed excellent performance and stayed loyal to its corporate values, delivering quality services and innovative products to customers in the most flexible way. The clients can benefit from the complex financial services, including banking, insurance and leasing. Validate the quality of our products, outstanding delivery and demonstrate our dedication to deep and lasting relationships, those are the values we will continue to preserve.

David Tsaava
General Director,
JSC Basisbank



Letter from the Chairman of the Management Board

This year is especially meaningful for us, as we turned 25, celebrating quarter-century of our successful operations! Basisbank group has grown into more than GEL 1 billion worth Financial Institution to include insurance and leasing businesses and established itself as one of the significant market players in the country. Today, we serve our clients covering all leading regions of the country and partner with 11 reputable International Financial Institutions.

We continued to pursue our strategy, the center of which were our client's, innovations and profitable growth. The Group ended the year with GEL 1.4 billion in total assets and GEL 916 million in gross loan portfolio, with 25% increase in net profit to a new high of GEL 37.3 million. We implemented a number of significant projects throughout the year, further improved our products and services, and continued successful cooperation with International Financial Institutions (IFI's) that indicate high level of trust towards our institution, we continued serving our SME's, the development of which is vital for Georgia's economy, by increasing our presence across the country.

The bank managed to accomplish its five-year development plan with excellence, exceeding the initially targeted results and moving from the 8th to the 6th largest bank's position by total assets on the market. Remarkably, due to prudent internal control system and operational strength, Basisbank managed to keep its efficiency level up, expressed in cost optimization and stable asset growth. Further improving the quality of our remote services, we remain one of top business lenders, putting our lending technology and expertise to the best interests of our clients.

The Georgian economy continued to deliver strong performance in 2018, with GDP growth at 4.7% and stable inflation, below the targeted 3% set by the National Bank of Georgia (NBG). Georgia displays steady progress, proving to be resilient to negative developments and external shocks prevailing in the region and in major trading partners. Turkey underwent a severe economic shock throughout 2018, which have plummeted consumer and business confidence, and Russia endured further tightening of economic sanctions.

The credit rating of Georgia has been upgraded by Fitch and Moody's, reflecting positive development in key indicators. External imbalances are gradually easing reflecting diversification of sources and positive impact of floating exchange rate regime in line with the prudent fiscal and monetary policy base. With the robust economic growth, stable inflation and strong inflow of external revenues, the NBG was able to accumulate reserves.

Mid-term outlook is positive around 5% over next two years. Primary drivers of growth will be private investments and stable growth of net exports, fiscal stimulus lifted by capital spending, infrastructure projects, new free trade agreements and large projects in transportation sectors, other stimulus and reforms initiated by the Government should boost the growth.

We keep in mind that the development of SME's is the driving force for the private sector growth, which remains among the top priorities of the Georgian Government's economic policy, as they help create competitive jobs. Basisbank has traditionally served SMEs, contributing to the development of the Georgian households and economic growth.

Last year was no exception, we continued to support development of SME segment with the increased focus on key strategic sectors. Among business loans, we actively financed tourism and hotels sector, agricultural, trade, energy, production and service sectors.

To increase the value of energy savings and implement EU standards and measures across Small and Medium Enterprises in Georgia, we collaborated with our long-standing partner, EBRD. Moreover, we acquired new partner institutions in this regard: FIN, Responsibility.

We launched several projects to help SMEs in their endeavors for EE saving and EU Standard implementation measures, providing them with favorable SME banking propositions, affordable financing at concessionary terms, investment incentives and special credit schemes initiated in partnership with EBRD and other International Partner Organizations.

To enable greater agility in catalyzing growth for SMEs and increase access to local currency facility, for the first time, the Bank concluded partnerships with several international organizations and secured lending in national currency as well.

Recognizing our special role of a mediator between the Chinese and Georgian businesses and significance of enhanced Chinese investments and trade in Georgia, we continued to innovate on the way we do banking. Much progress has been made on this front. Basisbank is now well positioned to efficiently serve the Chinese customers. We leverage our knowledge of how to do business in this region to create Asia-specific products and meet our customers' increasing needs.

When we talk about the track record of Basisbank Group's success, we have to certainly highlight the fact that we are supported by our shareholder – the largest Chinese conglomerate - Hualing Group.

Hualing Group's operations and solid contribution to Georgia is a separate success story. Hualing Group is one of the largest investors in our country, the Group has implemented significant projects and continues to invest in multiple sectors of Georgian economy. At this stage, total invested capital of Hualing Group exceeds \$ 550 million.

Last year we made an important decision - expanding Basisbank Group's business to include leasing and insurance activities, encompassing in that way the wide spectrum of financial services. In 2018, new subsidiaries of Basisbank Holding - "Hualing Insurance" and "BHL-Leasing" started their operations. Our next medium-term goal is to become a financial services hub, deliver full package of quality financial services, including banking, insurance and leasing, all from one sales point in a simple, responsible and flexible manner. The bank will continue expanding horizontally, offering its products and services remotely and ensuring maximum convenience and time-saving.

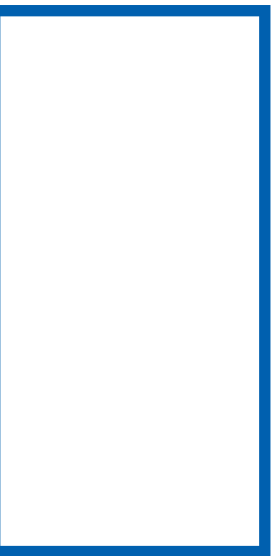
I am especially proud to celebrate our 25th Anniversary together with the dedicated staff members. We have made strides in reaching the top leader bank position through our prudent and organic growth. The bank has come this far through the strong foundations laid by its founders, the culture of commitment, dedication, and loyalty from staff members, and continuous support from its Shareholder. I would like to once again thank our outstanding staff members for their loyalty and excellent work. I am especially thrilled and exited to see so many old faces, dedicated members of our team, who have spent 10, 15 and even 25 years working at Basisbank.

We are convinced that the Group will meet the expectations of all stakeholders: it will remain a long-term partner for its clients, a fair and caring employer for the staff, a good and supportive member of the society and productive institution for its shareholders.

I'm thrilled to be a Basisbanker for already 15 years and I truly believe that with our assets we will be able to achieve our ambitious plans for the future.

STRATEGY AND HISTORY

- ◆ *Strategy*
- ◆ *History*
- ◆ *The group structure*



STRATEGY

With already 25 years of history, Basisbank has created a fairly dynamic and intensive path of development and established itself as one of the leading and stable financial institutions in the Georgian financial market. We gained the reputation of a strong trusted partner for many businesses, public entities, financial institutions and private individuals. We serve the real economic needs of our selected clients by providing tailored services and products in financing, savings, transaction banking, and remote channels. Always moving towards innovations and new solutions, we strive to stay in tune with the market development trends and demand.

Looking forward after the 25 years of successful operation, expansion and stable growth, Basisbank continues making strong steps towards its strategy of remaining of one of the top banking institutions in the local market. Basisbank will effectively use its resources to further strengthen its brand and demonstrate loyalty to its stakeholders: clients, staff, partners and society at large.

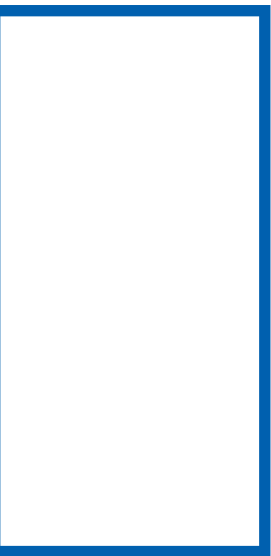
In the medium-term, Basisbank aims to further advance its performance in key business directions. With a strong team of professionals and lending technology in place, combined with its path of organic growth, Basisbank plans to increase market penetration, with the goal to be among top 5 players by assets.

We are number 6th on the market with our assets standing at GEL 1.4 billion, number 5th in Corporate and retail lending, with strong capital base where major stakes are owned by a Chinese conglomerate, the largest Chinese investor represented on Georgian market since 2006 – Hualing Group (HG).

The fundamental goal of our strategic measures is to make the Bank a stronger player in the market by gaining sizeable market share, well positioned to pursue growth opportunities through its increased presence across country, armed with strong client franchise and healthy capital structure.

We set a clear goal to enhance our positioning and build a brand equity by bringing the bank into a greater focus and relevance.

To reinforce and increase our competitive position, encompassing the full range of financial services and reach a broader client base, in 2017 Basisbank made a decision to enter new sectors of financial industry and move towards more diversification of services and greater integrity of the business by adding two new strategic business lines: insurance and leasing.



Being relatively new directions under the Basisbank umbrella (the Group), insurance and leasing will remain a priority in the coming years. The Group will continue actively developing these areas by cross-selling of financial products to targeted clients using a single-window principle. This approach will turn the Group into a robust financial institution, offering the full package of financial services.

The Group has identified three main pillars, speed, quality and flexibility, on which it builds its brand identity. Our devoted professionals, serving the clients on a daily basis, are guided by these corporate values.

Ensuring to retain sound financial performance, the Group will continue strengthening positions in the strategic segment: SME, corporate and retail. Further, it plans to increase focus on retail not necessarily by expanding the branch network, but by offering the products and services remotely, in the most convenient ways. We will accelerate efforts on reinvigorating our client-led /client - related model with more effective coverage.

Improved service delivery channels will ensure that the quality products/services are provided to customers with multichannel offers, enhanced advisory capabilities and highly automated processes.

Benefiting from the support of its largest shareholder, the Group will continue exploring the areas of special interest - Chinese investments in Georgia. We are fully capable of becoming a business mediator to Chinese corporates in international trade and other financial services by using our unique strengths: established tight connections with China supported by our Shareholder and Chinese Banks.

Basisbank Group as a whole is equipped with all necessary resources to achieve its mid-term strategy goals. The strong capitalization, clear capital structure, and the continuous support of its core shareholder, together with the best Corporate Governance standards, provide the foundation for sustainable growth. The Group has significantly improved the quality of its services and operational efficiency over the past few years, refining its branch network and demonstrating its commitment to the declared values, disciplined risk management functions and risk culture in general, along with prudential internal assessment and control systems. The recent years have shown the improved ratings, which is a clear indication of investor trust and recognition of credit institutions.

Inception and Early Years (1993-2008)

Basisbank began its operations in 1993 as a Georgian private bank and was founded by a group of friends, prominent forward-looking leaders. From the initial stage, the bank had a clear and simple aim to connect its resources with the needs of its clients and prepare a solid ground for a successful development in a long run. Core principles at that time were: creation of a niche bank with a customer-focused approach and steady progress in the market. The bank and its board worked on building strong personal relationships with customers. This subsequently became our distinctive feature and business culture, gaining the recognition and status of a reliable partner. Soon, Basisbank enlarged its group of customers and acquired more valuable clients, most of which have grown together with the bank and have remained loyal to it to date.

With no foreign ownership or support early in, backed only by the sound management, the bank evolved through its organic growth and prepared an attractive platform for the entrance of an experienced, growth-oriented strategic investor.

Throughout the early years of operation, the Bank has been steadily growing. By the time of EBRD's strategic alliance with Basisbank, it was a prominent institution among its peers.



Turnaround Period (2008-2012) Years of Strategic Alliance with EBRD

By the time EBRD became Basisbank's shareholder in 2008, the bank already had the functional organization structure and corporate governance system tailored to the size of the bank. During the years of Basisbank - EBRD strategic partnership, the bank underwent fundamental changes, the main priorities were set to reflect the enhancement of Basisbank's corporate image, adaptation to the best international practices and preparation of an attractive platform for the entrance of strategic investor.

With the new shareholder, Basisbank upgraded its operation to adapt it to the best international practices. The tremendous work of the management and the dedicated staff turned Basisbank into an efficient, reliable bank with strong position among its competitors, contributing to the reputation it enjoys today.

The bank has grown far beyond its primary state of a locally owned and managed institution. Having won the confidence and loyalty of its staff, clients, partners and shareholders, and it continued making prudent steps towards growing into a significant market player.

25 YEARS

New Era with the Hualing Group - Dynamic Growth under New Ownership

While EBRD-Basisbank's strategic alliance was a period of Basisbank's significant organizational transformation and development, it had prepared the ground for the bank's next stage of development.

In 2012, Basisbank found an investor, who expressed its interest to invest and lead the bank to the new stage of development. China's Xinjiang Hualing Industry & Trade (Group) Co., Ltd ("Hualing Group") – a Chinese private company and one of the largest investors in Georgia, acquired major equity shares in Basisbank. Along with the new owner and solid capital infusion, the Bank started to rigorously execute its renewed strategy that encompassed ambitious growth and expansion on the market. The revised priorities were set – robust growth, business acceleration and creation of close business connections and alliances with the Asian market.

Within the five years of the new strategic plan, the bank witnessed significant increase of its value moving from the 11th to the 6th largest bank position in the market.

At the same time, the bank established strong alliances with international financial institutions and expanded its partnership with highly rated institutions from all around the world, including the Asian region. IFC, China Development Bank, Asian Development Bank, OFID, Bank of Urumqi, Blue Orchard, Finance-in-Motion, ResponsAbility, EFA Group, Commerzbank, BSTDB are our key sponsors and partners in business financing. Through a series of successful collaborations with partner institutions, the bank commenced extending specialized concessional lending products in Green Lending and National Currency Lending frameworks to help SMEs boost their business activities.



THE GROUP STRUCTURE

Basisbank has recently embarked on a new stage of corporate development. With a vision to become a robust financial services provider group, we combined the capacities of the full set of financial services to encompass banking, insurance and leasing services under one Group. Coordinated functioning of all the three pillars under one group enables the group to synergize the resources, save time and provide a greater accessibility to the products in the Georgian market.

There are three subsidiaries operating under the Basisbank umbrella: Hualing Insurance, BHL Leasing and Basis Asset Management Holding Company.

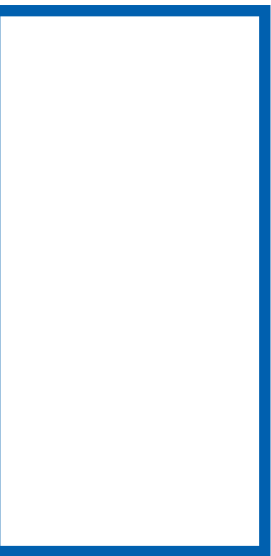
Hualing Insurance

Hualing Insurance, a subsidiary of Basisbank group, was established in 2017, with the mission to establish itself among leading insurers of Georgia.

Hualing Insurance provides non-life insurance products - property, rent, auto, travel, corporate solutions to customers, among others. The new player in the insurance market strives to become a provider of insurance services which are simple, easy to access and innovative. Security, education and empowerment are recognized as the company's priorities. Benefiting from the strong cross-selling network provided by Basisbank, Hualing Insurance builds on strong shareholder, a robust partner bank and adequate capitalization. It is quickly gaining momentum and enhancing its market share. Employing the widely recognized Bancassurance Model (BIM), the company efficiently uses the resources of the partner bank to offer quick and flexible products to clients via the bank's branch countrywide network. Hualing Insurance is guided by the following corporate values:

- Integrity
- Simplicity
- Innovation
- Transparency

Hualing Insurance creates value for its customers by helping them understand and protect themselves from risk. Principled customer focus is at the core of its culture. The entrepreneurial spirit is deeply embedded in its culture, empowering teammates to do what it takes to provide best- in-class solutions and service. Investments in technology are a tremendous focus, it will enable the company's teammates to strive even better results. New



technologies have opened the market to competition. Hualing Insurance believes in increasing demand for digital distribution – a channel that is set to transform the industry. Focus of efforts is oriented on delivering great customer service, whatever the channel. A responsible approach to sales is more likely to lead to customer satisfaction and loyalty.

Hualing Insurance services are available in all cities and regions where Basisbank is present with its service points. Despite being relatively new in the market, in 2018, Hualing Insurance managed to gain awareness and customer trust, ending the year with GEL 11 million in total assets and GEL 1.4 million of net profit.

BHL Leasing

BHL Leasing was established at the end of 2018, as a part of the bank's strategy to provide a full range of financial services to its clients.

The key purpose of the establishment of BHL Leasing was to act as a mediator between the Chinese companies and the Georgian customers, giving them vast opportunities to benefit from the Chinese financial leasing products. BHL Leasing is mainly focused on the SME clients, providing them with simple and easy-to-understand leasing products, combined with the banking services and insurance solutions from the Group's companies.

The preconditions in the Georgian economy that led to the need to have in place the leasing company were to follow the needs of economic growth that fostered demand for capital goods for Small and Medium Enterprises (SME's) who are willing to grow, but lack funds to invest immediately in capital goods.

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. BHL Leasing plays an important role in connecting Chinese and Georgian markets and opens up new opportunities for the Georgian companies to expand and develop their businesses.

MAIN SHAREHOLDER – HUALING GROUP

One of Georgia's largest foreign investors, Xinjiang Hualing Industry and Trade Group Co. ("Hualing Group") is a Chinese private enterprise group with broadly diversified businesses including commercial real estate development, market rental & management, foreign trade, logistics, construction, tourism and financial industry. Founded in 1988, "Hualing Group" has built its sound business model based on a market-oriented development, with extensive channel capabilities and high service quality expanding and managing its diversified business areas through 30 affiliated companies and more than 5000 employees under the Hualing Group. At the end of 2018, the Group recorded US\$ 30 million of registered capital and USD 1.4 billion of net worth.

Originally started as a small border market start-up in Urumqi, Xinjiang, the north-western part of China, Hualing Group has grown into dominant construction materials center in China's northwest, cementing its position as the leading commodities wholesale market owner and the main commodity export channel to the West & Middle Asia. Moreover, based on its ambitious market diversification strategy, the Group holds an increasingly prominent position in the region, neighboring countries and has expanded beyond, broadening its footprint in Eastern Europe.

As a sustainable organization, the Group implements initiatives for promoting social welfare and invests a large amount of resources in poverty relief and social welfare projects. The Group takes care of improving the living conditions for thousands of families, constructs educational institutions, and funds long-term charity initiatives. 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.



HUALING GROUP

Hualing Group in Georgia

The total investment of the Group to Georgia's economy is USD 550 million.

Since 2012, the Group is the owner of more than 90% of Basisbank's shares to support Georgian local business development and to facilitate cross-border business expansion between China and Georgia.

Hualing Group's investments in Georgia include:

Hualing Tbilisi Sea Plaza, Hualing Tbilisi Sea Residence, Kutaisi and Tbilisi Hualing Free Industrial Zones, Hualing Hotels & Preference Tbilisi, Hualing Fund Hotel, Hualing Hotel in Kutaisi, Hualing Wood Development, Hualing Tbilisi Sea New City and an airline company – MyWay. All these investments, which include the shopping mall, office spaces, five-star hotels, residential buildings and warehouse areas, serve as a major step forward to facilitate the enhanced trade, investment and tourism opportunities between Asian countries and Georgia.

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.

MARKET AND FINANCIAL REVIEW

- ◆ *Economic environment
and market review*
- ◆ *Banking sector development*

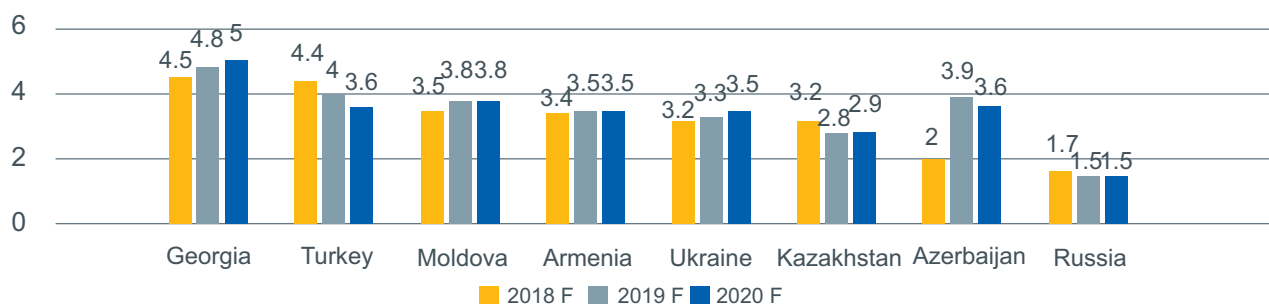


ECONOMIC ENVIRONMENT AND MARKET REVIEW

Georgia - a strong regional performer. In 2018 economic growth in Georgia remained robust, hitting 4.7%² of y/y growth. Georgia's performance for last 5 years has been stable and stronger than regional peers, reaching average annual growth of 4%.

A Strong Regional Performer

With positive DGP growth outlook



Despite recent regional downside trends in major trading partners, Georgia has remained resilient to external shocks and displayed sustainable growth by pursuing stabilizing macro-economic strategy supported by the IMF Extended Fund Facility (EFF) program and Government's commitment to address the issues which are critical for sustainable growth: to ensure fiscal sustainability, weaken impact of external vulnerabilities and strengthen resilience to external shocks, adhering further to the inflation targeting regime, improving competitiveness and making growth more inclusive.

Recent economic developments and structural reforms have been positively evaluated by international rating agencies. 'Moody's' upgraded Georgia's sovereign credit rating to Ba2 from Ba3 in September of 2017 with a stable outlook that was followed by the rating upgrade by 'Fitch' of Georgia's long-term IDR to BB from 'BB-' with stable outlook in February 2019. The main reasons of increasing sovereign rating were Georgia's resilience to a significant economic, financial and exchange rate shocks in the region in 2014 – 2016 years, stable

²Geostat's preliminary estimate

macroeconomic environment, institutional strength and ongoing economic reforms and adherence to IMF program.

Georgia's ongoing structural reforms continue to support domestic and foreign investment growth. According to the World Bank's "Doing Business 2019" report, Georgia improved its position from 9th to 6th among the 190 countries, while remaining at the 16th position in Economic Freedom Index globally and 9th position in Europe region out of 44 countries³.

KEY ECONOMIC INDICATORS, GEORGIA	
Sovereign Credit Ratings:	S&P: BB- /Stable/
	Moody's: Ba3 /Stable/
	Fitch: BB /Stable/
Ease of Doing Business	# 6
Starting a Business	# 2
Economic Freedom Index	# 16
Global Competitiveness Index	# 66
Registering a Property	# 4

Georgia is exposed to external risks associated with non-favorable developments in region and in economies of trading partners, to the global trends in EU, international prices of oil and food, US\$ trends, etc.

According to IMF estimates⁴, global economic growth for 2018 is estimated at a moderate 3.7% y/y level due to a weak performance in some economies, especially Europe and Asia. The global economy is projected to grow at 3.5% y/y and 3.6% y/y in 2019 and 2020. The forecasted growth was negatively affected by the tightened trade barriers (increased tariffs) enacted by the US and China. Growth in the Euro area is set to moderate from 1.8% y/y in 2018 to 1.6% y/y in 2019 and 1.7% y/y in 2020.

⁴International Monetary Fund: World Economic Outlook Update, January 2019

Georgia faces large and persistent external shocks. Lower oil and commodity prices have reduced growth in the region. The strength of the US dollar and depreciation of currencies in partner countries has put pressure on Georgia's currency - Turkey experienced a double-digit inflation and around 30% depreciation of Turkish lira, economy has contracted and forecasted growth in 2019 is at 1.6% y/y, while annual inflation is projected at 15-16%. Another regional player, Russia has been under pressure due to tightened economic sanctions, drop in oil prices and poor performance. It still recorded steady growth and stable inflation and 2019 year is projected at 1.6%. Activity in CIS countries is projected to expand by 2.2% y/y in 2019 and 2020 years.

According to the national statistics, the preliminary estimates of annual economic growth accounted for 4.7% in 2018 and medium-term forecast is positive at 5%. The main drivers of growth were international trade, remittances and tourism inflows on the aggregate basis, which are the main source of external financing for Georgia, as well as improved domestic demand.

External imbalances are gradually easing. External inflows through remittances continue a stable growth path and tourism revenues remain the main source of external financing (It grew by 20.5% y/y in the first nine months of 2018 and amounted to US\$ 2.57 bln.).

The above developments had a positive impact on the current account (CA) deficit, which is one of the main challenges for Georgia's Economy, as of 9M2018, the CA deficit amounted to 6.5% of GDP, while it stood at 8.8% by the end of 2017. CA deficit increases the economy's vulnerability towards external shocks and creates pressure on the exchange rates. According to the Ministry of Finance latest forecast, it's expected to gradually reduce the CA deficit for 2019 – 2022 years below 6%. The reduction of CA deficit in the medium run will strengthen the economy's invulnerability towards the external shocks and will stabilize exchange rate fluctuations around the equilibrium level, which will reduce uncertainty in the economy emerged from the foreign exchange markets. Higher certainty in combination with the government's various initiatives to create a business-friendly environment will increase the interest of foreign investors in the upcoming years.

The improved business-friendly environment continues to raise the interest of foreign investors. FDI remains the main source of CAD financing. It is expected that FDIs will boost in 2019-2020 to an average 8% of GDP, heightened by new Free Trade Agreements, large projects in the transportation sector and infrastructure development projects. The Government is keen to scale up the public infrastructure and investment projects which should support growth in 2019 by a pick-up in capital spending, which ensures more efficient communication at the local and international levels.

- Construction of Anaklia Deep Sea Port – One of the priorities for the government of Georgia is to enhance its port infrastructure. For this purpose, particular importance is attached to the construction of Anaklia Deep Sea Port. It will create favorable conditions for the development of logistic services and an industrial zone in the region. The new port will have a significant impact on the total cargo turnover through the territory of Georgia, which will create new jobs opportunities. The total cost of the project is approximated at US\$ 2.5 bln.
- Baku-Tbilisi-Kars new railway connection line: the purpose of this project is to create an alternative railway route connecting Asia and Europe. It will strengthen Georgia's position as a competitive route linking Europe and Asia.
- East-West Highway – More than 800 km of road infrastructure is going to further support domestic as well as international transit. The project cost is estimated at US\$ 3.5 bln and is going to be finished by 2020.

- Development of Logistic Centers – The development of logistic centers will promote the logistic services that will increase the country's transit capacity and will also support exports. The project is supported by the World Bank.

The Georgian economy is expected to continue a solid performance. According to the IMF projections, economic growth is expected to average at 5.1% over the next five years, which is well above the regional average of 3.0% for the same period⁵.

Better than regional economic growth forecast is related to the ongoing structural reforms to support higher, sustainable and more inclusive growth. The authorities have taken steps to improve financial safety nets, support capital market developments, introduced the pension reform which will guarantee accumulation of domestic savings to finance private investments and will reduce Georgia's external financing needs in the long run.

In addition to the above corporate profit tax and pension reforms, the government of Georgia introduced the following structural reforms:

- Deposit insurance system: it is going to further enhance the trust towards the financial system, maintain sustainable development of the banking system, mitigate possibilities of bank runs, and increase saving norms that implies lower interest rates on the loanable funds and higher economic growth.
- Capital market reform: the greatest progress is achieved in the development of a legislation framework, which comprises harmonization of legislation with EU standards. A set of tax reforms were developed, which imply taxing various financial instruments according to the best international practices. Capital gains are exempted from taxes. In addition, taxation of derivatives, repo and securities lending will be improved. Pension reform is also part of the capital market development plan. A pension fund will create a large institutional investor that will increase demand on the capital market instruments.
- SME/Innovations Development: the government of Georgia is actively supporting the development of the SME sector with an 'Enterprise Georgia' program. Together with a 'Good Governance Fund' and 'PwC' the government has implemented a project targeted at increasing the number of SMEs in Georgia. The program also involves linking local and international entrepreneurs.

⁵Regional average includes the following countries: Armenia, Azerbaijan, Kazakhstan, Romania, Russia, Turkey and Ukraine

BANKING SECTOR DEVELOPMENT

Backed with sustainable financial and institutional basis, the Georgian banking system is one of the most developed and best performing sectors of the economy, preserving growth of 19% CAGR during the last decade, by its assets amounting to about 96% of GDP by the end of 2018.

The banking sector remains sound and profitable, with robust capitalization, adequate liquidity and good asset quality. National Bank of Georgia continues to strengthen banking regulations on capital and liquidity in line with its financial stability framework. NBG has finalized the main framework for commercial banks under Basel III standards, introduced regulations on corporate governance and leverage ratio, strengthened liquidity management and capital adequacy framework. To establish responsible lending practice, NBG announced implementation of a responsible and sustainable lending policy, limiting maximum payment-to-income and loan-to-value ratios, which should help to maintain the quality of new loan origination.

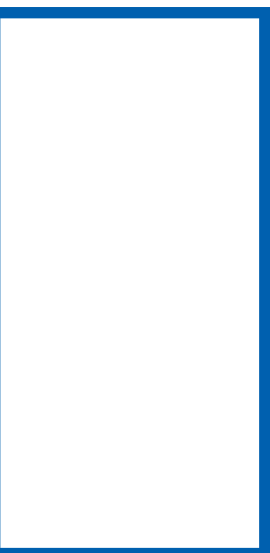
The sector remains vulnerable to high dollarization, which remains at about 60%. High growth in consumer lending and mortgage loans has led to a fast rise in household indebtedness in previous years, but new macro-prudential measures and further tightened de-dollarization policy should encumber the growth in this area.

The reduction of dollarization level promotes the effectiveness of monetary policy through empowering the monetary transmission mechanism that reduces exchange rate fluctuations. Generally, that lowers the foreign exchange risk that makes economy more resistant with respect to external shocks.

The lending penetration is 65% to DGP, where for businesses is 36% of GDP and 29% for retail respectively. The growth trend for 2019 is expected to continue but with less intensity in retail and more concentrated on Corporate and SME business due to recent regulatory initiative (NBP) introducing new stricter standards in retail financing which in fact should encumber the lending to unchecked, low income borrowers. This should lead to improvement of underwriting standards across the sector and increase the quality of loan origination, while drawing the margins downwards.

Loan quality measured by the NPL ratio shows improved performance of customer loans. Evidently, NPLs share has declined by 2.58 percentage for the last five years contributing to better quality of loan portfolio. Regulatory non-performing loans (NPLs) were 5.5% of sector loans at end of 2018 (end-2016: 7.3%), with total loan impairment allowances amounting to 92% coverage of these.

Georgian banks' solvency positions are adequate, sector's total capital adequacy ratio of 18.9% at y/e 2018,



higher new regulatory requirements which incorporate Basel III capital buffers, force banks to loosen concentrations. The buffers take into account each bank's specific risks, including exposure concentrations in sectoral and individual client level, level of concentration of assets in FX and with counterparties. Capital requirements are tight and the ability to support growth will rely largely on capital generation capacity where profitability and assets quality will be the key.

Profitability of the banking sector has remained solid in 2018 with ROAE reaching 19.5% (by the end of December 2018) and despite intense competition, supported by loan growth, generally stable funding costs and moderate impairment charges. Retaining good pre-impairment profitability should support banks' resilience if there is pressure on asset quality.

The banking system incorporates further advanced technologies to provide more comprehensive and flexible products to the customers. Thus, the market competition turned on innovations and advanced technologies, development of card business, etc. The tendency is there and competition in this area is expected to strengthen in the following years.

Since stable macroeconomic development promotes the banking system growth, the growth trend is expected to continue in the following years. On the other hand, banking system growth rates presumably will diminish due to the new regulations initiated by the National Bank of Georgia. However, these new initiative enacted from January 2019 aims to improve resilience of the sector.

The above-mentioned changes in regulations are going to support the sustainable growth of the banking sector with lower dollarization level. These policies are expected to especially negatively affect the growth of the retail segment but that will be balanced by the lower credit, interest and market risks emerged from the retail segment.

PERFORMANCE OF THE BANK AND THE GROUP

- ◆ *Key business performance highlights*
- ◆ *Business report*
- ◆ *Financial performance*



KEY BUSINESS PERFORMANCE HIGHLIGHTS

STRENGTHENING AND UPGRADING OF MARKET POSITION

In 2018, Basisbank made strides in terms of business growth recording 4th result in generated net profit, secured the 6th position in terms of assets and the 5th largest in terms of equity, while upgrading its ranking from 7th to 6th top banks according to gross loan portfolio positioning (GLP). The major contributor to the business growth, GLP brought additional GEL 142 million to total assets sharing the 3rd best result in total growth of banking assets and liabilities in the sector.

ENHANCING INTERNATIONAL COOPERATION - ABOUT GEL 230 MILLION OF FUNDING ATTRACTED FROM EUROPEAN AND ASIAN PARTNERS.

The bank attracted and renewed contracts for about GEL 145 million funds by intensifying relations with its long-standing partners (such as EBRD, BlueOrchard, the OPEC Fund for International Development, etc.) during 2018; additionally, raised around GEL 85 million from new partners, such as IFC, Global Climate Partnership Fund (ResponsAbility), Green for Growth Fund (Finance-in-Motion) and European Finance Association (EFA). The net increase in funding on y/y basis amounted to GEL 66 million. Over GEL 50 million is committed lines which will be utilized in 2019. The investments enable the bank to devote larger resources to serving the needs of its business clients, with particular emphasis on promoting energy efficiency measures among large and medium-sized companies. Partnership with IFC, the largest global development institution, a member of the World Bank Group to enhance trade finance business of the Bank, can be defined as one of the most significant achievements of the year in terms of further strengthening the bank's highly trusted image.

LAUNCHING NEW BUSINESS LINES AND OPERATIONS

Basisbank launched new business lines in insurance and leasing sectors through its new subsidiaries "Hualing Insurance" and "BHL-Leasing", encompassing in that way the wide spectrum of financial services the client can gain from the financial sector. Despite being relatively new in the market, in 2018, Hualing Insurance managed to gain awareness and customer trust, ending the year with GEL 11 million in total assets and GEL 1.4 million in net profit.



SALES NETWORK OPTIMIZATION AND RENOVATION

Basisbank continued its efforts to improve, redesign and renovate its branches to ensure maximum comfort and convenience for its clients. The branch network was refurbished and renewed in accordance with the new concept of branch development strategy and branding. Launched in 2016, Basisbank's network optimization and service concept aims to react quickly to the needs of customers, while offering a broader range of product suite to accommodate the increasing mobility of its customers.

Basisbank further enhanced its customer offering by making it easier to bank through targeted solutions and improved digital channels. In 2018, the remote service channels were refined, as part of the bank's strategy to ensure simplicity and flexibility of its products and services. The Bank introduced new remote products. One of the new offerings was Mobile DigiPass, allowing customers to generate single-use security codes from the mobile apps, to make transactions independently, from any part of the world. Basisbank's mobile application was further improved to ensure the simplicity and ease of use. The work continued on the Chinese version of the application for our Chinese clients. This simple app allows the Chinese speakers to conveniently manage their finances using their mobile phones, making various transactions, such as currency exchange, money transfers, payments of utility services and other banking offerings. The application is user-friendly and simple. This novelty enables native Chinese speakers to manage their personal accounts and perform various banking transactions in their own language without visiting the bank.

In addition, Basisbank was the first bank in the market to introduce innovative Personal Dealer's services in 2018. A special treasury application that enables clients to perform currency conversions independently and conveniently. The time-saving, fully automated, simple process allows for direct contact with the Treasury Department professionals. The new application gives clients possibility to request the most favorable exchange rates, the freedom to choose the proper amounts and currencies, as well as flexibility to perform multiple transactions at a time.



INITIATION OF NEW, CONCESSIONARY PROJECTS TO STIMULATE NATIONAL CURRENCY LENDING, EU STANDARD AND ENERGY EFFICIENCY MEASURES

Basisbank launched several projects to help SMEs in their endeavors for EE saving and EU Standard implementation measures, providing them with opportune SME banking propositions, affordable financing at concessionary terms, investment incentives and special credit schemes initiated in partnership with EBRD and other International Partner Organizations.

To enable greater agility in catalyzing growth for SMEs and increase access to local currency facility, for the first time, the Bank concluded partnerships with several reputable international partner organizations and secured lending in national currency as well.

BANK'S LONG-TERM RATING BY FITCH CONFIRMED AT "B+" WITH "STABLE" OUTLOOK

The confirmed rating reflects the bank's extended track record of considerable growth for the past few years, stable asset quality metrics, good profitability, high operating efficiency and solid capitalization.

BUSINESS REPORT

Our Commercial Department serves over 5000 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. The bank services its business customers through network of 22 branches spanned across central and regional parts of Georgia.

Recognizing the importance that financial services requirements differ in many respects among our business customers and in order to efficiently align our value proposition in terms of products, services, and delivery channel offerings, Basisbank has further segmented its customer groups and set up five major business lines with several sub-business units in Commercial Department's Structure, as detailed below. Those structural changes have enabled the Bank to meet customer expectations across all business lines. It also afforded the Bank a certain degree of diversification in terms of exposures, sources of income and geographies to make growth more focused and prudent. As a result, Commercial Department is now organized into five business lines: Corporate, SME, Documentary Business and Factoring, Chinese Customer Service and Projects and Unique banking units.

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 also 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. Dedicated to promote agriculture lending, agribusiness bankers assisted the Bank in identifying the specific needs of our clients attempting to develop their agribusiness activities and moved beyond urban centers to reach out more to the "unbanked" locations.

Through its group of personal bankers, Unique Banking Department 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 extraordinary expertise, personal attention, customized product solutions and comprehensive banking services of any type.

Documentary Business 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.

Another novelty of the year for Commercial Department in 2018 was introduction of a new unit for Chinese Customer Service and Projects. The unit was formed with the intention to serve our business clients and help them create new business opportunities and links with Chinese counterparties. The new unit aims to build a bridge that connects our Corporates and SMEs with Chinese businesses and in parallel provide the Chinese clients living and working in Georgia, as well as Chinese investors interested in the Georgian market, with support that goes beyond lending through a complete set of quality, tailored banking services in Chinese language in order to provide maximum comfort for them. Chinese Customer Service and Projects unit is staffed with highly qualified Chinese language experts, trained in China.

Across all five business lines during the year 2018, Commercial Department focused mostly on the following activities:

- Diversifying products and services
- Widening regional outreach
- Streamlining service standards
- Optimizing processes

Some other Key Initiatives in Business Banking for 2018 included:

- Strengthening of regional, agribusiness and unique bankers groups, both through expansion of work force and focused trainings;
- Introduction of the new Chinese Client and Project unit;
- Launching of Mobile Banking in Chinese language, a novelty project that allows Chinese speakers to manage their finances and day-to-day operations using their mobile phones in the most convenient way;
- Further strengthening of Documentary Business and Factoring group by recruiting qualified staff;
- Strengthening of SME Banking unit. To increase customer service quality, comprehensive trainings of SME bankers were organized in the course of the year;
- Recruiting of new SME bankers for the west and east regions to ensure better penetration in the market.



BUSINESS BANKING OVERVIEW

Business banking, collectively regarded as SME and Corporate Banking, still remains the bank's most important business area. In 2018, Basisbank looked at innovations that would better streamline systems and processes, integrate workflows, instigate structural adjustments to improve Business Banking direction's operational efficiency.

The ongoing transformation of our Commercial Department's structure through re-positioning of our core business lending groups and enhanced frontline workforce delivered good results.

Business loan book crossed the GEL 695 million mark, a 13% growth since the previous year with additional GEL 78 in lending. Product and sector focus was primarily on trading, production, tourism, consumer goods and construction sectors. This was conditioned by the individual approach to clients and the high standards of service.

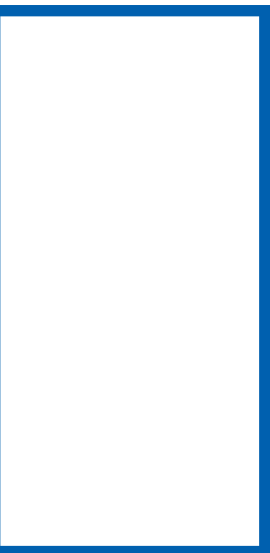
In line with our focus on business growth, the Bank's Business Banking footprint was significantly widened in strategically selected regions. The Corporate Bankers' Western regional group was especially active in 2018. As a result, the regional loan portfolio increased by over 200%, as an aftermath of the efforts of the new professional staff. Judging by the limited market and high competition in the western region, this was quite an impressive result.

The success of SME banking in 2018 was mainly conditioned by recruitment and strengthening of workforce through specialized trainings. In the first quarter of the year, Basisbank also revised and increased its lending limits and procedures for SME loans subsequently catalyzing overall growth of the SME portfolio by 30%.

Development of the agribusiness services also remained a priority for Basisbank over the last year. Basisbank continued financing agribusiness in 2018, which adequately reflected in its portfolio growth.

Throughout 2018, Basisbank had been actively engaged in the implementation of APMA (Agricultural Project Management Agency) initiated projects in support of agribusiness development. The project scope encompassed grant and subsidized components. During the year, Basisbank extensively contributed to the sector by provisioning concessional financial support including grant component to agrarian farmers nearly in all major agribusiness directions.

The bank continued issuing Agrobasis, the informative/educational magazine, making it more diverse content-



wise. The last issue of 2018 featured a new section, offering farmers comprehensive information about government programs.

Basisbank also collaborated with various specialized local organizations aimed to significantly contribute to the development of agribusiness sector in the country, through offering farmers different plant protection products, fertilizers and equipment (e.g. tractors and not only). Through the joint collaboration, the Bank introduced a brand-new banking product that gives farmers unique access to these products with substantial grace periods.

In 2019, the bank will continue working to pursue its business plans and goals, while maintaining current standards and applying individual approach to clients.



UNIQUE BANKING

Unique Banking is a relatively new business unit that started functioning under Commercial Department in 2017 to serve the premium segment of the Bank. Our premium, VIP segment consists of wealthy individuals and business owners who have little spare time and tend to have more complex requirements and needs of special services to manage their day-to-day banking operations.

Our Unique Banking unit's main benefits are designed to make VIP customers' banking experiences easier and more comfortable both in and out of the Bank and include everything starting from personalized approach and managing VIP clients' accounts to offering individualized services and tailored banking products.

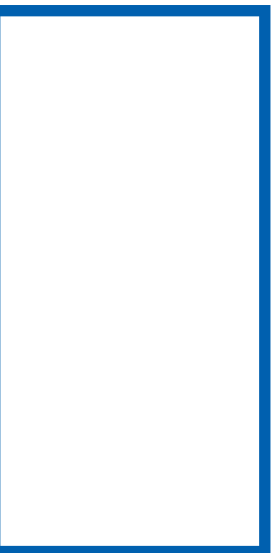
Our Unique Banking unit has professional dedicated relationship managers who oversee daily transactions of their personal VIP clients and provide them with a set of comprehensive banking services and solutions.

To reach unparalleled performance and servicing, the bank introduced innovative solutions through its remote services and through a special, new App -“Unique App” which offer premium services and full spectrum of convenience to the VIP client segment.

Unique Visa Infinite card was also launched for Unique users, allowing them to take advantage of prestige, time and comfort.

By the end of 2018, the number of such wealthy clients increased to 200 valuable customers.

Basisbank will continue to constantly work on further improvements of its Unique banking offerings and to strive for suggesting adequate innovative solutions to stay in line with the recent technological advancements designed for VIP customers.



RETAIL BUSINESS

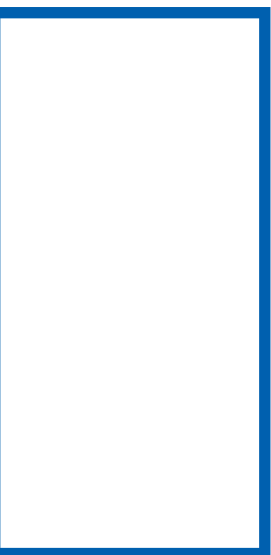
The Retail Business Unit strives to provide clients with a comprehensive range of products and services, channeled through a vast range of sales tools and modern set of branch network, adhering to the highest quality standards. Retail banking provides simple and transparent banking solutions to customers, supporting them in their financial plans. Savings accounts, mortgage and consumer loans, payroll projects, installments, and card services in all three payment systems: VISA, MasterCard and Union Pay are offered to clients in a simple, flexible and transparent manner.

2018 was a successful year for the retail business that is adequately reflected in the financial results. Retail loans increased by 41% y/y in 2018. Retail loan segment constitutes 24 % of the bank's Gross Loan Portfolio (GLP). Retail sales showed upturn mainly due to payroll and development projects. Hence, the loan portfolio showed record growth of GEL 64 million, reaching GEL 221 million.

The bank continued to improve its branch network in 2018. Five of Basisbank's strategically important service centers were renovated during 2018: three regional and two central offices. Going further to improve the complete set of sales points, the bank continued taking care of a wider coverage, adding to the network of ATM's (65) and POS terminals (162), to ensure maximum convenience of customers in the sales points. As a result, the use of POS terminals doubled, due to optimization of current circulation and expansion of the network. Cards were replaced by contactless high-tech cards and made available for internet purchases.

Remote loan applications also improved, resulting in the larger number of refined remote loan application approvals. The Retail Business Unit will continue actively working on further improvement of all aspects of its activities in 2019.

To be fully prepared for the progressive retail business growth, the Bank plans to further enhance its alternative sales, refine remote channels, recruit effective front-line workforce and introduce a new Alternative Channel Management Unit. Further improvements of service quality are crucial in sustaining competitive advantage and increasing client satisfaction and loyalty. Along with increased lending, attraction of new payroll projects will be a priority for the next year, as a larger number of payroll clients is vital for the development of retail business.



OUR PEOPLE HR MANAGEMENT

In 2018 Human Resources and Administrative Department continued to pursue its mission to offer career development opportunities and favorable working environment to its employees. Bank employees, from executives to tellers, must have a higher level of integrity and trustworthiness than employees in most other industries, making the role of HR in banking that much more important. Keeping that in mind, the HR Department strives to keep the employee motivation at a high level and ensure the continuity of business processes by having efficient workforce in place.

Over the 25 years of operation, Basisbank recruited, internally promoted, trained and motivated a large number of professionals. The bank takes pride in its long-time staff members, who have worked for the bank for 10-15 years in a row. Even in the most troubled times for the country's economy, Basisbank managed to preserve the integrity of staff, avoiding the layoffs.

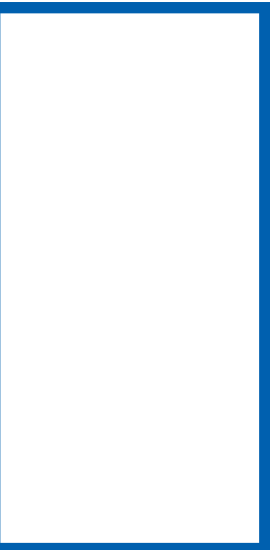
The HR Department organized Relationship Sales Training for SME, Treasury and Business Lending departments. This was one of the most important coaching sessions led by the invited trainer, David Chikvaidze.

Working in harmony with the bank's goals and priorities, one of them being environmental care awareness and social responsibility, the HR Department hired an Environmental and Social Risk Management Officer, whose work will be devoted to the relevant issues. Employees involved in business operations and loan applications that provide funding to clients as well as appointed ESRM Officer and Risk Management Department staff were trained in Basisbank's E&S General Guidelines and the E&S evaluation of transactions and clients' assessment against E&S risks process in general. Formal guidelines such as fire safety instruction, environmental and social risk management policy were introduced/upgraded for better awareness.

An Employee Engagement Survey is one of the most important projects initiated in 2018. It involves important operational aspects such as employee engagement survey and diagnostics, Analyze the needs of the staff members, measure employee satisfaction level and serves to improve the employee loyalty to company, with the ultimate goal of matching the company goals and objectives with those of the employees.

HR Analytics was another important project initiated in 2018, involving the development of KPI system for the staff.

Several workshops and field trips were organized during the year, including the special events involving middle management, commercial Department, SME Department, and Agriculture Unit. The vintage and the Annual Corporate Event to celebrate the 25th Anniversary were highly appreciated and enjoyed by the staff.



BASISBANK GROUP AND SOCIETY

Basisbank, as a socially responsible bank, strives to be a reference for its customers – fully focused on their needs, providing professional and ethical solutions, as well as helping to finance the economy. Basisbank implements projects on its behalf and sponsors projects of social importance. During 2018, Basisbank dedicated its sponsorship, charity and patronage events to the bank's 25th Anniversary.

Support of Education

Support of education is Basisbank's main CSR focus. The bank cooperates with the secondary schools and the country's top universities, providing scholarships and tuition for students and facilitating their interest in scientific research. Basisbank further supports tournaments and competitions for students in exact and natural sciences, to promote their ability to successfully solve the problems, present the results of the conducted studies and be able to defend them in scientific discussions with opponent teams. In these activities, the students of the Georgian schools have been among the leaders for many decades, steadily making significant progress.

Sponsorships

Throughout the year, Basisbank sponsored important economic, financial and cultural events. One of them was the third meeting of the Eurasia Regional Council of UnionPay International, attended by the representatives of over 20 banks and financial institutions of the Caucasus and Central Asia. Basisbank entered into the Memorandum of Cooperation with UnionPay and is the first bank in Georgia, offering the premium-class DIAMOND card by UnionPay.

The International Chamber of Commerce (ICC) Bank Committee meeting, supported by Basisbank, was attended by over 250 delegates from 65 countries. Issues affecting international trade finance were discussed at the event.

Another successful project implemented within the framework of cooperation between Basisbank and the European Bank for Reconstruction and Development (EBRD) was the 7th Trade Finance Forum, where Basisbank participated as one of the main sponsors of the event. The representatives of the world's 100 financial



institutions and 200 people from trade finance organizations of 40 countries attended the event. The goal of the forum was to share information on, and experience in, the challenges, opportunities and innovative products in the area of trade finance.

On May 26, 2018, Georgia's Independence Day, Basisbank sponsored the concert of James Blunt, the British musician, held on Mikheil Meskhi stadium. James Blunt visited Georgia as part of his world tour, and performed the songs from his latest album Afterlove.

Charity and Patronage

In 2018, Basisbank continued its charity and patronage work. This included the financial support to a center of social assistance, young people's football club, a ski competition in Mestia, Svaneti. Basisbank got involved in disaster prevention measures. During the year, the bank also sponsored a charity event aiming to construct a rehabilitation home for young cancer patients. Bank staff were involved in the event.

Awards and Prizes

Basisbank is proud of its awards and recognitions received during the year. A prize-winner for the 5th time in a row.

Basisbank was nominated as one of the 30 best companies in Georgia at the Annual National Business Award ceremony.

Basisbank was awarded with the CSR Certificate for Impressive Initiatives. The bank participated in the Georgia Responsible Business Competition Meliora 2018.

FINANCIAL PERFORMANCE

The group showed significant progress in efficient use of its capital and assets. The group's focus on implementation of modern management practices at all levels of its business functions, efficient resource allocation and integrated Business model - leads to the sustainable growth of the business volume, financials, the market outreach and consequently better positioning among peers.

Current integrated business model of the Group is based on three key strategic business lines - Banking, Insurance and Leasing, encompassing full range of financial services, directed to reach broader client base and customer satisfaction. These three directions are supported by the common functions within the group and through our regional units we provide wide variety of financial products and services to private individuals, large corporate and middle size companies and state owned companies.

Being the parent company of the Group, the Bank is setting the targets for the business lines, leading the initiatives and business strategies within the Group.

The bank drives the performance of the Group, but the results are presented and discussed based on the Group's financials except when otherwise stated.

Year 2018 has been remarkable for the Group by recording exceptional results and reaching significant progress in key fronts.

The Group's and the Bank's Key Performance Indicators:

Key Performance Indicators - In million GEL	2018		2017	
	Bank Standalone	The Group Consolidated	Bank Standalone	The Group Consolidated
Net operating revenues	67.5	69.6	52.9	52.9
Pre-impairment operating profit	42.0	43.7	33.7	33.6
Income before income taxes	41.1	42.8	31.7	31.6
Net income	35.9	37.3	29.9	29.9

Profitability	2018		2017	
	Bank Standalone	The Group Consolidated	Bank Standalone	The Group Consolidated
Pre-impairment operating profit on average equity	18.4%	19.1%	16.8%	16.8%
Pre-impairment operating profit on average assets	3.3%	3.5%	3.2%	3.2%
Pre-tax return on average equity	18.0%	18.7%	15.8%	15.8%
Cost/income ratio	37.7%	37.2%	36.4%	36.5%
Return on Equity (Profit After Tax/ Tot. Equity)	15.7%	16.3%	15.0%	14.9%
Return on Assets (Profit After Tax/Tot. Assets)	2.9%	3.0%	2.8%	2.8%

Source: Internal calculations

- In 2018 income before taxes generated by the Group reached GEL 42.8 million recording 35% year-over-year (y/y) growth - improved pre-impairment and pre-tax operating profit recorded return on average equity at 19.1% and 18.7% respectively against 16.8% and 15.8% of 2017 year-end (y/e) results.
- Generated net profit displayed a sizable increase - the group recorded +25% of profit growth gaining 16.3% return on average Equity (ROAE) versus 14.9% in 2017.
- The group managed to retain significant growth in profitability due to high operating efficiency reflected in low operating costs - measured as cost/income ratio standing at 37.2% as at y/e 2018 (2017: 36.5%), stable net margins amplified by earning generated assets reaching GEL 1.2 billion at y/e 2018 (2017: GEL 1 billion), low cost of risk by maintaining good quality of financial assets reflected in low level of impairment changes.
- Return on average assets of pre-impairment operating income reached 3.5% by y/e 2018, slightly more than y/e 2017 3.2%, and the net result of yearly profit reflected return on average yearly assets (ROAA) at 3% by y/e 2018 versus 2.8% in y/e 2017.

On operating level, the bank and the group improved positions in the market due to tangible growth in earning generating assets – Gross loan portfolio (GLP) and investments in securities.

- This year, Basisbank has secured the 6th largest Bank position in terms of assets and the 5th largest bank in terms of equity, while it upgraded the rank from 7th to 6th bank according to gross loan portfolio positioning – sharing the 3rd result in total growth of banking assets and liabilities in the sector⁶.
- The growth resulted in tangible increase of operating results placing the banks at 4th rank in the sector in terms of generated net profit and 3rd in absolute growth of banking sector net income.
- GLP a major contributor to the business growth led to additional GEL 142 million in total assets, which on its part expanded by GEL 204 million on y/y basis. On liability and equity part, the Bank has recorded GEL 168 million and GEL 35 million of net increase on stand-alone basis under IFRS results⁷.
- In 2018 Basisbank has secured its market share at 3.6% by terms of total assets, 3.5% in total liabilities and 3.8% by its profit (share in total banking sector results as at y/e 2018 under NBG data).
- Basisbank's stand-alone yearly generated profit amounted to GEL 35.9 million, recording +20% y/y growth in operating results and total comprehensive income reaching GEL 36.9 million (2017: GEL 29.8 million).

Performance of Subsidiaries

The primary goal of new business lines is to increase access to the targeted niche of clients, offer new financial services and products fully exploring the group's operating capacities. Basisbank and its daughter companies, together form a unified institution providing financial services to customers through a joint point of sales channel. The Group envisages to strengthen implementation of its strategic objectives in following years intensified through the single-window concept - reach the targeted clients and raise awareness about the brand, its strength and services; targeting PR campaigns, launching modern methods of approaching the clients and service tools, focusing on innovations and regional outreach.

⁶Source NBG data / internal calculations

⁷Note: market share and position of the Bank are given under NBG data which slightly differs from the IFRS results

Hualing Insurance

Newly launched business line in Insurance contributed to the group's final results by recording GEL 1.4 million of net profit as at y/e 2018.

Key figures of financial position and performance of Hualing Insurance

Key Balance Sheet Figures - In million GEL	2018	2017
Cash and cash equivalents	6.4	4.3
Insurance Assets	4.2	-
Total assets	10.7	4.3
Insurance liabilities	4.5	-
Total liabilities	5.0	-
Total equity	5.8	4.3

Operating Performance - In million GEL	2018	2017
Net Insurance revenue*	2.2	
Net Insurance claims	(0.3)	
Net income from insurance operations	1.9	
Income before income taxes	1.7	
Net income	1.4	

*Net insurance revenue includes Gross written premium (GWP), Reinsurer's share in GWP and net of changes in unearned premium reserves

Hualing Insurance started operating during the year 2018 and it succeeded to prepare bases for further growth in the following years. Since initiation, with initial capital of GEL 4.3 million, the company accumulated total assets of 10.7 million GEL.

Hualing Insurance closed the year with quite high operating figures, gross written premium amounted to GEL 5.4 million generated from some key clients acquired in leading sectors apart from Basisbank and the parent Hualing Group: auto dealers, construction, aviation, banking, trade, distribution, etc. The Company targets to double its sales in 2019 through increased brand awareness and intense focus on digital sales channels. The targeted areas are: Vehicle MTPL insurance, CASCO, MPA insurance, Travel and Property insurance, etc. The company is targeting to become clients' most preferred insurance provider in Georgia, by having the most innovative and user-friendly insurance solutions.

BHL Leasing - The group's new member “BHL Leasing” was established in December 2018. The newly established firm will provide varieties of financial leasing to its' customers. The following period will be devoted to build effective organizational structure combined with active digital marketing campaign to attract attention of mass society. The only financial result is illustrated by the first tranche of committed capital of GEL 2 million. The group plans to activate the leasing business in 2019 targeting SME clients, to create a platform for various opportunities for development of Georgian small entrepreneurs.

Basis Asset Management Holding - another member of the group counts seven years of existence. The holding serves to hold property for lease and sale. It shows net loss of 47 thousand GEL at the end of the reporting year, due to incurred operating expenses.

Condensed bank standalone and group consolidated income statement

In million GEL	2018		2017		Change of Consolidated Results YoY 2018	
	Bank Standalone	The Group Consolidated	Bank Standalone	The Group Consolidated	Amount	Percent
Net interest income	55.2	55.7	46.0	46.0	9.7	21%
Non-interest income (net)	12.3	13.9	6.9	6.9	6.9	100%
Total net revenues	67.5	69.6	52.9	52.9	16.6	31%
Operating expenses	(25.5)	(25.9)	(19.3)	(19.3)	(6.5)	34%
Pre-impairment operating profit	42.0	43.7	33.7	33.6	10.1	30%
Provision for loan impairment	(1.0)	(1.0)	(2.0)	(2.0)	1.0	N/M
Income(loss) before income taxes	41.1	42.8	31.7	31.6	11.1	37%
Income tax expense (benefit)	(5.2)	(5.5)	(1.7)	(1.7)	(3.7)	N/M
Net Income	35.9	37.3	29.9	29.9	7.4	26%

Financial performance and stable growth of the group's financials strengthened in 2018. Total net revenues driven by the tangible increase in net interest income supported by revenues from non-interest bearing activities reached y/y net growth of GEL 16 million or +31%, that was strengthened with the non-interest income of subsidiaries' totalling 1.6 million GEL.

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

In million GEL				2018 change from 2017		2017 change from 2016	
<i>(unless stated otherwise)</i>	2018	2017	2016	In million GEL	In %	In million GEL	In %
Total interest and similar income	99	79	66	20	26%	13	19%
Total interest expenses	(44)	(33)	(25)	(11)	33%	(8)	30%
Net interest income	55	46	41	9	20%	5	13%
Average interest-earning assets ¹	1,108	918	608	189	21%	310	51%
Average interest-bearing liabilities ²	828	665	462	163	24%	203	44%
Gross interest yield ³	8.9	8.6	10.8		0.4ppt		-2.3ppt
Gross interest rate paid ⁴	5.3	4.9	5.4		0.3ppt		-0.5ppt
Net interest spread ⁵	3.7	3.7	5.4		0.1ppt		-1.8ppt
Net interest margin ⁶	5.0	5.0	6.7		0.0ppt		-1.7ppt

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

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

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

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

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

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

Net interest income and net interest margin. Increasing pool of high quality assets ensured higher interest income in 2018. Net interest income expanded by GEL 9.7 million y/y contributing about 60% to the growth of total net revenues driven primarily by +27% y/y increase on revenues from GLP, largely contributed by loans advanced to Corporate and SME clients (both composing more about 75% of GLP) and significantly increased revenues from retail portfolio with recorded +37% interest income due to sizable growth during 2018 +41% y/y (or net increase of GEL 64 million of retail loan book).

Portfolio yield on GLP remains flat at average 10.4% y/y basis, slightly less than the market average due to higher concentration of corporate and SME clients' loans concentration in GLP amounting to 75% versus market average of 55%, and higher share of secured portfolio in retail lending as represented by mortgage secured loans, composing about 60% of retail loan book. Securities portfolio compose about 15% of earning assets with yielding capacity of 8% and generating 12% of total interest income.

Cost of funds stood at 5.2% slightly above than in the previous year primarily reflecting increased LIBOR for US\$ and increased average costs on Lari resources resulted from higher demand on Lari funding.

NIM was relatively flat though remained under pressure due to increased costs on funding and higher share of low-earning liquid assets which was the result of changes in liquidity coverage ratio introduced by the regulatory authority. Changes in the mandatory reserve requirements increased liquidity costs of FX denominated resources and increased pressure on the Lari interest rates created from the Larization policy having direct impact on NIM.

Still NIM remains wide to support the considerable growth of net revenues y/y and while retaining healthier asset quality and low cost of risk ratio standing at 0.12% as at y/e 2018 (2017: 0.3%), the net interest income after impairment recorded +24% of increase amounting GEL 55 million as at y/e (2017: GEL 44 million).

Net Non-interest Income. Significantly increased net non-interest income which has doubled on y/y basis accounting GEL 6.9 million of net increase, driven by remarkable increase in net operating fees from operations and fees from guarantees and for TFP lines by more than 50%. Net currency gain was significant in generating the net operating revenues by 30% and revenues originated from insurance activities - expended insurance to

clientele contributed 12% to the non-interest income. Non-operating income was further supported by the net gains generated from disposal of non-current assets at premium GEL 2.8 million.

Operating expenses. Expanding activities on the market and attracting more mass consumers requires additional administrative and operating expenses. That led to the total administrative expenses amounting to 25.9 million GEL by the end of 2018 (2017 GEL 19.3 million) giving rise to +34% y/y results. Increased administrative expenses by almost 6.6 million GEL originated from hiring new personal, training existing and newly employed staff, marketing campaigns, operating expenses on running of branch network, and professional fees on consultancy to support various projects, etc. Efficient use of administrative expenses will promote further growth of the company in the following years.

Cost of risk. Increasing pool of high quality earning assets in total GLP ensured higher income and less expenses incurring on cost of risk assets (annualized impairment charges to average gross loans), total net allowances in 2018 amounted GEL 1 million for loans (2017: GEL 1.7 million, under IAS 39). Consequently, the cost of risk ratio on average loan portfolio amounted to 0.11% in 2018 versus 0.3% in 2017, supporting bottom line profitability by consuming the pre-impairment operating profit for the period with 2.2% (2017: 6%). To maintain the assets quality in line with lending growth will be a key in supporting profitable growth.

Income Tax expenses. Income tax expenses as at y/e 2018 was GEL 5.5 million (2017: GEL 1.7 million), including GEL 1 million charges in the recognition and re-measurement of deferred tax liabilities resulting from changes in the Georgian tax reform initiated by the Government, previously adopted by the Parliament of Georgia and postponed for 2018. The difference between y/e 2018 and 2017 reflect shifts in deferred tax liability measurement.

Net results for the year. Net profit of the group reached GEL 37.3 million posting +25% gain over 2017 y/e results and the total comprehensive income of the group including gain/(loss) attributable to the re-measurement effect of revalued premises and securities at their fair value posted directly to capital reached in total GEL 38.3 million.

Bank's stand alone and the group's consolidated financial data (Balance sheet items)

In million GEL	2018		2017		Change of Consolidated results YoY 2018	
	Bank Standalone	The Group Consolidated	Bank Standalone	The Group Consolidated	Amount	In %
Securities	176	176	144	144	32	22%
Gross loan portfolio (GLP)	916	916	774	774	142	18%
thereof:						
Business loans	695	695	617	617	78	13%
Retail loans	221	221	157	157	64	41%
<i>Loan Impairment provision (LIP)</i>	<i>(16)</i>	<i>(16)</i>	<i>(16)</i>	<i>(16)</i>		
LIPR	1.7%	1.7%	2.1%	2.1%		
Net loans	901	901	758	758	143	19%
Total assets	1,436	1,436	1,236	1,232	204	17%
Gross Customer deposits	734	734	682	678	50	7%
thereof:						
Current and Demand Deposits	376	376	386	381	(7)	(2%)
Time deposits	358	358	296	296	57	19%
Borrowings	346	346	270	270	76	28%
Total liabilities	1,188	1,188	1,023	1,018	168	17%
Total equity	248	248	214	213	37	17%

The bank's financial position strengthened in 2018. Its activities resulted into improved position on the market – the bank upgraded its rank from 7th to 6th largest bank in gross lending and stands at 6th and 5th positions on the market by the volume of assets and equity respectively.

Total assets enlarged by GEL 204 million or +17% y/y growth, as a result the total assets amounted to GEL 1.4 billion GEL as at y/e 2018. The growth mainly originated from expansion of loans and securities portfolio. Net loans portfolio growth contributed 70% and securities 16% to the total assets growth.

Gross loan portfolio. GLP increased by GEL 142 million or +18% y/y in 2018 ending the year at GEL 916 million. The bank originally has been oriented on business financing, rather than the retail segment. Basisbank is one of leading banks in business financing on the market with strong loyal customer base gained through long-lasting cooperation with key industry leaders and SME entrepreneurs, real contributors to the real economy. The share of the business segment loans in total portfolio had ranged around 80% before 2018; by the end of 2018 it accounted for 75%. Annual growth of business loans amounted to GEL 78 million or +13% on y/y basis resulting into GEL 695 million portfolio by the y/e 2018. The portfolio is well diversified - the bank actively financed tourism and hotels sector, real estate management and construction, trade, energy 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 sectoral concentration remains low and is broadly stable.

The share of loans to retail sector in GLP was stable and resulted in increased share of 24% at the y/e 2018 up from 20% in 2017. In 2018 the bank referred to additional activities to attract more retail segment clientele. That led to increased awareness in mass society. Retail loans showed quite high growth figures, up by GEL 64 million or +41% on y/y basis; that constituted 45% of total portfolio growth.

In retail business Basisbank strength relays on the quality of service. Basisbank is committed to building long-term relationships with customers, offering tailored, high quality products and services. The key strategy of the bank lays in gaining the bigger part of the market; in 2019 due to newly introduced responsible lending standards it will be challenging to maintain such growth in retail portfolio. Despite challenges, the bank works on new innovative delivery channels in order to continue such pace of growth in consumer loans to further alleviate concentration ratios and increase net margin of the bank's portfolio.

Asset quality and provision for credit losses. The bank succeeds remarkable growth with improved NPL and asset quality. The loan impairment provision ratio declined from 2.1% to 1.7% by the end of 2018. That illustrates better composition of the GLP and additionally, non-performing loans (Stage 3 loans) ratio (net of provision) accounted for 2.8% in 2018 compared to 4.3% in 2017.

Provision for credit losses was GEL 15.6 million as at y/e 2018, a decrease of GEL 0.7 million as compared to y/e 2017 due to improved quality of assets as compared to y/e 2017 and impact of transition to IFRS 9 standards as at 1 January 2018 (net results of changes amounted GEL 0.9 million), resulted in decreased allowances on GLP versus IAS 39.

Changes in total liabilities. Increase in liabilities was significant +17% on y/y basis, the growth mainly falls on term loans from IFIs which contributed by tangible 45% in total growth amounting to GEL 76 million of net increase over y/e 2017 results; customer funding increased by additional GEL 50 million contributing 30% growth of total liabilities and the rest falls on local internal borrowings from banks partially secured by the securities portfolio of GEL 29 million drawn under refinancing instrument of the National bank of Georgia (NBG).

Customer Deposits. The primary funding base of the bank is customers' deposits amounting GEL 727 million and constituting more than 60% of total funding. On y/y basis the deposits portfolio has grown by 7% or additional GEL 50 million versus y/e 2017. The main driver of this growth was increase in deposits of individuals by 30% y/y, the exposure of legal entities and state & public deposits that remained flat at GEL 297 million and GEL 164 million each, as at year end the portfolio consisted of 63% of corporate deposits, down from 70% of y/e 2017. Of this, 23% was funded from state related companies (or 75% of capital) and 11% of corporate deposits is placed by the related party deposits, down from 21% at y/e 2017, mainly due to scheduled utilisation of balances of related party legal entities directed to finance scheduled projects.

Other funding. The major source of other financing constitutes term loans from international financial institutions with GEL 346 million and interbank borrowing supporting GEL 100 million of total funding in 2018. The group financed its increased activities on the market by attracting additional funds from various international organizations. Borrowings increased 28% y/y and it compensated 37% of total asset growth from funding side.

During 2018, the bank continued stable relations with international financing organizations and additionally, connected to some new international financial institutions. Among the bank's long-standing partners, International finance Corporation (IFC), Blue Orchard, Asian Development Fund (ADB), European Bank for Reconstruction and Development (EBRD), Bank of Urumqi, the OPEC Fund for International Development and others allocated about 180 million GEL resources to the bank. The bank attracted about 47 million GEL from new partners, like Global Climate Partnership Fund (ResponsAbility), Green for Growth Fund (Finance-in-Motion) and European Finance Association (EFA).

Basisbank promotes local business development; helps implement energy-efficient practices and 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 signed a new project with EBRD, ResponsAbility and others to facilitate micro and SME businesses.

Trade agreements with large economic partners such as China and EU reveals new opportunities for local companies to develop. In addition, favourable and business-friendly policy initiated by the government, increasing supportive environment from the international donors (to comply with new standards and regulations), suitable location and other encouraging conditions should lead to better business environment which will support Basisbank to grow with diversified lending and investments opportunities.

Changes in equity. The equity increased by GEL 36 million y/y contributing to tangible equity by GEL 34.5 million, and GEL 1.5 million to other reserves. As at year end IFRS equity of the group stood at GEL 250 million, up from GEL 213 in 2017. The capital has consisted of GEL 240 million of tangible equity forming tier 1 capital instruments (including common stock and accumulated retained earnings, and share based instruments) and GEL 9 million of other reserves. Total equity in 2018 increased by 17% y/y with net increase in retained earnings from the profit of the year partly offset by the dividends paid in 2018 at 10% of profit for year 2017.

FUNDING AND LIQUIDITY

The bank maintained its stable funding and high liquidity base by raising funding from local customers as well as international partners. The funding profile is quite diversified, the significant part falls on current and demand customer funds which reduce the pricing pressure, but in 2018 the bank has increased its funding base from term borrowings supporting the cash flow gaps and liquidity positions.

Funding	2018	2017
Loans/Deposits	126%	114%
Liquid Assets/ Total liabilities	40%	42%
Liquid Assets/ Total assets	33%	35%

As at end of 2018 the bank has maintained the liquid assets at 33% of total assets and the liquidity coverage ratio was at tangible 171% (142% as at 2017). The liquidity reserve includes cash and cash equivalent, high liquid assets, unencumbered assets eligible for repo transactions and committed lines from banks.

The bank maintains liquidity Coverage Ratio (LCR) for short-term liquidity risk management purposes under Basel III, requiring bank to maintain 100% of liquidity coverage for 30 days expected cash outflows. The volume of liquid assets is a result of our daily liquidity stress results in aggregate and on individual currency level. As at end of 2018 the following was the liquidity position of the bank on 30 days cash flow outflows:

Liquidity Requirements - In million GEL	2018	2017
High quality liquid assets	385	364
Gross inflows	9	7
Gross outflows	234	264
Net outflows	225	257
LCR ratio in %	171%	142%

CAPITAL ADEQUACY AND REGULATORY COMPLIANCE

The capitalization of the Bank remains strong at 18.1% as at y/e 2018 versus 19% of y/e 2017. The capital requirement is calculated based on the new “Regulation on Capital Adequacy Requirements for Commercial Banks” of NBG, which became effective on 31 December 2017. The principles of the regulation are based on capital framework established by the Basel Committee on Banking Supervision under Basel 3 and directives and regulations of European Union N 575/2013 approved on 26 June 2013.

The Minimum Capital requirements are defined under two pillars: Pillar 1 sets minimum requirements for regulatory capital, while Pillar 2 covers Supervisory Review Process, formalized in the 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 2018 and 2017

In million GEL	2018	2017
Risk Weighted Assets for Credit Risk	1,125.1	903.9
<i>Thereof:</i>		
Balance sheet items	1,032.5	849.8
Off-balance sheet items	92.6	54.1
Risk Weighted Assets for Market Risk	1.7	0.7
Risk Weighted Assets for Operational Risk	101.0	75.6
Total Risk Weighted Assets	1,227.8	980.3

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 the requirements comprising three components:

- The capital conservation buffer is defined as 2.5% of risk-weighted assets, and is designed to provide for losses in the event of stress;
- The countercyclical capital buffer - was introduced within the Basel III framework and represents one of the main macro-prudential policy instruments. Its goal is to limit excessive credit growth that leads to the build-up of systemic risks. In determining the countercyclical capital buffer, an analysis of a number of factors is taken into account, including the credit-to-GDP ratio and indicators describing its deviation from the long-run trend; trends in lending; other indicators and characteristics of the country's macro-financial environment, etc. As of the year end of 2018 and 2017 countercyclical capital buffer was set at 0% by NBG;
- Systemic buffers - are set separately for each commercial bank considered to be systematically important, it is not relevant for Basisbank and is set at 0% at the year end of 2018 and 2017.

Pillar 2 – refers to the Supervisory Review and Evaluation Process within which the NBG reviews the arrangement, strategies, process and mechanisms implemented by banks and evaluates adequacy of these measures in relation to the risks to which the institution might be exposed. In addition to the minimum capital requirements defined under pillar 1, the banks should hold 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, etc.)

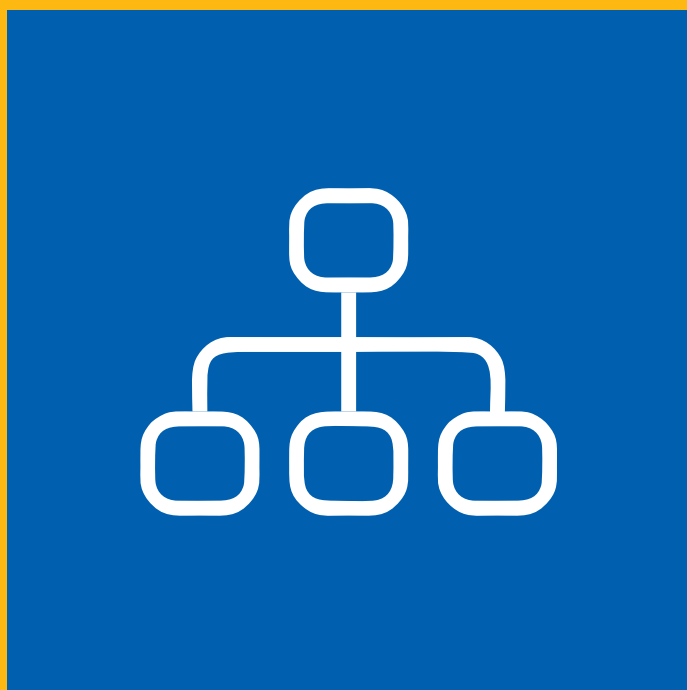
- Unhedged currency induced credit risk buffer;
- Credit portfolio concentration buffer, which entails name and sectoral concentration buffers;
- Net stress test buffer, set in accordance with stress tests administered by the NBG;
- Net GRAPE buffer, set in accordance with the NBG's General Risk Assessment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

Capital Adequacy

In million GEL	2018	2017
Tier 1 Capital	207.9	175.6
Tier 2 Capital	14.1	11.4
Total Capital	222.0	187.0
Risk weighted assets	1,227.8	980.3
Total CAR	18.1%	19.1%
Tier 1 Ratio >	16.9%	17.9%



RISK PROFILE AND RISK MANAGEMENT GOVERNANCE FRAMEWORK



RISK PROFILE AND RISK MANAGEMENT GOVERNANCE FRAMEWORK

Risk Management Framework

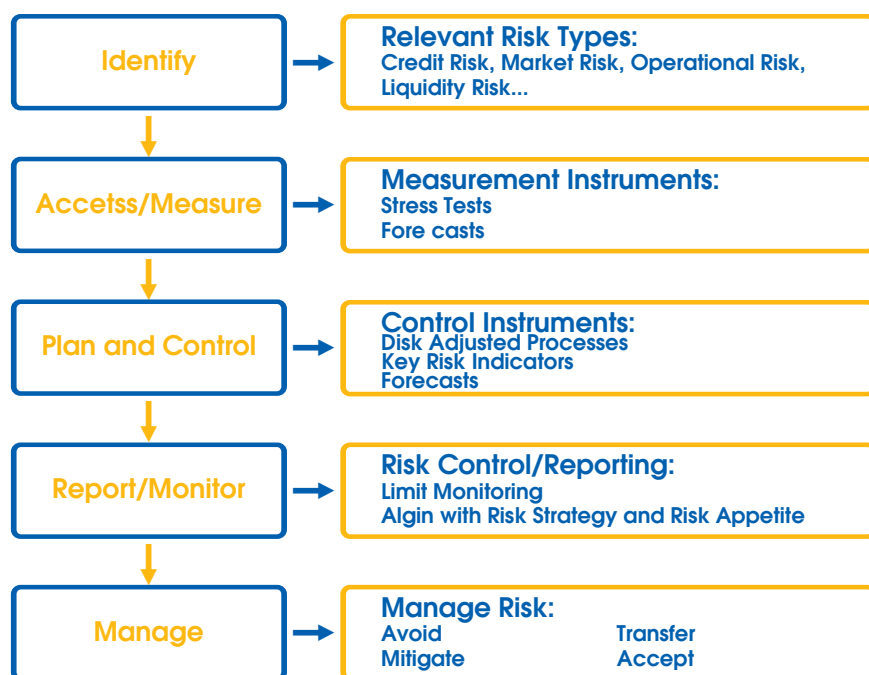
The group's strategy is oriented on diversifying its business model and developing on the market by reinforcing our operational capacity and our competitive position. The goal of our strategic measures is to make the Bank a stronger player on the market by gaining sizeable market share, through its increased presence across country, armed with strong client franchise and healthy capital structure.

Holding adequate level of capital has to be ensured mandatorily over any time of the operation of the Bank, setting up a risk strategy and planning the capital adequacy as part of the general strategic planning is crucial part of the governance of the institutions.

Risk strategy of the Group is derived from the business strategy and is based on the Group's Risk Appetite, Strategic and Capital Plans in order to align risk, capital and performance targets. 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.

Risk and capital are managed via a framework of principles, organizational structures and measurement and monitoring processes that are closely aligned with the activities of the divisions and business units. An integrated control framework supported by formal policies and procedures, clearly delegated authority levels and comprehensive reporting system are all essential components of the group's Risk Management.

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.



The group sets principles about risk taking and risk management which are reflected in the rules and policies, and applied consistently throughout the organization. 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,
- adopting and fulfilling of all the regulatory requirements and guidelines available, as well as using best practices via ensuring compliance with international standards,
- operating effective risk governance with having proper risk control structure independent from business activities in order to avoid conflict of interest,
- observation of risk management considerations upon the launch of new activities, business lines or products.

Risk Governance

The Group has developed a risk management framework with the aim to create an image of a stable and reliable financial institution. 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.

Given the volatility of financial markets, and uncertainty of macro-economic situation, the function of Risk Management receives paramount importance.

Risk governance structure within Basisbank

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 properly supported by effective risk infrastructure;
- To manage risk profile so that financial soundness remains stable under a range of adverse business conditions.

The Bank's robust and sound risk management system includes:

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

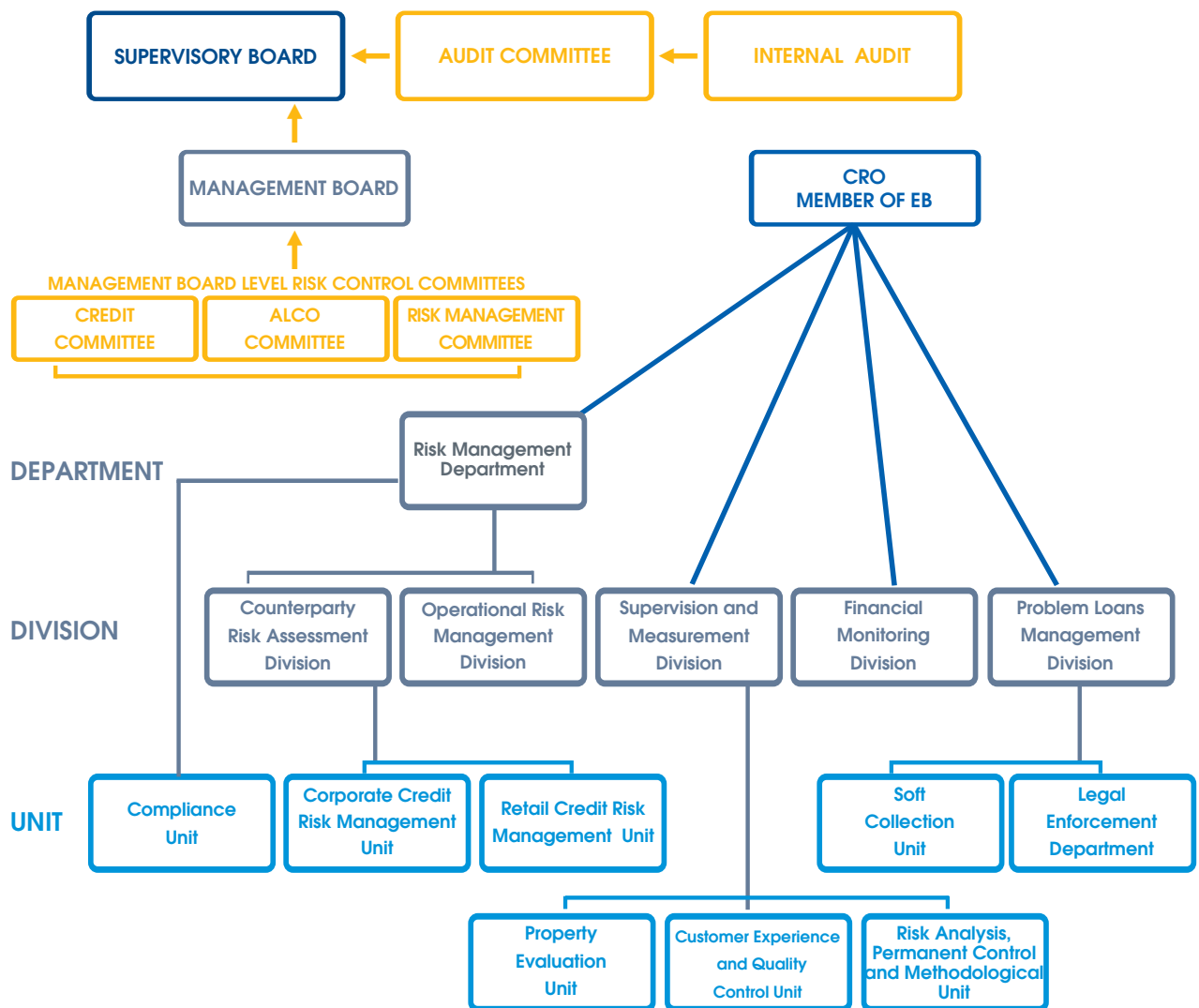
At Management board level, the bank has formed an Independent Risk Management unit, and risk-profile committees in credit, risk management, assets & liabilities management to ensure sound risk management practices and decision making process;

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.



Risk Governance Structure in the Bank ensures effective segregation of duties from the senior management through managerial units to the front line personnel.

The Supervisory Board and the Management Board have a sound understanding of risk management importance in sustainable development of the bank and the group.

Supervisory Board is setting “the tone on the top” by establishing and fostering a high ethical and responsible culture within the bank. The Board approves and exercises control over the implementation of strategy and budget, sets general approach to the risk management by approving individual risk strategies.

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.

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

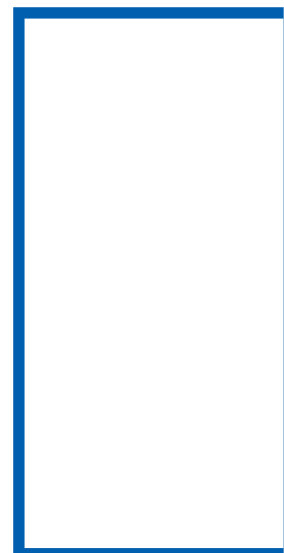
departmental level, regular reviews of the bank's strategy and risk and capital limits to ensure compliance with exposure and capital limits; follow-up on non-compliance to ensure that management at an appropriate level is aware of the transaction or situation and to establish accountability; requiring 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.

Risk Management 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 policies and 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.

ALCO Committee Reviews current and prospective liquidity positions and monitors alternative funding sources; reviews maturity/re-pricing schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing; develops parameters for the pricing and maturity distributions of deposits, loans and investments; develops alternative strategies which take into account changes in interest rate levels and



trends, deposit and loan products and related market/banking regulations, etc.; performs an independent review of the validation and reasonableness of the inputs, assumptions, and output of the ALM model(s) and procedures; approves limit structure on counterparty risk.

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

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

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

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. Basisbank aims to stabilize and increase its current long term rating “B+” with conscious portfolio and risk monitoring in line with the business strategy. Fitch has affirmed Long Term Issuer Default Rating (IDR) “B+” in 2018 to reflect the Bank's so far reasonable asset quality and a solid capital cushion.

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

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

Key Risk Types / Identification and Assessment

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

Credit risk. The Bank's credit strategy is to create diversified and profitable loan portfolio while maintaining maximum quality.

Credit risk is obviously the most important type of risk for banks and banks' supervisory authorities. Management of Credit Risk in the bank includes different activities embedded in the daily activities.

Establishment of an appropriate credit risk management environment. Credit Policy and Credit Manual are related to target markets, portfolio mix, price and non-price terms, the structure of limits, approval authorities and processing of exception and reporting. Credit Policy of the Bank contains the limit system defined by the Bank for the control of concentration risks, exposure risks, sector exposure, etc.

Sound credit-granting process. In Basisbank this involves the consideration of a number of elements 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. The scoring is used in the credit approval process and primarily for pricing purposes. Corporate and Retail Credit Risk Management Departments (under Risk Management Division) take part in credit risk assessment of the client. Pricing of each loan is risk-adjusted, based on the scoring of the client and riskiness of the product.

Maintenance of appropriate credit administration, measurement and monitoring processes. This 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. It also 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.

Provision assessment. Starting from 1 January 2018, new provisioning methodology in line with IFRS 9 requirements became effective. 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. The new methodology 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. New 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.

Basisbank carried out IFRS 9 implementation with the involvement of internal Financial Reporting and Risk Divisions and together with Deloitte & Touche LLC consultancy team. The implementation of specific processes and business controls included, among others, changing existing and establishing new business processes to support ECL assessment process. Governance over the Expected Credit Loss (ECL) calculation process is shared between Financial Reporting and Risk functions. Validation and back-testing of all applied parameters has become an inherent part of ECL assessment process. The Bank has performed back-testing of forecasts for financial year 2018 as estimated by the new impairment models at January 1, 2018.

The impact of implementation of new standards has resulted in insignificant positive impact on IFRS equity as at 1 January 2018 with amount of GEL 237 thousand, and after tax impact amounting to GEL 202 thousand.

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

- Residual risk. To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. Legal Department regularly (at least yearly) reviews the collateral contract template and modifies if necessary, based on new regulation environment or experiences on the execution of collaterals.

Minimum collateral coverage (maximum amount of unsecured portfolio) using discounted values is defined for each customer types under the Credit Policy.

- Stress testing. The bank performs regular stress tests to monitor impact on regulatory capital buffer of adverse macroeconomic as well as bank specific events on various levels of aggregation. Stress tests amongst others cover events of broad economic crises with recession, impact of currency movements, decrease in employment levels, sector specific stress tests, closing of export markets (political risks), and default of several large exposures. No additional provision has been created in financial year 2018 for credit losses based on the results of regulatory stress testing.

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. Obtaining financing abroad poses mismatch in respect to currency. Offering loans in foreign currency to match funding, or using hedging possibilities like currency swaps and forwards can be viewed as most used methods of hedging forex risk.

Senior management's oversight 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. Effective oversight of market risk requires that the bank maintains a comprehensive interest rate risk reporting and management review process, as well as effective internal controls, sets appropriate limits on risk taking, establishes adequate systems and standards for measuring risk and performance, valuing position, repricing maturity gap.

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

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

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

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

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

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

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

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

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

Financial Monitoring Department on the other hand enhances compliance to regulatory requirements via creating operational framework for regulations imposed by the Financial Monitoring Service of Georgia (FMS),

with the main objective of preventing illicit income legalization and terrorism financing.

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

Governance, Systems and Control Risks: assessment of Corporate Governance structure, internal key risk governance systems and control functions.

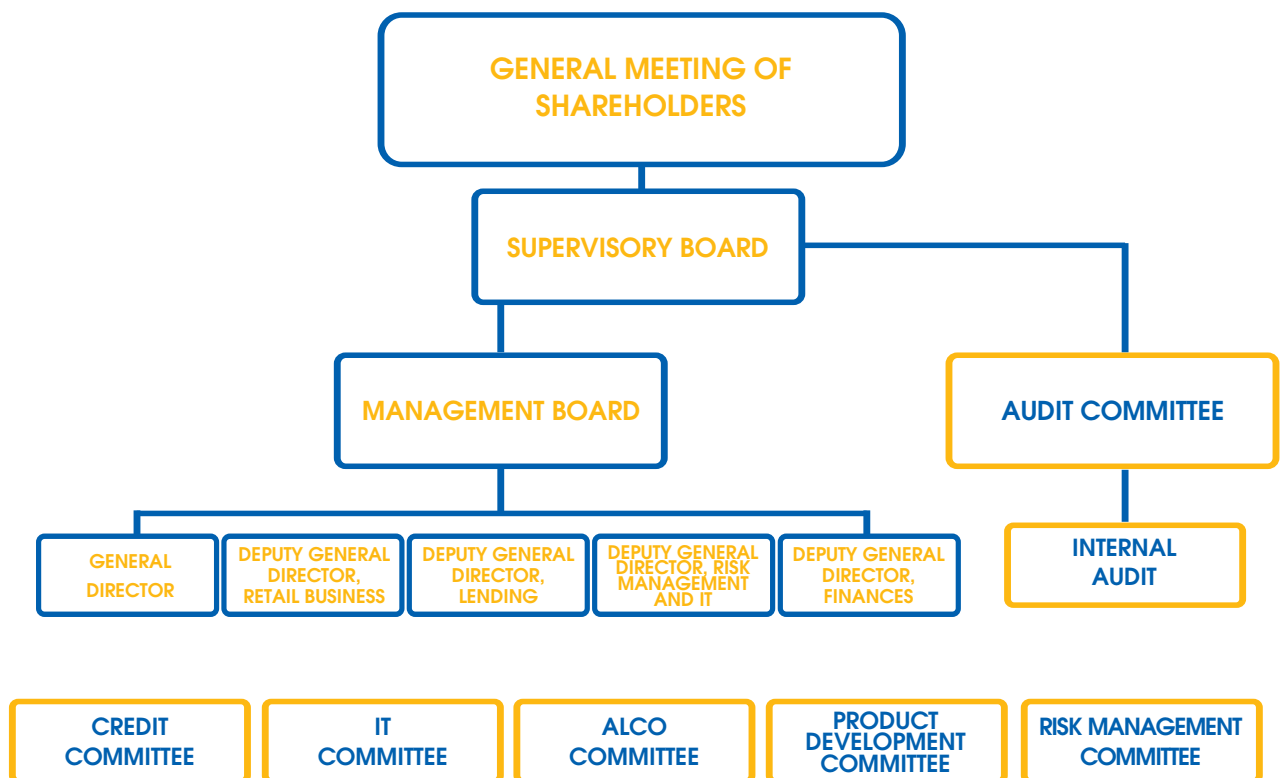
Reputation Risk may originate in the lack of compliance with industry service standards, failure to deliver on commitments, lack of customer-friendly service and fair market practices, low or inferior service quality, unreasonably high costs, a service style that does not harmonize with market circumstances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

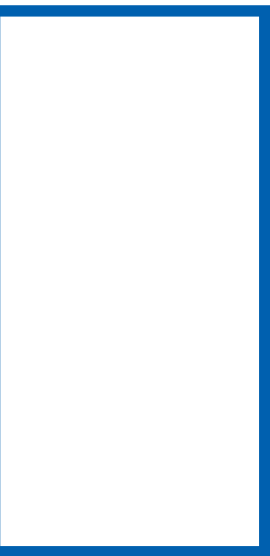
CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE





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

One of the guiding principles of Basisbank's Corporate Governance is the clear separation of the functions of the shareholder, the Supervisory Board and the Management Board.

The shareholder exercises its rights and responsibilities through the General Meeting. The General Meeting of Shareholders is the supreme governing body of the bank, which makes decisions on the most important issues. The General Meeting approves the bank's charter, makes decisions on issuance of shares, distribution and usage of earnings, on changes in the bank's capital; establishment of the Supervisory Board and appointment and dismissal of its members.

Supervisory Board

The Supervisory Board (the Board) is the body supervising the Group's activities, exercising its functions through the Board Meeting and Board-level Committees.

The Board appoints and works closely with the Management Board, supervises and advises on important issues and is directly involved in fundamental decisions.

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

long-term succession plan. The Board is responsible to oversee transactions with related parties and ensure existence of effective procedures and policies within the group in line with the requirements of law and regulatory framework.

The Board Members

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

In line with new Corporate Governance Code for Commercial Banks adopted in 2018 by National Bank of Georgia, Basisbank planned and executed several actions to meet new regulatory requirements and reflect emerging best practices, inter alia: appointment of independent members in the Supervisory Board, implementation of the Whistle-Blowing System, etc.

The composition of the governance and management of the bank went through some changes in 2018, to reflect the requirements of the Law of Georgia on the Activities of Commercial Banks. Mr. David Tsaava and Ms. Li Hui, the members of the Supervisory Board, who were also on the Management Board, left their Supervisory Board positions and were replaced by Mr. Zaza Robakidze and Ms. Mia Mi.

According to the other requirement of the same law, at least two independent members should be presented on the Supervisory Board and should constitute the majority of the Audit Committee of a commercial bank.

The Supervisory Board has five members, two of which are independent members. The members were elected through the Annual General Meeting of Shareholders.

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

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

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



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

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 JSC 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

Member of the Supervisory Board

Holding a Master's Degree in Economics, Mr. Robakidze has an extensive expertise in the banking field of over 24 years. Chairman of Audit Committee since 2012 and a Member of Supervisory Board since 2018. Starting his career as a chief specialist at Financial Supervision agency, Zaza Robakidze continued at various positions at the National of Bank of Georgia, from Economist to Head of Supervision Department.



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

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

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

- Ensuring the adequacy and efficiency of the functions of the bank's internal and external auditors; within that, setting of the scale and scope of the internal audit;
- Ensuring that the Management Board takes necessary steps to correct the identified control weaknesses, in 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.
-

Importantly, in 2018 the functions of the Audit Committee included the functioning of the Whistle Blowing System. Through the whistle blowing system, the Committee and the Supervisory Board will be able to be better informed both internally and from external stakeholders and control possible unethical or illegal actions.

Three members of the Supervisory Board are present in the Audit Committee, two of which are independent.

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

Risk Management Committee. Currently, Risk Management oversight of the Board is performed through the Audit Committee. In order to intensify the risk management and increase effectiveness of control function, the Board has made a decision to establish the risk management committee at the Board level. The tasks will be transformed from the audit committee and set separately. The Committee will be staffed by the three members of the Board, two of which should be independent members. Through the Risk Management Committee, the Board will be involved and will oversee issues such as: risk management culture and its execution in the bank, availability of effective risk management framework, strategy and policies, control of their execution by the management board; compliance of capital and liquidity management strategies/other types of risks including credit, market, operational and reputational risks with risk appetite of the bank; effective solution and elimination of identified material risks and weaknesses, etc.

Novelties Planned for 2019. In 2018, the National Bank of Georgia adopted the Corporate Governance Code for Commercial Banks (CG Code); until this, Basisbank was a signatory to the Corporate Governance Code for Commercial Banks published by the Banking Association of Georgia in 2009, which followed the corporate governance standards of the Basel Committee.

In order to meet new requirements laid down in CG Code adopted by the NBG and reflect emerging best practices, in 2019, the Group plans to:

- Set up at the Board level Risk Management Committee;
- Develop self-assessment and evaluation procedures and system for Supervisory Board members;
- Review and update upon necessity the Risk Management Policies, so that the Risk Management Framework is in compliance with current challenges as well as regulatory changes.
- Adopt new policies/procedures to re-regulate remuneration principles of senior management as well as employees identified as material risk takers; amend corporate governance and corporate ethics regulations - set duties and activities of supervisory board level risk management committee; incorporate Basisbank

environmental and social risk management policy requirements into the risk management frame of the Bank, etc.

- Support the Supervisory Board as well as Management Board members' trainings and further education measures, required for their tasks.
- Compliance policy, program and manual will be approved and available for respective stakeholders.

Management Board

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

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

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

Management Board consists of General Director and his Deputies, in charge of their respective areas.





David Tsaava

General Director

Member of Management Board since 2008. Member of Supervisory Board 2015-2018. Holds PhD in Business administration.

Mr. Tsaava has 14 years of experience in banking. David Tsaava started his career as a loan officer, later he headed the Corporate Lending Division. In 2010 Mr. Tsaava was promoted to General Director Position. In 2015 he became a member of the Supervisory Board.

Since December 2017 David Tsaava has been serving as Supervisory Board member of JSC "BHL Leasing" and JSC "Hualing Insurance".



Lia Aslanikashvili

Deputy General Director, Finance

Member of Management Board since 2008. Ms Aslanikashvili holds Master's degree in International Economic Relations from Tbilisi State University. With 19 years of experience in banking, she managed treasury and settlement departments for many years at BasicBank. Since December 2017 Ms. Aslanikashvili has been serving as General Director of JSC "BHL Leasing" and Deputy General Director of JSC "Hualing Insurance".



Li Hui

Deputy General Director Lending

Member of the Supervisory Board 2012-2018. Holds Bachelor's Degree in Accounting. Ms. Li has been working in the financial sector since 1993, successively as an accountant, a loan officer. She has a wealth of work and management experience and is very familiar with banking business. She was in charge of loan approval in Credit Management Department of Urumqi City Commercial Bank. Then she held the position of Deputy Manager of Credit Department and Deputy Director in Urumqi Chengxin Credit Cooperatives. Ms. Li joined Management Board of Basisbank in 2015. She supervises the approval of large-scale loans at Basisbank.

David Kakabadze

Deputy General Director, Risk Management and IT

Member of Management Board since 2008. Holds Master's degree in Finance from Caucasus Business School. With 15 years of experience in banking, David Kakabadze worked in Information Technologies and Risk Management. Since December 2017 Mr. Kakabadze has been serving as a Deputy General Director of JSC "BHL Leasing" and General Director of JSC "Hualing Insurance".



Levan Gadrapkhadze

Deputy General Director, Retail Business

Member of Management Board since 2008. Holds Master's degree in business management and has 16 years of experience in banking. He worked for the plastic cards and foreign exchange departments on various positions. Since December 2017 Levan Gardapkhadze has been serving as a Deputy General Director of JSC "BHL Leasing" and JSC "Hualing Insurance".

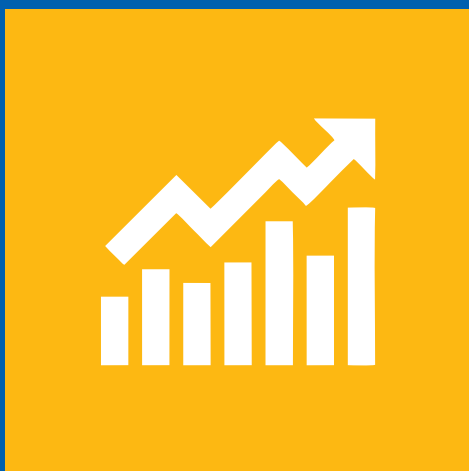
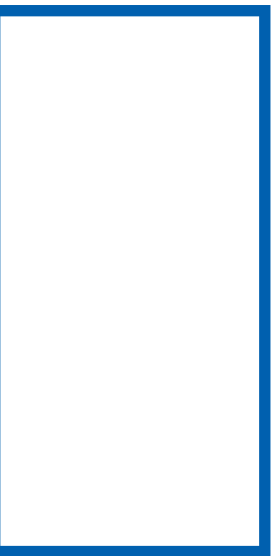


Conflict of Interests

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

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

CONSOLIDATED AND SEPARATE AUDITED FINANCIAL STATEMENTS





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

31 December 2018

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Independent Auditor's Report

To the Shareholders and Management of JSC BasisBank

Our opinion

In our opinion, the consolidated and separate financial statements (the 'financial statements') present fairly, in all material respects, the consolidated and separate financial position of JSC BasisBank (the "Bank") and its subsidiaries (together - the 'Group') as at 31 December 2018, 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 and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2018;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include summary of significant accounting policies.

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 Financial Statements* section of our report.

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

Independence

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

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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



If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Based on the work performed in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained



up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

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

21 March 2019, except for Reporting on other information, for which the date of our report is 14 May 2019
Tbilisi, Georgia

BasisBank Group
Consolidated and Separate Statements of Financial Position

<i>In thousands of Georgian Lari</i>	Note	31 December 2018		31 December 2017	
		Bank Separate	Consolidated	Bank Separate	Consolidated
ASSETS					
Cash and cash equivalents	7	130,272	132,500	139,577	139,577
Mandatory cash balances with the NBG	8	170,443	170,443	130,824	130,824
Due from other banks	9	-	-	15,094	15,094
Investments in debt securities	10	175,690	175,690	-	-
Investments in equity securities	11	63	63	-	-
Investment in subsidiaries	41	10,096	-	8,097	-
Loans and advances to customers	12	900,803	900,803	757,874	757,874
Available-for-sale investment securities	13	-	-	63	63
Bonds carried at amortized cost	14	-	-	143,903	143,903
Investment properties	15	1,037	1,572	400	1,078
Current income tax prepayment	32	-	5	183	217
Insurance and other financial assets	16	809	5,066	1,429	1,429
Other assets	17	15,031	17,449	14,019	16,857
Intangible assets	18	1,364	1,382	861	861
Premises and equipment	18	26,421	26,457	21,888	21,894
Non-current assets held for sale	19	4,016	4,360	1,928	1,928
TOTAL ASSETS		1,436,045	1,435,790	1,236,140	1,231,599
LIABILITIES					
Due to other banks	20	100,196	100,196	59,982	59,982
Customer accounts	21	734,262	727,421	682,318	677,820
Other borrowed funds	22	345,782	345,782	270,280	270,280
Insurance and other financial liabilities	23	1,822	6,353	7,674	7,674
Current income tax liability	32	1,374	1,647	-	-
Deferred income tax liability	32	1,664	1,671	152	152
Provisions for liabilities and charges	37	374	374	346	346
Other liabilities	24	2,410	2,812	1,854	1,854
TOTAL LIABILITIES		1,187,884	1,186,256	1,022,606	1,018,108
EQUITY					
Share capital	25	16,057	16,057	16,057	16,057
Share premium		74,923	74,923	74,923	74,923
Retained earnings		146,558	147,931	113,316	113,273
Share based payment reserve	26	1,339	1,339	851	851
Revaluation reserve for premises		9,284	9,284	8,233	8,233
Revaluation reserve available-for-sale securities				154	154
TOTAL EQUITY		248,161	249,534	213,534	213,491
TOTAL LIABILITIES AND EQUITY		1,436,045	1,435,790	1,236,140	1,231,599

Approved for issue and signed on 21 March 2019.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

<i>In thousands of Georgian Lari</i>	Note	31 December 2018		31 December 2017	
		Bank Separate	Consolidated	Bank Separate	Consolidated
Interest income calculated using the effective interest method	28	98,708	98,803	78,628	78,628
Interest and similar expense	28	(43,509)	(43,085)	(32,641)	(32,622)
Net margin on interest and similar income		55,199	55,718	45,987	46,006
Credit loss allowance		(966)	(966)	(1,976)	(1,976)
Net margin on interest and similar income after credit loss allowance		54,233	54,752	44,011	44,030
Fee and commission income	29	6,695	6,630	5,007	4,973
Fee and commission expense	29	(2,490)	(2,490)	(2,238)	(2,238)
Net insurance revenue		-	1,883	-	-
Net insurance claims incurred		-	(281)	-	-
Gains less losses from financial derivatives		-	-	(184)	(184)
Gains less losses from trading in foreign currencies		4,467	4,467	4,114	4,114
Foreign exchange translation gains less losses		(283)	(283)	(229)	(229)
Provision for credit related commitments		206	206	(198)	(198)
Other operating income	30	3,712	3,739	676	696
Administrative and other operating expenses	31	(25,470)	(25,858)	(19,278)	(19,333)
Profit before tax		41,070	42,765	31,681	31,631
Income tax expense	32	(5,195)	(5,473)	(1,742)	(1,742)
PROFIT FOR THE YEAR		35,875	37,292	29,939	29,889
Other comprehensive income / (loss):					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Available-for-sale investments:					
- Gains less losses arising during the year	13	-	-	(85)	(85)
<i>Items that will not be reclassified to profit or loss:</i>					
Revaluation of premises and equipment	18	1,052	1,052	-	-
Other comprehensive income / (loss) for the year		1,052	1,052	(85)	(85)
Total comprehensive income for the year		36,927	38,344	29,854	29,804

BasisBank Group
Consolidated Statement of Changes in Equity

<i>In thousands of Georgian Lari</i>	No- te	Share capital	Share premium	Share based paym- ents reserve	Reva- luation reserve for AFS secur- ities	Reva- luation reserve for premises	Retained earnings	Total equity
Balance at 31 December 2016		16,057	74,923	388	239	8,233	85,929	185,769
Profit for the year		-	-	-	-	-	29,889	29,889
Other comprehensive income	27	-	-	-	(85)	-	-	(85)
Total comprehensive income for 2017		-	-	-	(85)	-	29,889	29,804
Share Based Payment accruals	26	-	-	463	-	-	-	463
Dividends declared	33	-	-	-	-	-	(2,545)	(2,545)
Balance at 31 December 2017		16,057	74,923	851	154	8,233	113,273	213,491
Adoption of IFRS 9:	5	-	-	-	-	-	202	202
– remeasurement for expected credit losses, net of tax								
– other effects	5				(154)		154	-
Restated balance at 1 January 2018		16,057	74,923	851	-	8,233	113,629	213,693
Profit for the year		-	-	-	-	-	37,292	37,292
Other comprehensive income	27	-	-	-	-	1,052	-	1,052
Total comprehensive income for 2018		-	-	-	-	1,052	37,292	38,344
Share Based Payment accruals	26	-	-	488	-	-	-	488
Dividends declared	33	-	-	-	-	-	(2,989)	(2,989)
Balance at 31 December 2018		16,057	74,923	1,339	-	9,284	147,931	249,534

The notes set out on pages 7 to 106 form an integral part of these consolidated and separate financial statements.

BasisBank Group
Separate Statement of Changes in Equity

		Share capital	Share premium	Share based paym- ents reserve	Reva- luation reserve for AFS secur- ities	Reva- luation reserve for pre- mises	Retained earnings	Total equity
<i>In thousands of Georgian Lari</i>	No- te							
Balance at 31 December 2016		16,057	74,923	388	239	8,233	85,924	185,764
Profit for the year		-	-	-	-	-	29,939	29,939
Other comprehensive income	27	-	-	-	(85)	-	-	(85)
Total comprehensive income for 2017		-	-	-	(85)	-	29,939	29,854
Share Based Payment accruals	26	-	-	463	-	-	-	463
Dividends declared	33	-	-	-	-	-	(2,545)	(2,545)
Balance at 31 December 2017		16,057	74,923	851	154	8,233	113,316	213,534
Adoption of IFRS 9:								
– remeasurement for expected credit losses, net of tax	5	-	-	-	-	-	202	202
– other effects	5				(154)		154	-
Restated balance at 1 January 2018		16,057	74,923	851	-	8,233	113,672	213,736
Profit for the year		-	-	-	-	-	35,875	35,875
Other comprehensive income	27	-	-	-	-	1,052	-	1,052
Total comprehensive income for 2018		-	-	-	-	1,052	35,875	36,927
Share Based Payment accruals	26	-	-	488	-	-	-	488
Dividends declared	33	-	-	-	-	-	(2,989)	(2,989)
Balance at 31 December 2018		16,057	74,923	1,339	-	9,284	146,558	248,161

The notes set out on pages 7 to 106 form an integral part of these consolidated and separate financial statements.

		31 December 2018		31 December 2017	
<i>In thousands of Georgian Lari</i>	Note	Bank Separate	Consolidated	Bank Separate	Consolidated
Cash flows from operating activities					
Interest income received		93,462	93,557	74,545	74,545
Interest paid		(42,129)	(41,705)	(33,527)	(33,508)
Fees and commissions received		6,695	6,630	5,007	4,973
Fees and commissions paid		(2,490)	(2,490)	(2,238)	(2,238)
Settlements from financial derivatives		-	-	(184)	(184)
Income received from trading in foreign currencies		4,467	4,467	4,287	4,287
Other operating income received		3,712	5,341	676	696
Proceeds from disposal of foreclosed properties		6,543	6,543	1,614	1,614
Staff costs paid		(13,818)	(14,144)	(11,013)	(11,014)
Administrative and other operating expenses paid		(8,963)	(9,044)	(7,046)	(7,114)
Income tax paid		(2,343)	(2,343)	(3,705)	(3,675)
Cash flows from operating activities before changes in operating assets and liabilities		45,136	46,812	28,416	28,382
<i>Net (increase)/decrease in:-</i>					
- due from other banks		(20,780)	(20,779)	(35,398)	(35,394)
- loans and advances to customers		(134,031)	(134,375)	(187,244)	(187,167)
- other financial assets		(26,374)	(30,631)	(13,079)	(13,080)
- other assets		(843)	(422)	(1,733)	(1,775)
<i>Net increase/(decrease) in:</i>					
- due to other banks		18,003	18,003	5,876	5,874
- customer accounts		40,110	37,767	118,240	113,929
- other financial liabilities		(6,003)	(1,472)	5,481	5,481
- other liabilities		19,827	20,258	(46)	(46)
Net cash used in operating activities		(64,955)	(64,839)	(79,487)	(83,796)
Cash flows from investing activities					
Injection of cash in subsidiary		(2,000)	-	(4,300)	-
Acquisition of premises and equipment	18	(5,164)	(5,195)	(2,034)	(2,039)
Acquisition of investment properties	15	(637)	(494)	-	-
Proceeds from disposal of investment properties		-	-	65	79
Acquisition of intangible assets	18	(742)	(760)	(490)	(490)
Proceeds from disposal of intangible assets	18	15	33	43	43
Net cash used in investing activities		(8,528)	(6,416)	(6,716)	(2,407)
Cash flows from financing activities					
Proceeds from other borrowed funds	34	262,622	262,622	678,868	678,868
Repayment of other borrowed funds	34	(195,944)	(195,944)	(530,118)	(530,118)
Dividends paid	33	(2,989)	(2,989)	(2,545)	(2,545)
Net cash from financing activities		63,689	63,689	146,205	146,205

<i>In thousands of Georgian Lari</i>	Note	31 December 2018		31 December 2017	
		Bank Separate	Consolidated	Bank Separate	Consolidated
Effect of exchange rate changes on cash and cash equivalents		489	489	5,889	5,889
Net increase/(decrease) in cash and cash equivalents		(9,305)	(7,077)	65,891	65,891
Cash and cash equivalents at the beginning of the year		139,577	139,577	73,686	73,686
Cash and cash equivalents at the end of the year	7	130,272	132,500	139,577	139,577

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****1 Introduction**

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for JSC Basisbank (the “Bank”) and its subsidiaries (together the “Group”).

The Bank was incorporated and is domiciled in Georgia. Registering body is 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 2018 and 2017 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.

Shareholders	% of ownership interest held as at 31 December	
	2018	2017
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 the Georgian law on “Deposits insurance system” dated 17 May 2017. The Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to GEL 5,000 per individual on occurrence of an insurance case - the liquidation, insolvency or bankruptcy process in accordance with the law of Georgia on Commercial Banks.

The Bank has 22 (2017: 22) branches in Georgia. The Group had 463 employees at 31 December 2018 (2017: 399 employees).

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

Presentation currency. These consolidated financial statements are presented in thousands of 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	
			2018	2017
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
Hualing Insurance JSC	Georgia	Insurance	100%	100%
BHL Leasing JSC	Georgia	Leasing	100%	100%

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

Hualing Insurance JSC. JSC “Hualing Insurance” was incorporated in December 2017 and is domiciled in Georgia. The Company is a joint stock company limited by shares and was set up in accordance with Georgian regulations. Registering body is Revenue Service of Georgia, Tax code 406232214.

The Company’s principal business activity is insurance business operations within Georgia. The Company has a life and non-life licenses issued by the Insurance State Supervision Service of Georgia since 27 December 2017.

1 Introduction (Continued)

BHL Leasing JSC. The Company was incorporated and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 406233534. The Company is Limited Liability Company and was set up in accordance with Georgian regulations.

The Bank establish leasing subsidiary in December 2018 to offer 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 43.

2 Operating Environment of the Group

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

For the purpose of measurement of expected credit losses (“ECL”) the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 35 provides more information of how the Group incorporated forward-looking information in the ECL models.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated and separate 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 based on fair value, and by the revaluation of premises and equipment, financial instruments categorised at fair value through profit or loss (“FVTPL”) and at fair value through other comprehensive income (“FVOCI”). The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5 and 35.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Investments in subsidiaries. Investments in 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.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 39.

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 whole 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

3 Summary of Significant Accounting Policies (Continued)

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.

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

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

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

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

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

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

3 Summary of Significant Accounting Policies (Continued)

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 and separate 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 and separate 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 35 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 35. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 35 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.

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 de-recognition 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 – de-recognition. 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

3 Summary of Significant Accounting Policies (Continued)

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 substantially, the modified asset is not substantially different from the original asset and the modification does not result in de-recognition. 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 – de-recognition. 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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 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 and separate 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.

3 Summary of Significant Accounting Policies (Continued)

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 35 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.

Reposessed 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 premeasured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of reposessed assets are recorded at the lower of cost or net realisable value. The Group applies its accounting policy for non-current assets held for sale or disposal groups to reposessed 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. If there is no market based evidence of fair value, fair value is estimated using an income approach. Management has updated the carrying value of land and buildings measured in accordance with the revaluation model at the end of the reporting period using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

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

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. 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 on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Office and computer equipment	5
Leasehold improvements	1 to 7
Motor vehicles	5
Other	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.

3 Summary of Significant Accounting Policies (Continued)

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 licenses. 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. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 10 years.

Operating leases. 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. 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.

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

Credit loss allowance is recognised in accordance with the general ECL model. 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.

3 Summary of Significant Accounting Policies (Continued)

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 and separate 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.

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

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

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

Income taxes. Income taxes have been provided for in the consolidated and separate 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 consolidated and separate 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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 inception 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.

3 Summary of Significant Accounting Policies (Continued)

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 2018, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.6766 (2017: USD 1 = GEL 2.5922), EUR 1 = GEL 3.0701 (2017: EUR 1 = GEL 3.1044).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated and separate 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, 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 order of their liquidity. Refer to Note 35 for analysis of financial instruments by expected maturity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 35.

	31 December 2018			31 December 2017		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
	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
<i>In thousands of Georgian Lari</i>						
ASSETS						
Cash and cash equivalents	132,500	-	132,500	139,577	-	139,577
Mandatory cash balances with the NBG	170,443	-	170,443	130,824	-	130,824
Due from other banks	-	-	-	15,094	-	15,094
Investments in debt securities	85,727	89,963	175,690	-	-	-
Investments in equity securities	-	63	63	-	-	-
Loans and advances to customers	305,268	595,535	900,803	325,386	432,488	757,874
Available-for-sale investment securities	-	-	-	-	63	63
Bonds carried at amortized cost	-	-	-	96,172	47,731	143,903
Investment properties	-	1,572	1,572	-	1,078	1,078
Current income tax prepayment	5	-	5	217	-	217
Other financial assets	4,932	134	5,066	1,407	22	1,429
Other assets	1,339	16,110	17,449	367	16,490	16,857
Intangible assets	-	1,382	1,382	-	861	861
Premises and equipment	-	26,457	26,457	-	21,894	21,894
Non-current assets held for sale	4,249	111	4,360	1,928	-	1,928
TOTAL ASSETS	704,463	731,327	1,435,790	710,972	520,627	1,231,599
LIABILITIES						
Due to other banks	100,196	-	100,196	59,982	-	59,982
Customer accounts	665,093	62,328	727,421	631,911	45,909	677,820
Other borrowed funds	194,943	150,839	345,782	206,091	64,189	270,280
Other financial liabilities	6,353	-	6,353	7,674	-	7,674
Current income tax liability	1,647	-	1,647	-	-	-
Deferred income tax liability	-	1,671	1,671	-	152	152
Provisions for liabilities and charges	374	-	374	346	-	346
Other liabilities	2,812	-	2,812	1,854	-	1,854
TOTAL LIABILITIES	971,418	214,838	1,186,256	907,858	110,250	1,018,108

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated and separate 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 consolidated and separate 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 35. 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, in particular 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 2018:

Variable	Scenario	Assigned weight	Assumption for:		
			2019	2020	2021
CPI Inflation	Base	50%	2.90%	3.00%	3.00%
	Upside	25%	3.40%	3.20%	3.00%
	Downside	25%	4.50%	4.00%	3.00%
Real GDP Growth rate	Base	50%	5.00%	5.00%	5.00%
	Upside	25%	6.00%	5.50%	5.00%
	Downside	25%	2.00%	2.50%	3.50%
Nominal Effective Exchange Rate, NEER (2010=100)	Base	50%	125.45	125.45	125.45
	Upside	25%	132.99	136.98	136.98
	Downside	25%	116.65	110.82	113.06
Real Estate price index in GEL (2017=100)	Base	50%	102.90	103.00	103.00
	Upside	25%	103.40	103.20	103.00
	Downside	25%	95.00	100.00	105.00
Country Sovereign risk premium in%	Base	50%	2.60	2.60	2.60
	Upside	25%	2.60	2.60	2.60
	Downside	25%	4.10	3.60	2.60

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

The assumptions and assigned weights were as follows at 1 January 2018:

Variable	Scenario	Assigned weight	Assumption for:		
			2018	2019	2020
CPI Inflation	Base	50%	3.50%	3.00%	3.00%
	Upside	25%	2.50%	2.50%	2.70%
	Downside	25%	4.50%	4.30%	3.80%
Real GDP Growth rate	Base	50%	4.50%	4.80%	5.00%
	Upside	25%	5.50%	6.00%	5.70%
	Downside	25%	3.00%	2.00%	3.00%
Nominal Effective Exchange Rate, NEER (2010=100)	Base	50%	107.00	108.00	109.00
	Upside	25%	110.00	112.00	113.00
	Downside	25%	101.00	98.00	99.00
Real Estate price index in GEL (2017=100)	Base	50%	103.50	106.60	109.80
	Upside	25%	101.40	103.60	107.70
	Downside	25%	104.90	109.80	112.00
Country Sovereign risk premium in %	Base	50%	2.60	2.60	2.60
	Upside	25%	2.00	2.00	2.00
	Downside	25%	3.50	4.00	4.00

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 63 thousand at 31 December 2018 (1 January 2018: by GEL 17 thousand).

A corresponding change towards the upside assumptions would result in a decrease in ECL by GEL 34 thousand at 31 December 2018 (1 January 2018: by GEL 46 thousand).

A 10% increase in PD estimates at 31 December 2018 would result in an increase in total expected credit loss allowances of GEL 394 thousand (1 January 2018: by GEL 448 thousand).

A 10% decrease in PD estimates at 31 December 2018 would result in decrease in total expected credit loss allowances of 418 thousand (1 January 2018: by GEL 471 thousand).

A 10% increase or decrease in LGD estimates at 31 December 2018 would result in an increase or decrease in total expected credit loss allowances of GEL 565 thousand (1 January 2018: increase or decrease by GEL 310 thousand).

The Bank applies LGD floor to estimated LGD value. A 10% increase or decrease in LGD floor value at 31 December 2018 would result in an increase or decrease in total expected credit loss allowances of GEL 300 thousand (1 January 2018: increase or decrease by GEL 330 thousand).

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 35.

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

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 1,577 thousand as of 31 December 2018 (1 January 2018: higher by GEL 832 thousand).

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 de-recognition 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 de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Write-off policy. Financial assets are written-off, in whole, 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.

BasisBank Group

Notes to the Consolidated and Separate Financial Statements – 31 December 2018

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 “Financial Instruments”. The Group adopted IFRS 9, *Financial Instruments*, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, *Financial Instruments: Disclosures*, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 42.

The following table reconciles the carrying amounts of each class of financial assets as for the Bank and the Group previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018. The separate impact of IFRS 9 adoption on the Group’s entities other than bank was not material and was not recognised as at 1 January 2018.

	Measurement category		Carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9 Remeasurement ECL	Carrying value under IFRS 9 - 1 January 2018
	IAS 39	IFRS 9			
In thousands of Georgian Lari					
Cash and cash equivalents	L&R	AC	139,577	(114)	139,463
Mandatory cash balances with the National Bank of Georgia			130,824	-	130,824
Investments in debt securities					
- Georgian government treasury bonds	L&R	AC	87,747	(169)	87,578
- Georgian government treasury bills	L&R	AC	56,156	(89)	56,067
Total investments in debt securities			143,903	(258)	143,645
Investments in equity securities					
- Corporate shares	AFS	FVOCI	63	-	63
Due from other banks					
- Placements with other banks with original maturities of more than three months	L&R	AC	15,094	(48)	15,046
Loans and advances to customers					
- Loans to corporate customers					
- Standard lending	L&R	AC	603,917	647	604,564
- Loans to individuals					
- Mortgage loans	L&R	AC	99,763	409	100,172
- Consumer loans	L&R	AC	49,204	(136)	49,068
- Credit cards	L&R	AC	4,990	(28)	4,962
Total loans and advances to customers			757,874	892	758,766
Other financial assets					
- Other financial assets	L&R	AC	1,429	-	1,429
Total financial assets			1,188,764	472	1,189,236

Increase of provision in credit related commitments and financial guarantees under ECL model is GEL 235 thousand.

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

(a) Cash and cash equivalents

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018**

All classes of cash and cash equivalents as disclosed in Note 7 were reclassified from loans and receivables (“L&R”) measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The credit loss allowance for cash and cash equivalents balances amounted GEL 114 thousand.

(b) Due from other banks

All classes of due from other banks balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(c) Investments in debt securities

Reclassification from retired categories with no change in measurement. The Group has assessed that the appropriate business model for its all investments in debt securities is held to collect. The debt instruments classified as Loans & Receivables have been reclassified to the new AC measurement category under IFRS 9, as their previous category under IAS 39 was retired, with no changes to their measurement basis.

(d) Investments in equity securities

The Group has elected to irrevocably designate some strategic investments in a portfolio of non-trading equity securities as at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of.

IFRS 9 does not provide an exemption to measure investments in unquoted equity securities at cost. The Group re-measured all such investments at fair value on adoption of IFRS 9 and designated as at FVOCI. The changes in fair value of FVOCI securities represents an insignificant amount, therefore the Group did not reflect the remeasurement effect on adoption of IFRS 9.

(e) Loans and advances to customers

The Bank has assessed loans and advances to customer with respect to the SPPI criteria. The SPPI test considers facts and circumstances as of the date of initial recognition of each financial asset subject to SPPI test. All loans issued by the Bank outstanding as at 1 January 2018 met the SPPI test and were measured at AC.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

	Provision under IAS 39 or IAS 37 at 31 Dec 2017	Effect Remeasu-rem-ent from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
<i>In thousand or Georgian Lari</i>			
Loans and receivables measurement category			
- Cash and Cash equivalents	-	114	114
- Due from other banks	-	48	48
- Investments in debt securities	-	258	258
- Loans and advances to customers	16,377	(892)	15,485
Financial guarantees and credit lines	168	235	403

At 31 December 2017, all of the Group's financial liabilities were carried at AC. There were no changes to the classification and measurement of financial liabilities at 1 January 2018.

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

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings as of 1 January 2018.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018**

	Share capital	Share premium	Share-based Payments	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings	Total equity
<i>In thousands of Georgian Lari</i>							
Amounts at 31 December 2017 prior to adoption of IFRS 9	16,057	74,923	851	154	8,233	113,273	213,491
Recognition of ECL under IFRS 9 for debt financial assets at amortized cost and credit related commitments	-	-	-	-	-	202	202
Other effects	-	-	-	(154)	-	154	-
At 1 January 2018 (under IFRS 9)	16,057	74,923	851	-	8,233	113,629	213,693

Amendments to IFRS 9 - “Prepayment Features with Negative Compensation” (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2019). The amendments were early adopted by the Group with the date of initial application of 1 January 2018. The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. The Group is therefore not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. This clarification has no impact on carrying value of the Group's financial liabilities carried at amortised cost at 1 January 2018.

Adoption of IFRS 15 “Revenue from Contracts with Customers” (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 “Revenue from Contracts with Customers” (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The Group has adopted IFRS 15, *Revenue from Contracts with Customers*, with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Group.

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

Amendments to IFRS 2 “Share-based Payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 4 - “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

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

Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IAS 40 – “Transfers of Investment Property” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16 “Leases” (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of GEL 2,541 against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease commitments disclosed in Note 37 to this liability is as follows:

<i>In thousands of Georgian Lari</i>		31 December 2018 / 1 January 2019
Total future minimum lease payments for non-cancellable operating leases (Note 37)		327
-	Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	2,602
-	Effect of discounting to present value	(388)
Total lease liabilities		2,541

IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements.

6 New Accounting Pronouncements (Continued)

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

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. 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.

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

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.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****7 Cash and Cash Equivalents**

<i>In thousands of Georgian Lari</i>	2018	2017
Cash on hand	32,099	30,341
Cash balances with the NBG (other than mandatory reserve deposits)	31,812	27,903
Correspondent accounts and overnight placements with other banks	68,699	81,333
Less credit loss allowance	(110)	-
Total cash and cash equivalents	132,500	139,577

The cash and cash equivalent balances under the bank's separate financial statement as at 31 December 2018 amount GEL 130,272 (2017: GEL 139,577 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to Note 35 for the description of the Group's credit risk grading system.

<i>In thousands of Georgian Lari</i>	Balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Total
- Excellent	31,750	63,528	95,278
- Good	-	8	8
- Satisfactory	-	2,946	2,946
- Special monitoring	-	59	59
- Unrated	-	2,109	2,109
Total cash and cash equivalents, excluding cash on hand	31,750	68,650	100,400

As at 31 December 2018 there were two placement with unrated Georgian banks with aggregate amount of GEL 2,109 thousand.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances as at 31 December 2018 amounts GEL 110 thousand (GEL 114 thousand on 1 January 2018). Refer to Note 35 for the ECL measurement approach.

The credit quality of cash and cash equivalents balances at 31 December 2017, was as follows:

<i>In thousands of Georgian Lari</i>	Balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
<i>Neither past due nor impaired</i>				
- National Bank of Georgia	27,903	-	-	27,903
- A- to A+ rated	-	60,200	-	60,200
- Lower than A- rated	-	20,975	-	20,975
- Unrated	-	158	-	158
Total cash and cash equivalents, excluding cash on hand	27,903	81,333	-	109,236

The credit ratings in the above table are based on Fitch ratings. As at 31 December 2017 there was one placement with unrated Georgian bank with aggregate amount of GEL 98 thousand, one unrated OECD bank with aggregate amount of GEL 59 thousand.

7 Cash and Cash Equivalents (Continued)

At 31 December 2018 the Group had one counterparty bank (2017: one bank) with aggregated cash and cash equivalent balances above 10% of equity. The total aggregate amount of these balances was GEL 60,925 thousand (2017: GEL 44,387 thousand) or 46% of the cash and cash equivalents (2017: 32%).

Interest rate analysis of cash and cash equivalents is disclosed in Note 35. Information on related party balances is disclosed in Note 41. The cash balances with the NBG (other than mandatory reserve deposits) represent balances with the NBG related to settlement activity and were available for withdrawal at year end.

8 Mandatory cash balances with the National Bank of Georgia

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

In 2018, Fitch Ratings re-affirmed government of Georgia’s short-term sovereign credit rating of “B” and long-term credit rating of “BB-“. For the purpose of ECL measurement Mandatory cash balances with the NBG are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for Mandatory cash balances with the NBG. Refer to Note 35 for the ECL measurement approach.

9 Due from Other Banks

<i>In thousands of Georgian Lari</i>	2018	2017
Placements with other banks with original maturities of more than three months	-	15,094
Less credit loss allowance	-	-
Total due from other banks	-	15,094

At 31 December 2017 the Group had balances with one counterparty bank – Bank Credo, Georgia. The ECL for these balances as at 31 December 2018 was nil (GEL 48 thousand on 1 January 2018). Refer to Note 35 for the ECL measurement approach.

Refer to Note 39 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 35. Information on related party balances is disclosed in Note 41.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****10 Investments in Debt Securities**

<i>In thousands of Georgian Lari</i>	2018
Debt securities at AC	175,690
Total investments in debt securities	175,690

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

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

10 Investments in Debt Securities (Continued)**(a) Investments in debt securities at AC**

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2018 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 35 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 2018 below also represents the Group's maximum exposure to credit risk on these assets:

<i>In thousands of Georgian Lari</i>	Stage 1 (12-months ECL)	Total
Georgian government treasury bonds		
- Good	106,314	106,314
Gross carrying amount	106,314	106,314
Credit loss allowance	(205)	(205)
Carrying amount	106,109	106,109
Georgian government treasury bills		
- Good	66,969	66,969
Gross carrying amount	66,969	66,969
Credit loss allowance	(119)	(119)
Carrying amount	66,850	66,850
NBG certificates of deposit		
- Good	2,732	2,732
Gross carrying amount	2,732	2,732
Credit loss allowance	(1)	(1)
Carrying amount	2,731	2,731

The debt securities at AC are not collateralised.

At 31 December 2018 debt securities at AC with a carrying value of GEL 40,427 thousand have been pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 20 and 22. The counterparty is not allowed to sell further or repledge the investments.

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Notes to the Consolidated and Separate Financial Statements – 31 December 2018

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	
	Stage 1 (12-months ECL)	Total	Stage 1 (12-months ECL)	Total
<i>In thousands of Georgian Lari</i>				
Georgian government treasury bonds				
At 1 January 2018	(169)	(169)	87,748	87,748
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	(113)	(113)	58,004	58,004
Derecognised during the period	77	77	(39,566)	(39,566)
Changes in accrued interest	-	-	128	128
Total movements with impact on credit loss allowance charge for the period	(36)	(36)	18,566	18,566
At 31 December 2018	(205)	(205)	106,314	106,314

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

	Credit loss allowance		Gross carrying amount	
	Stage 1 (12-months ECL)	Total	Stage 1 (12-months ECL)	Total
<i>In thousands of Georgian Lari</i>				
Georgian government treasury bills				
At 1 January 2018	(89)	(89)	56,156	56,156
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	(119)	(119)	86,692	86,692
Derecognised during the period	89	89	(80,841)	(80,841)
Changes in accrued interest	-	-	4,962	4,962
Total movements with impact on credit loss allowance charge for the period	(30)	(30)	10,813	10,813
At 31 December 2018	(119)	(119)	66,969	66,969

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****10 Investments in Debt Securities (Continued)**

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

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

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****11 Investments in Equity Securities**

<i>In thousands of Georgian Lari</i>	2018
Equity securities at FVOCI	63
Total investments in equity securities	63

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

<i>In thousands of Georgian Lari</i>	Equity securities at FVOCI	Total
Corporate shares	63	63
Total investments in equity securities at 31 December 2018		

(a) Investments in equity securities at FVOCI

At 1 January 2018, the Group designated investments disclosed in the following table as equity securities at FVOCI. In 2017, these investments were classified as AFS. Refer to Note 13. 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.

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

At 31 December 2018 securities at FVOCI include equity securities with a carrying value of GEL 63 thousand which are not publicly traded. 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 39.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****12 Loans and Advances to Customers**

<i>In thousands of Georgian Lari</i>	31 December 2018	31 December 2017
Gross carrying amount of loans and advances to customers at AC	916,451	774,251
Less credit loss allowance	(15,648)	(16,377)
Total carrying amount of loans and advances to customers at AC	900,803	757,874
Total loans and advances to customers	900,803	757,874

As at 31 December 2018 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 2018 and 31 December 2017 are disclosed in the table below:

<i>In thousands of Georgian Lari</i>	31 December 2018			31 December 2017		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
<i>Loans to Legal entities</i>	694,896	(10,977)	683,918	616,832	(12,915)	603,917
Standard lending	694,896	(10,977)	683,918	616,832	(12,915)	603,917
<i>Loans to individuals</i>	221,555	(4,670)	216,885	157,419	(3,462)	153,957
Mortgage loans	137,685	(2,705)	134,980	102,197	(2,434)	99,763
Consumer loans	79,004	(1,758)	77,246	50,142	(937)	49,204
Credit cards	4,866	(207)	4,659	5,080	(91)	4,990
Total loans and advances to customers at AC	916,451	(15,647)	900,803	774,251	(16,377)	757,874

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

Loans issued to large commercial entities under the standard terms, mainly for working capital financing and investment projects; and

Loans to SME – loans issued to small and medium-sized enterprises, where the Group defines such as loans issued to a client up to 1 million USD;

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Notes to the Consolidated and Separate Financial Statements – 31 December 2018

12 Loans and Advances to Customers (Continued)

The following table discloses 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 period:

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

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Notes to the Consolidated and Separate Financial Statements – 31 December 2018

12 Loans and Advances to Customers (Continued)

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

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Notes to the Consolidated and Separate Financial Statements – 31 December 2018

12 Loans and Advances to Customers (Continued)

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

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Notes to the Consolidated and Separate Financial Statements – 31 December 2018

12 Loans and Advances to Customers (Continued)

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

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

As at 31 December 2018 other movements include utilization of credit lines from borrowers with respective stage category loans. Movements in the provision for loan impairment of loans during 2017 of are as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Mortgage loans	Consumer loans	Credit cards	Total
Provision for loan impairment at 1 January 2017	10,170	3,470	975	207	14,822
(Recovery of)/provision for impairment during the year*	2,853	(1,045)	422	260	2,490
Amounts written off during the year as uncollectible	(168)	-	(390)	(377)	(935)
Provision for loan impairment at 31 December 2017	12,855	2,425	1,007	90	16,377

*The provision for impairment during 2017 differs from the amount presented in profit or loss for the year due to GEL 514 thousand, recovery of amounts previously written off as uncollectible. 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 35. 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;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

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

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

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
<i>In thousands of Georgian Lari</i>				
Standard lending				
- Excellent	58,718	-	-	58,718
- Good	547,001	-	-	547,001
- Satisfactory	-	57,456	-	57,456
- Special monitoring	-	2,171	-	2,171
- Default	-	-	29,549	29,549
Gross carrying amount	605,719	59,627	29,549	694,895
Credit loss allowance	(2,088)	(309)	(8,581)	(10,978)
Carrying amount	603,632	59,318	20,968	683,918

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****12 Loans and Advances to Customers (Continued)**

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

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

For description of the credit risk grading used in the tables above refer to Note 35.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****12 Loans and Advances to Customers (Continued)**

Analysis of loans by credit quality at 31 December 2017 is disclosed as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Mortgage loans	Consumer loans	Credit Cards	Total
<i>Neither past due nor impaired</i>					
- Large borrowers with credit history over two years	175,002	-	-	-	175,002
- Large new borrowers	269,182	-	-	-	269,182
- Loans to medium size entities	59,836	-	-	-	59,836
- Loans to small entities	866	4	3	134	1,007
- Loans to individuals with credit limit over GEL 100 thousand	69,241	49,420	3,499	361	122,521
- Loans to individuals with credit limit below GEL 100 thousand	11,630	44,248	42,271	4,382	102,531
Total neither past due nor impaired	585,757	93,672	45,773	4,877	730,079
<i>Past due but not impaired</i>					
- less than 30 days overdue	2,626	1,879	1,295	1	5,801
- 30 to 90 days overdue	-	126	-	-	126
Total past due but not impaired	2,626	2,005	1,295	1	5,927
<i>Loans individually determined to be impaired (gross)</i>					
- Not overdue	11,476	2,521	693	53	14,743
- less than 30 days overdue	58	704	49	55	866
- 30 to 90 days overdue	4,979	1,037	489	58	6,563
- 91 to 180 days overdue	1,356	775	534	35	2,700
- 181 to 360 days overdue	6,937	692	273	-	7,902
- over 360 days overdue	3,644	791	1,036	-	5,471
Total impaired loans (gross)	28,450	6,520	3,074	201	38,245
Less impairment provisions	(12,916)	(2,434)	(937)	(90)	(16,377)
Total loans and advances to customers	603,917	99,763	49,205	4,989	757,874

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****12 Loans and Advances to Customers (Continued)**

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

<i>In thousands of Georgian Lari</i>	2018		2017	
	Amount	%	Amount	%
Individuals	221,555	25%	157,419	21%
Hotels & Restaurants	86,990	10%	73,456	9%
Trade	85,697	10%	50,658	7%
Real Estate Management	82,680	9%	63,889	8%
Service	71,358	8%	75,993	10%
Financial Institutions	63,182	7%	43,593	6%
Health Care	61,635	7%	55,784	7%
Production & Manufacturing	46,560	5%	56,430	7%
Agricultural	45,185	5%	38,468	5%
Construction & Production of Construction materials	40,709	4%	24,040	3%
Energy	31,022	3%	52,598	7%
Real Estate Development	22,069	2%	48,960	6%
Telecommunication	13,424	1%	-	0%
Wine production	12,183	1%	18,128	2%
Other	32,202	4%	14,835	2%
Total loans and advances to customers carried at AC	916,451	100%	774,251	100%

At 31 December 2018 the Group had 10 borrowers' groups (2017: 12 borrowers) with aggregated loan amounts above 5% of the Bank's regulatory capital. The total aggregate amount of these loans was GEL 195,258 thousand (2017: GEL 234,440 thousand) or 21% of the gross loan portfolio (2017: 30%).

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. Description of collateral held for loans carried at amortised cost is as follows at 31 December 2018:

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

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****12 Loans and Advances to Customers (Continued)**

Information about collateral of loans to individuals carried at amortised cost is as follows at 31 December 2017:

<i>In thousands of Georgian Lari</i>	Corporate loans	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:					
- real estate	454,484	98,880	18,003	152	571,519
- cash deposits	95,203	114	1,229	-	96,546
- Transport and equipment	8,529	-	325	-	8,854
- other assets	26,253	1,483	-	20	27,756
Total	584,469	100,477	19,557	172	704,675
Unsecured exposures	32,363	1,720	30,585	4,908	69,576
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	616,832	102,197	50,142	5,080	774,251

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 27,432 thousand (2017: GEL 152 thousand) were not considered in the above table.

The disclosure above presents the collateralised loans at the lower of their carrying value or fair value of respective collateral; any loan amount in excess of the fair value of collateral is disclosed within the unsecured exposures.

BasisBank Group

Notes to the Consolidated and Separate Financial Statements – 31 December 2018

12 Loans and Advances to Customers (Continued)

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 2018 is as follows:

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

The effect of collateral at 31 December 2017 is presented for all loans, whether impaired or not, as follows:

<i>In thousands of Georgian Lari</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
<i>Loans to corporate customers</i>				
Standard lending	531,979	1,389,931	85,507	52,926
<i>Loans to individuals</i>				
Mortgage loans	97,975	286,999	3,498	1,996
Consumer loans	19,355	97,161	30,857	272
Credit cards	173	865	4,908	-

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. The Bank assessed the possible impact of the old valuations on the assessment of ECL, and the effect was found immaterial for 2018. 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.

Refer to Note 39 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 35. Information on related party balances is disclosed in Note 41.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****12 Loans and Advances to Customers (Continued)**

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 2018:

<i>In thousands of Georgian Lari</i>	31 December 2018
<i>Loans to legal entities</i>	
Standard lending	826
<i>Loans to individuals</i>	
Mortgage loans	118
Consumer loans	1,676
Total	2,620

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****13 Investment Securities AFS (For comparatives only)**

<i>In thousands of Georgian Lari</i>	2017
Corporate shares (not quoted)	63
Total investment securities AFS	63

At 31 December 2017 investment securities AFS include equity securities with a carrying value of GEL 63 thousand which are not publicly traded. Management could not reliably estimate the fair value of the Group's investment in securities AFS. The investments are carried at a cost of GEL 63 thousand at 31 December 2017.

Interest rate analysis of investment securities AFS is disclosed in Note 35. Information on related party debt investment securities available for sale is disclosed in Note 41.

14 Bonds carried at amortized cost (For comparatives only)

<i>In thousands of Georgian Lari</i>	2017
Georgian government treasury bonds	87,747
Georgian government treasury bills	56,156
Total Bonds carried at amortized cost	143,903

All Bonds carried at amortized cost are issued by the Georgian government. At 31 December 2017 Bonds carried at amortized cost with a carrying value of GEL 39,416 thousand have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds. Refer to Notes 20 and 22. The counterparty is not allowed to sell further or repledge the investments.

The movement in Bonds carried at amortized cost is as follows:

<i>In thousands of Georgian Lari</i>	Note	2017
Gross amount at 1 January		128,441
Additions		79,460
Reclassified from Repurchase Receivables		
Redemption		(66,984)
Interest income accrual		10,334
Interest income received		(7,348)
Gross amount at 31 December		143,903

As at 31 December 2017 Bonds carried at amortized are not impaired.

Refer to Note 39 for the disclosure of the fair value of each class of investments in debt securities L&R. Interest rate analysis of investments in debt securities is disclosed in Note 35. Information on related party investments in debt securities is disclosed in Note 41.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****15 Investment Properties**

<i>In thousands of Georgian Lari</i>	2018	2017
Investment properties at 1 January	1,078	1,283
Depreciation	(14)	(14)
Disposals	(400)	(191)
Transfer from other assets	1,117	-
Transfer to held for sales 30	(209)	-
Investment properties at 31 December	1,572	1,078

As of 31 December 2018 GEL 1,037 thousand of investment property were attributable to the Bank (2017: 400 thousand).

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

<i>In thousands of Georgian Lari</i>	2018	2017
Investment properties at 1 January	400	591
Disposals	(400)	(191)
Transfer from other assets	1,037	-
Investment properties at 31 December	1,037	400

As of 31 December 2018, the fair value of investment properties was GEL 3,972 thousand (2017: GEL 1,636 thousand). As of 31 December 2018 the fair value of investment properties attributable to the bank was GEL 3,011 thousand (2017: GEL 430).

The fair value of the Group's investment properties was determined by the independent valuator Kushman & Wakefield, who hold a recognized and relevant professional qualification. In determining the fair values of investment properties, three market comparatives were identified for each property. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the investment property. Refer to Note 30 and 31 for the disclosure of the income and expenses incurred from investment property.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****16 Insurance contracts and Other Financial Assets**

<i>In thousands of Georgian Lari</i>	Note	2018	2017
<i>Other financial assets at AC</i>			
Receivables for credit card services and money transfers		438	1,061
Restricted Cash		134	130
Accrued interest on other receivables		89	48
Financial leases		89	-
Prepayments for Services		80	205
Other receivables		172	92
<hr/>			
Less credit loss allowance		(130)	(107)
<hr/>			
Total other financial assets at AC		872	1,429
<hr/>			
Insurance receivables		2,098	-
Reinsurance Assets		2,096	-
<hr/>			
Total insurance contracts and other financial assets		5,066	1,429

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 of activities.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****16 Insurance contracts and Other Financial Assets (Continued)**

The table below contains an analysis of the credit risk exposure of insurance contracts and other financial assets at AC. The carrying amount of insurance contracts and other financial assets at AC at 31 December 2018 below also represents the Group's maximum exposure to credit risk on these assets:

<i>In thousands of Georgian Lari</i>	Stage 1 (12-months ECL)	Total
<i>Receivables for credit card services and money transfers</i>		
- Excellent	144	144
- Good	295	295
Gross carrying amount	439	439
Credit loss allowance	(87)	(87)
Carrying amount	352	352
<i>Restricted Cash</i>		
- Excellent	134	134
Gross carrying amount	134	134
Credit loss allowance	-	-
Carrying amount	134	134
<i>Accrued interest on other receivables</i>		
- Good	89	89
Gross carrying amount	89	89
Credit loss allowance	-	-
Carrying amount	89	89
<i>Financial leases</i>		
- Good	89	89
Gross carrying amount	89	89
Credit loss allowance	-	-
Carrying amount	89	89

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****16 Insurance contracts and Other Financial Assets (Continued)**

<i>In thousands of Georgian Lari</i>	Stage 1 (12-months ECL)	Total
Prepayments for Services		
- Good	80	80
Gross carrying amount	80	80
Credit loss allowance	-	-
Carrying amount	80	80
Other receivables		
- Good	172	172
Gross carrying amount	172	172
Credit loss allowance	(43)	(43)
Carrying amount	129	129
Insurance receivables		
- Good	2,098	2,098
Gross carrying amount	2,098	2,098
Credit loss allowance	-	-
Carrying amount	2,098	2,098
Reinsurance Assets		
- Good	2,096	2,096
Gross carrying amount	2,096	2,096
Credit loss allowance	-	-
Carrying amount	2,096	2,096

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****16 Insurance contracts and Other Financial Assets (Continued)**

The following table explains 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 annual period:

<i>in thousands of Georgian Lari</i>	Gross carrying amount	Credit loss allowance	Total
Balance at 1 January 2018	1,429	-	1,429
New originated or purchased	4,684	(130)	4,554
Financial assets derecognised during the period	(930)	-	(930)
Total credit loss allowance charge in profit or loss for the period		(130)	(130)
FX movements	13	-	13
Balance at 31 December 2018	5,196	(130)	5,066

For the purpose of ECL measurement other financial assets balances are included in Stage 2. The ECL for these balances as at 31 December 2018 amounts GEL 130 thousand (Nil as at 1 January 2018). Refer to Note 35 for the ECL measurement approach.

Refer to Note 39 for the disclosure of the fair value of each class of other financial assets. Information on related party balances is disclosed in Note 41.

17 Other Assets

<i>In thousands of Georgian Lari</i>	Note	2018	2017
Reposessed collateral		13,916	13,293
Prepayment for assets repossession		1,261	1,553
Input and withholding taxes		922	882
Litigation prepayments		711	589
Prepayments for services		626	518
Other		13	22
Total other assets		17,449	16,857

Reposessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future.

As of 31 December 2018 the value of reposessed collateral attributable to the bank was GEL 12,057 thousand (2017: GEL 11,012).

18 Premises, Equipment and Intangible Assets

		Premises	Office and computer equip- ment	Total premises and equip- ment	Computer software licences	Total
<i>In thousands of Georgian Lari</i>		Note				
Cost or valuation at 1 January 2017		19,237	8,661	27,898	1,140	29,038
Accumulated depreciation		384	6,466	6,850	608	7,458
Carrying amount at 1 January 2017		18,853	2,195	21,048	532	21,580
Additions		494	1,545	2,039	490	2,529
Disposals		-	-	-	(43)	(43)
Depreciation						
Depreciation charge	31	386	808	1,194	161	1,355
Disposals		-	-	-	(43)	(43)
Carrying amount at 31 December 2017		18,961	2,932	21,893	861	22,754
Cost or valuation at 31 December 2017		19,731	10,207	29,938	1,587	31,525
Accumulated depreciation		770	7,274	8,044	726	8,770
Carrying amount at 31 December 2017		18,961	2,933	21,894	861	22,755
Additions		1,922	3,273	5,195	760	5,955
Transfers		(214)	-	(214)	-	(214)
Disposals		-	-	-	(33)	(33)
Elimination of accumulated depreciation upon revaluation of property		(1,141)	-	(1,141)	-	(1,141)
Revaluation		1,052	-	1,052	-	1,052
Depreciation						
Depreciation charge	31	375	1,095	1,470	239	1,709
Disposals		-	-	-	(33)	(33)
Elimination of accumulated depreciation upon revaluation of property	26	(1,141)	-	(1,141)	-	(1,141)
Carrying amount at 31 December 2018		21,346	5,111	26,457	1,382	27,839
Cost or valuation at 31 December 2018		21,350	13,480	34,830	2,314	37,144
Accumulated depreciation		4	8,369	8,373	932	9,305
Carrying amount at 31 December 2018		21,346	5,111	26,457	1,382	27,839

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****18 Premises, Equipment and Intangible Assets (Continued)**

Premises have been revalued at fair value at December 2018. The valuation was carried out by an independent firm of valuers, Georgian Valuation Company LLC who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category.

The input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

At 31 December 2018, the carrying amount of premises would have been GEL 12,903 thousand (2017: GEL 11,265 thousand) had the assets been carried at cost less depreciation. The amount reconciles to the carrying value of the premises as follows:

<i>In thousands of Georgian Lari</i>	31 December 2018	31 December 2017
Premises at revalued amount in the statement of financial position	21,350	18,961
Revaluation reserve presented in equity, net of tax	9,284	8,233
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	(837)	(537)
Premises at cost less accumulated depreciation	12,903	11,265

19 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:

<i>In thousands of Georgian Lari</i>	2018	2017
Non-current assets held for sale at 1 January:	1,928	-
Disposals	(485)	-
Transfer from PPE	414	-
Transfer from other assets	2,299	1,928
Transfer from Investment Properties	204	-
Total Non-current assets held for sale (or disposal groups)	4,360	1,928

As of 31.12.2018 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 4,249 thousand are contracted by the end of 2019, GEL 111 thousand is contracted until 2021.

The Non-current assets held for sale attributable to the bank amounts GEL 4,016 thousand as at 31 December 2018 (2017: GEL 1,928 thousand).

20 Due to Other Banks

<i>In thousands of Georgian Lari</i>	2018	2017
Correspondent accounts and overnight placements of other banks	1	1
Short-term placements of other banks	50,155	29,963
Short-term placements from NBG	50,040	30,018
Total due to other banks	100,196	59,982

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****20 Due to other Banks (Continued)**

The Group pledged debt securities as collateral with carrying amount of GEL 29,841 thousand and mortgage loans with carrying amount of GEL 27,309 thousand for short term loan with NBG at the end of reporting period (2017: debt securities GEL 39,416 thousand and mortgage loans GEL 29,677 thousand pledged for short-term loans with NBG).

Refer to Note 39 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 35. Information on related party balances is disclosed in Note 41.

21 Customer Accounts

<i>In thousands of Georgian Lari</i>	2018	2017
State and public organisations		
- Current/settlement accounts	128,789	151,595
- Term deposits	35,137	13,638
Other legal entities		
- Current/settlement accounts	135,716	136,032
- Term deposits	161,995	171,321
Individuals		
- Current/demand accounts	109,751	93,866
- Term deposits	156,033	111,368
Total customer accounts	727,421	677,820

State and public organisations exclude government owned profit orientated businesses.

The customer accounts balances under the bank's separate statement as at 31 December 2018 amount to GEL 734,262 thousand (2017: GEL 682,318 thousand)

Economic sector concentrations within customer accounts on are as follows:

<i>In thousands of Georgian Lari</i>	2018		2017	
	Amount	%	Amount	%
Individuals	265,784	37%	205,233	30%
Construction	96,789	13%	54,944	8%
Service	80,062	11%	58,565	9%
Transportation or Communication	67,413	9%	67,695	10%
Financial Institutions	64,190	9%	51,296	8%
State Deposits	55,690	8%	29,245	4%
Production/Manufacturing	30,212	4%	77,674	11%
Trade	28,780	4%	30,898	5%
Education	20,808	3%	21,635	3%
Energy	678	0%	62,598	9%
Other	17,015	2%	18,037	3%
Total customer accounts	727,421	100%	677,820	100%

At 31 December 2018, the Group had two customers (2017: five customers) with balances above above 10% of total equity. The aggregate balance of these customers was GEL 97,333 thousand (2017: GEL 199,693 thousand) or 13.4% (2017: 29.5%) of total customer accounts.

Refer to Note 39 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****22 Other Borrowed Funds**

<i>In thousands of Georgian Lari</i>	2018	2017
<i>Other borrowed funds at AC</i>		
Loans from Blue Orchard	81,003	52,913
Loans from China Development Bank ("CDB")	48,018	51,513
Loans from Black Sea Trade and Development Bank ("BSTDB")	44,029	41,904
Loans from URUMQI CITY COMMERCIAL BANK	43,509	47,496
Loans from European Bank for Reconstruction and Development ("EBRD")	40,505	48,808
Loans from International Finance Corporation ("IFC")	26,693	-
Loans from GREEN FOR GROWTH FUND (Finance-in-Motion)	26,491	-
Loans from GLOBAL CLIMATE PARTNERSHIP FUND (responsAbility)	13,407	-
Loans from Commerzbank	10,267	6,851
Loans from EFA FINANCIAL INSTITUTIONS DEBT FUND PTE. LTD ("EFA")	6,445	-
Loans from BANCA POPOLARE DI SONDRIO SCA	5,415	7,882
Loans from The OPEC Fund for International Development (OFID)	-	12,903
Other	-	10
Total other borrowed funds at AC	345,782	270,280
Total other borrowed funds	345,782	270,280

Refer to Note 39 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

23 Insurance Liabilities and Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of Georgian Lari</i>	Note	2018	2017
<i>Other financial liabilities at AC</i>			
Payables for services		762	586
Settlement Operations		576	6,473
Other accrued liabilities		389	134
Debit and credit card payables		95	481
Total other financial liabilities at AC		1,822	7,674
Unearned premium and claims provisions		2,351	-
Other insurance liabilities		2,180	-
Total Insurance liabilities		4,531	
Total insurance liabilities and other financial liabilities		6,353	7,674

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.

Other insurance liabilities GEL 2,180 thousand contains provisions for claims incurred but not reported amount GEL 135 thousand.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****23 Insurance Liabilities and Other Financial Liabilities (Continued)**

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

<i>In thousands of Georgian Lari</i>	Note	2018	2017
Unearned premium and claims provisions as at 1 January 2018		-	-
Gross premium during the year		5,442	-
Premiums earned during the year		(3,091)	-
Unearned premium and claims provisions as at 31 December 2018		2,351	-

Risks under policies usually cover twelve months duration. For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

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 39 for disclosure of the fair value of each class of other financial liabilities.

24 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Georgian Lari</i>	Note	2018	2017
Accrued employee benefit costs		1,773	1,254
Taxes payable other than on income		27	-
Prepayments received		767	260
Other		245	340
Total other liabilities		2,812	1,854

The other liabilities related to the bank as at 31 December 2018 amount GEL 2,410 thousand (2017: GEL 1,854 thousand)

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****25 Share Capital**

<i>In thousands of Georgian Lari except for number of shares</i>	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 1 January 2017	16,057	16,057	74,923	90,980
At 31 December 2017	16,057	16,057	74,923	90,980
At 31 December 2018	16,057	16,057	74,923	90,980

The total authorised number of ordinary shares is 16,137 thousand shares (2017: 16,097 thousand shares), with a par value of GEL 1 per share (2017: GEL 1 per share). All issued ordinary shares are fully paid.

The number of issued ordinary shares is 16,137 thousand shares (2017: 16,097 thousand shares). All issued shares are fully paid. The table above does not include 80 thousand (2017: 40) 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, as at 31 December 2018 the profit for the year available for distribution under Georgian Accounting Standards amount GEL 35,230 thousand (2017: GEL 19,588 thousand) The Bank's undistributed reserves under Georgian Accounting Rules at 31 December 2018 amount to GEL 82,129 thousand (2017: GEL 65,530 thousand).

26 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 consolidated and separate 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.

26 Share Based Payments (Continued)

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 2018 amounted to GEL 488 thousand (2017: GEL 463 thousand).

Tabular information on the scheme is given below:

<i>In thousands of Georgian Lari except for number of shares</i>	2018	2017
Number of unvested shares at the beginning of the year	213,000	44,000
Number of granted shares	-	169,000
Change in estimate of number of shares expected to vest based on performance conditions	5,000	-
Number of unvested shares at the end of the year	218,000	213,000
Value at grant date per share (in GEL)	12.55	12.55
Expense on equity-settled part	488	463
Expense recognized as staff cost during the year	488	463

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 1,339 as at 31 December 2018 (GEL 851 as at 31 December 2017).

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****27 Other Comprehensive Income Recognised in Each Component of Equity**

An analysis of other comprehensive income by item for each component of equity is as follows:

<i>In thousands of Georgian Lari</i>	Note	Revaluation reserve for AFS securities	Revaluation reserve for premises	Total
Year ended 31 December 2017				
Investment securities available for sale:				
- Gains less losses recycled to profit or loss upon disposal or impairment		(85)		(85)
Total other comprehensive loss		(85)		(85)
Year ended 31 December 2018				
Revaluation of premises and equipment			1,052	1,052
Total other comprehensive income			1,052	1,052

28 Interest Income and Expense

<i>In thousands of Georgian Lari</i>	2018	2017
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	84,739	66,559
Debt securities at AC	12,129	10,334
Due from other banks mandatory balances held with the NBG at AC	1,935	1,735
Total interest income calculated using the effective interest method	98,803	78,628
Total interest income	98,803	78,628
Interest and other similar expense		
Term deposits of legal entities	9,622	10,129
Term deposits of individuals	7,407	5,300
Current/settlement accounts	4,371	4,431
Borrowings from banks and other financial institutions	15,433	9,076
Due to other banks	6,252	3,686
Total interest expense	43,085	32,622
Net interest income	55,718	46,006

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****29 Fee and Commission Income and Expense**

<i>In thousands of Georgian Lari</i>	2018	2017
Fee and commission income		
<i>Fee and commission income not relating to financial instruments at FVTPL:</i>		
- Plastic card fees	2,098	1,584
- Fees related to guarantees issued	1,656	1,119
- Settlement transactions	1,524	1,312
- Cash transactions	650	595
- Distant banking fees	232	149
- Other	470	214
Total fee and commission income	6,630	4,973
Fee and commission expense		
<i>Fee and commission expense not relating to financial instruments at FVTPL</i>		
- Plastic card fees	1,709	1,328
- Settlement transactions	491	426
- Commissions for credit lines	-	92
- Cash Collection & Transaction fees	129	148
- Expenses Related to Guarantees	17	96
- Other	144	148
Total fee and commission expense	2,490	2,238
Net fee and commission income	4,140	2,735

30 Other Operating Income

<i>In thousands of Georgian Lari</i>	Note	2018	2017
Gains less losses on disposal of repossessed property		2,857	517
Reversal of impairment of repossessed property		660	-
Rental income from investment properties		165	171
Fines and penalties		13	8
Other		44	-
Total other operating income		3,739	696

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****31 Administrative and Other Operating Expenses**

<i>In thousands of Georgian Lari</i>	Note	2018	2017
Employee compensation		15,150	11,014
Professional services		2,233	1,176
Depreciation and amortisation	22	1,726	1,369
Advertising and marketing		1,254	994
Occupancy		1,110	1,008
Communications and information services		719	695
Security		628	623
Repairs and maintenance		553	441
Taxes other than on income		302	270
Impairment of litigation prepayments and other financial assets		291	183
Insurance		289	204
Office supplies		260	206
Travel and training		70	99
Impairment of repossessed property		-	116
Other		1,273	935
Total administrative and other operating expenses		25,858	19,333

Included in staff costs is the amount of GEL 488 thousand (2017: GEL 463 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 25 thousand (2017: GEL 19 thousand) and consisted of costs of utilities and staff costs. Direct operating expenses for investment properties that did not generate rental income amounted to GEL 1 thousand (2017: GEL 1 thousand).

As at 31 December 2018 the professional service fees include GEL 463 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 (2017: GEL 226 thousand). The fees related to the bank as at 31 December 2018 amount GEL 431 thousand, (2017: GEL 226 thousand).

32 Income Taxes**(a) Components of income tax expense / (benefit)**

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

<i>In thousands of Georgian Lari</i>	2018	2017
Current tax	(3,991)	(2,390)
Deferred tax	(1,482)	648
Income tax expense for the year	(5,473)	(1,742)

(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 2018 income is 15% (2017: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2017: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Georgian Lari</i>	2018	2017
Profit before tax	42,766	31,633
Theoretical tax charge at statutory rate (2018: 15%; 2017: 15%)	(6,415)	(4,745)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation (Government /NBG's securities and deposits)	2,065	1,695
- Income items not recognized in P&L, but taxable from taxation viewpoint	(91)	(38)
- Non-deductible expenses	(8)	(23)
- Effect of change in tax legislation	(1,024)	1,369
Income tax expense/(credit) for the year	(5,473)	(1,742)

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 7 thousand (2017: nil) 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.

BasisBank Group

Notes to the Consolidated and Separate Financial Statements – 31 December 2018

32 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

<i>In thousands of Georgian Lari</i>	1 January 2018	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 Decem-ber 2018
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(14)	(373)	-	(387)
Credit loss allowance of loans	(799)	(923)	(134)	(1,856)
Guarantee impairment provision	(20)	(92)	(13)	(125)
Interbank Reserve	-	(8)	24	16
Reversal of Securities Reserve	-	10	39	49
Accruals	250	(49)	49	250
Other	373	(62)	-	311
Share Based Payment	58	13	-	71
Net deferred tax asset/(liability)	(152)	(1,484)	(35)	(1,671)

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.

<i>In thousands of Georgian Lari</i>	1 January 2017	Credited/ (charged) to profit or loss	31 Decem-ber 2017
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment:	(246)	232	(14)
Loan impairment provision	(1,176)	378	(798)
Guarantee impairment provision	(63)	43	(20)
Accruals	179	71	250
Other	457	(85)	372
Share Based Payment	49	9	58
Net deferred tax asset/(liability)	(800)	648	(152)

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****33 Dividends**

<i>In thousands of Georgian Lari</i>	2018	2017
	Ordinary	Ordinary
Dividends payable at 1 January	-	-
Dividends declared during the year	2,989	2,545
Dividends paid during the year	(2,989)	(2,545)
Dividends payable at 31 December	-	-
Dividends per share declared during the year	0.19	0.16

All dividends are declared and paid in Georgian Lari.

34 Debt Reconciliation

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.

<i>In thousands of Georgian Lari</i>	Liabilities from financing activities	
	Borrowed funds	Total
Debt at 1 January 2017	121,530	121,530
Cash flows	150,444	150,444
Foreign exchange adjustments	(2,507)	(2,507)
Other non-cash movements	813	813
Debt at 31 December 2017	270,280	270,280
Debt at 1 January 2018	270,280	270,280
Cash flows	66,678	66,678
Foreign exchange adjustments	7,637	7,637
Other non-cash movements	1,187	1,187
Debt at 31 December 2017	345,782	345,782

35 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 following risk management units: The Supervisory Board, the Management Board, Audit Committee, Risk Management committee, 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,

35 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 and separate 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:

- The senior credit committee reviews and approves limits above USD 300 thousand, Approvals are given by e-mail or the committee meets when necessary. It is also responsible for issuing guidance to lower-level credit committees;
- The junior credit committees review and approve credit limits between USD 100-300 thousand. Approvals are given by e-mail or the committee meets when necessary
- Applications up to USD100 thousand are approved by risk management department. Exceptions are retail loans up to USD20 thousand are approved by retail lending group

35 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 dedicated staff of Financial Reporting and Risk management 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.

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 agency (Fitch)
Excellent	1 – 2	AAA to BB+	0,01% - 0,5%
Good	3 – 4	BB to B+	0,51% - 3%
Satisfactory	5 – 6	B, B-	3% - 10%
Special monitoring	7 – 8	CCC+ to CC-	10% - 99,9%
Default	9	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

Excellent – strong credit quality with low expected credit risk;

Good – adequate credit quality with a moderate credit risk;

Satisfactory – moderate credit quality with a satisfactory credit risk;

Special monitoring – facilities that require closer monitoring and remedial management; and

Default – facilities in which a default has occurred.

The approach used by the Group for measuring credit risk associated with legal entities, is an Expert Judgement-based model designed internally, which assigns credit ratings to the borrower based on the different qualitative and quantitative factors. Ratings are estimated by credit risk officers and are reviewed by the members of the credit risk committees during the credit approval process.

35 Financial Risk Management (Continued)

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
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

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. Currently the bank doesn't adjust the ECL for expected prepayments, but the effect is assessed to be immaterial. 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.

35 Financial Risk Management (Continued)

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.

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 twelve months. This period of twelve 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.

35 Financial Risk Management (Continued)

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 exception 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.

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/Significant increase in 12 months PD for retail portfolio.

The level of ECL that is recognised in these consolidated and separate 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.

35 Financial Risk Management (Continued)

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.

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 afterwards discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. Due to the insufficient data on the payment periodicity for instruments with non-monthly schedules, the assumption of 30-day schedule has been used for the entire corporate/SME portfolio. The impact of this simplification was assessed as immaterial. Currently the Group doesn't consider early repayment or refinancing assumptions in ECL assessment (the impact was assessed to be insignificant). For revolving products like overdrafts and credit cards the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. CCF is assumed to be 100% for retail and corporate credit cards and overdrafts. Unlike CCF, which is used for credit cards and overdrafts, Utilization Rate is calculated and updated for each reporting period for the committed, but undrawn limits for Corporate and SME exposures. Utilization rate is the assessment for the expected drawdown of the remaining limit by the time, when counterparty defaults and is calculated based on the analysis of past data, i.e. historical data on corporate and SME exposures with remaining undrawn limit at the moment of default.

35 Financial Risk Management (Continued)

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 calculate 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*LG2

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.

The group has applied a floor to final estimated LGD. The rationale for applying the floor is that there are factors, which cannot be modeled even in the pessimistic scenario, which can result in a loss even in case of over-collateralized assets. The group applies LGD floor as management adjustment to the model estimates and the floor value is subject to regular back-testing and reviews. ECL Sensitivity to LGD floor is disclosed in note 4.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("ExOff"). CCF for undrawn credit lines of corporate customers, credit cards issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default. CCF for overdrafts is defined as 100% since the limits can be used by the customers at any time.

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to government and interbank exposures.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. Forecasts of economic variables (the "base economic scenario", "Upside economic scenario" and "downside economic scenario") are published by the National Bank of Georgia and provide the best estimate of the expected macro-economic development. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates. Final PD models have been adjusted with relevant macroeconomic variables, with significant impact on Default rates (Nominal Effective Exchange Rates for Retail PD Models and Country Sovereign Risk Premium for Corporate PD Models). The Group has incorporated macroeconomic variables in the formulas for LGD, in particular in LGD2 formulas, via incorporating adjustment by real estate price index on the collateral value. Currently no macroeconomic adjustment is done for EAD, but the impact has been assessed as insignificant.

35 Financial Risk Management (Continued)

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. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The open currency position may cause substantial losses depending on the extent of difference and a change in exchange rate. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. General open currency position limits are set to minimize this risk inasmuch 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 2018 the VaR value amounted GEL 462 thousand (2017: GEL 180 thousand).

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****35 Financial Risk Management (Continued)**

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In thousands of Georgian Lari</i>	At 31 December 2018			At 31 December 2017		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Georgian Lari	552,719	350,163	202,556	390,796	218,908	171,888
US Dollars	740,437	738,333	2,104	731,642	730,751	891
Euros	90,872	90,777	95	65,693	65,509	184
Other	537	479	58	632	586	46
Total	1,384,565	1,179,752	204,813	1,188,763	1,015,754	173,009

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

<i>In thousands of Georgian Lari</i>	At 31 December 2018 Impact on profit or loss	At 31 December 2017 Impact on profit or loss
US Dollar strengthening by 20% (2017: strengthening by 20%)	421	178
US Dollar weakening by 20% (2017: weakening by 20%)	(421)	(178)
Euro strengthening by 20% (2017: strengthening by 20%)	19	37
Euro weakening by 20% (2017: weakening by 20%)	(19)	(37)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. The Group's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

<i>In thousands of Georgian Lari</i>	Average exposure during 2018 Impact on profit or loss	Average exposure during 2017 Impact on profit or loss
US Dollar strengthening by 20% (2017: strengthening by 20%)	112	34
US Dollar weakening by 20% (2017: weakening by 20%)	(112)	(34)
Euro strengthening by 20% (2017: strengthening by 20%)	(2)	(1)
Euro weakening by 20% (2017: weakening by 20%)	2	1

35 Financial Risk Management (Continued)

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:

<i>In thousands of Georgian Lari</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
31 December 2018						
Total financial assets	362,888	286,756	147,546	450,318	137,057	1,384,565
Total financial liabilities	355,355	195,723	209,969	194,720	220,518	1,176,285
Net interest sensitivity gap at 31 December 2018	7,533	91,033	(62,423)	255,598	(83,461)	208,280
31 December 2017						
Total financial assets	306,156	172,509	192,159	382,545	135,395	1,188,764
Total financial liabilities	353,803	311,399	136,949	31,548	182,057	1,015,756
Net interest sensitivity gap at 31 December 2017	(47,647)	(138,890)	55,210	350,997	(46,662)	173,008

As at 31 December 2018 most of interest bearing assets and liabilities are placed in USD, part of loans and advances to customers and borrowings are based on floating interest rates. For the average exposure during 2018 if interest rates had been 200 basis points lower (2017: 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 1,068 thousand lower (2017: GEL 1,042 thousand lower), mainly as a result of lower interest income on variable interest assets of GEL 2,246 thousand which exceed decrease in interest expense from floating rate borrowings of GEL 1,178 thousand, (2017: mainly as a result of lower interest income on variable interest assets by GEL 1,665 thousand which exceed decrease in interest expenses from floating rate borrowings by GEL 623 thousand); if interest rates had been 100 basis points lower (2017: 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 153 thousand lower (2017: GEL 145 thousand lower), due to lower interest income on variable interest assets of GEL 642 which exceeds increase income from floating rate borrowings of GEL 448 (2017: mainly as a result of lower interest income on variable interest assets).

If interest rates had been 200 basis points higher (2017: 200 basis points higher), on GEL denominated interest bearing assets and liabilities with all other variables held constant, profit would have been GEL 1,068 thousand higher (2017: GEL 1,042 thousand higher), mainly as a result of higher interest income on variable interest assets by GEL 2,246 thousand which exceed growth of interest expense from floating rate borrowings of GEL 1,178 thousand (2017: mainly as a result of higher interest income on variable interest assets of GEL 1,665 which exceed growth of interest expenses from floating rate borrowings by GEL 632 thousand). If interest rates had been 100 basis points higher (2017: 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 153 thousand higher (2017: GEL 327 thousand lower) with higher interest income on variable interest assets of GEL 642 and decrease in income from floating rate borrowings by GEL 448 (2017: mainly as a result of higher expense on variable interest liabilities of GEL 471 thousand which exceed decrease in interest income from floating rate loans of GEL 145 thousand).

35 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel:

	2018			2017		
	GEL	USD	Euro	GEL	USD	Euro
Assets						
Cash and cash equivalents	0.2%	1.0%	-	2%	1.0%	-
Mandatory cash balances with the NBG		0.8%	-0.6%	-	1.0%	-0.6%
Due from other banks	-	-	-	4.0%	-	-
Investments in debt securities	8%	-	-	-	-	-
Loans and advances to customers	11.7%	8.7%	6.2%	11.8%	8.7%	7.1%
Bonds carried at amortized cost	-	-	-	8.0%	-	-
Liabilities						
Due to other banks	7.1%	5.3%	1.6%	7.4%	-	-
Customer accounts	7.3%	3.5%	1.6%	7.0%	3.1%	1.9%
- current and settlement accounts	7.0%	3.4%	1.3%	7.3%	3.4%	0.9%
- term deposits	7.7%	3.6%	1.7%	6.5%	3.0%	2.0%
Other borrowed funds	12.4%	6.0%	3.4%	-	5.0%	3.8%

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 (2017: 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.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****35 Financial Risk Management (Continued)**

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2018 is set out below:

<i>In thousands of Georgian Lari</i>	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	68,843	8	1,056	62,593	132,500
Mandatory cash balances with NBG	170,443	-	-	-	170,443
Investments in debt securities	175,690	-	-	-	175,690
Investment in equity securities	63	-	-	-	63
Loans and advances to customers	900,803	-	-	-	900,803
Other financial assets	5,066	-	-	-	5,066
Total financial assets	1,320,908	8	1,056	62,593	1,384,565
Financial liabilities					
Due to other banks	100,196	-	-	-	100,196
Customer accounts	647,067	80,354	-	-	727,421
Other borrowed funds	-	91,527	247,810	6,445	345,782
Other financial liabilities	6,353	-	-	-	6,353
Total financial liabilities	753,616	171,881	247,810	6,445	1,179,752
Net position in on-balance sheet financial instruments	567,292	(171,873)	(246,754)	56,148	204,813
Credit related commitments	154,212	2,414	-	-	156,626

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.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****35 Financial Risk Management (Continued)**

The geographical concentration of the Group's financial assets and liabilities at 31 December 2017 is set out below:

<i>In thousands of Georgian Lari</i>	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	61,121	1	78,448	7	139,577
Mandatory cash balances with NBG	130,824				130,824
Due from other banks	15,094				15,094
Loans and advances to customers	757,874				757,874
Investment securities available for sale	63				63
Investment securities held to maturity	143,903				143,903
Other financial assets	1,429				1,429
Total financial assets	1,110,308	1	78,448	7	1,188,764
Financial liabilities					
Due to other banks	59,982				59,982
Customer accounts	533,096	144,724			677,820
Other borrowed funds	9	-	158,358	111,913	270,280
Other financial liabilities	7,674				7,674
Total financial liabilities	600,761	144,724	158,358	111,913	1,015,756
Net position in on-balance sheet financial instruments	509,547	(144,723)	(79,910)	(111,906)	173,008
Credit related commitments	105,777	2,347	-	-	108,124

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. 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.

35 Financial Risk Management (Continued)

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 Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the NBG, which is defined as average ratio of liquid assets to liabilities and borrowings up to six months and off-balance sheet liabilities limited to minimum 30% on monthly basis. The average liquidity ratio was 57% at 31 December 2018 (2017: 57%);

The group manages liquidity risk according to the ALM Policy and Regulation of Liquidity Management, which detail liquidity management processes and procedures and relevant limits. The Regulation of Liquidity Management defines limits on:

- Liquidity Coverage Ratio (“LCR”)
- Cumulative liquidity gaps

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 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

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.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****35 Financial Risk Management (Continued)**

The maturity analysis of financial instruments at 31 December 2018 is as follows:

	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
<i>In thousands of Georgian Lari</i>						
Assets						
Cash and cash equivalents	132,500	-	-	-	-	132,500
Mandatory cash balances with the NBG	170,443	-	-	-	-	170,443
Investments in debt securities	6,021	27,114	52,592	89,963	-	175,690
Investments in equity securities	-	-	-	-	63	63
Loans and advances to customers	16,650	119,118	169,500	370,532	225,003	900,803
Other financial assets	507	-	4,425	-	134	5,066
Total	326,121	146,232	226,517	460,495	225,200	1,384,565
Liabilities						
Due to other banks	65,400	34,796	-	-	-	100,196
Customer accounts – individuals	123,154	51,585	70,663	26,742	2,410	274,554
Customer accounts – other	287,796	49,664	94,555	34,250	589	466,854
Other borrowed funds	5,353	87,038	114,003	157,486	10,595	374,475
Other financial liabilities	1,588	4,765	-	-	-	6,353
Financial guarantees	55,573	-	-	-	-	55,573
Gross loan commitments	77,771	-	-	-	-	77,771
Total potential future payments for financial obligations	616,635	227,848	279,221	218,478	13,594	1,355,776
Liquidity gap arising from financial instruments	(290,514)	(81,616)	(52,704)	242,017	211,606	28,789

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****35 Financial Risk Management (Continued)**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The maturity analysis of financial instruments at 31 December 2017 is as follows:

	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
<i>In thousands of Georgian Lari</i>						
Assets						
Cash and cash equivalents	139,577	-	-	-	-	139,577
Mandatory cash balances with the NBG	130,824	-	-	-	-	130,824
Due from other banks	-	15,094	-	-	-	15,094
Loans and advances to customers	13,611	117,206	194,569	261,911	170,577	757,874
Investment securities available for sale	-	-	-	-	63	63
Bonds carried at amortized cost	10,681	40,180	45,311	47,731	-	143,903
Other financial assets	1,202	-	205	-	22	1,429
Total	295,895	172,480	240,085	309,642	170,662	1,188,764
Liabilities						
Due to other banks	44,028	15,954	-	-	-	59,982
Customer accounts – individuals	112,444	29,566	44,439	23,197	1,462	211,108
Customer accounts – other	303,058	60,646	91,320	22,413	591	478,028
Other borrowed funds	60,157	68,872	80,111	67,514	-	276,654
Other financial liabilities	7,590	84	-	-	-	7,674
Financial guarantees	30,978	-	-	-	-	30,978
Gross loan commitments	50,477	-	-	-	-	50,477
Total potential future payments for financial obligations	608,732	175,122	215,870	113,124	2,053	1,114,901
Liquidity gap arising from financial instruments	(312,837)	(2,642)	24,215	196,518	168,609	73,863

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.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****35 Financial Risk Management (Continued)**

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap as follows:

	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
<i>In thousands of Georgian Lari</i>						
At 31 December 2018						
Financial assets	326,120	146,232	226,517	460,495	225,200	1,384,564
Financial liabilities	169,088	246,422	285,521	323,456	197,944	1,222,431
Financial and performance guarantees	374	-	-	-	-	374
Undrawn credit related commitments	7,777	-	-	-	-	7,777
Net liquidity gap based on expected maturities	148,881	(100,190)	(59,004)	137,039	27,257	153,982
Cumulative liquidity gap based on expected maturities	148,881	48,691	(10,313)	126,726	153,982	-
At 31 December 2017						
Financial assets	295,896	172,479	240,085	309,642	170,661	1,188,763
Financial liabilities	198,013	208,686	228,051	337,713	66,429	1,038,892
Financial and performance guarantees	362	-	-	-	-	362
Undrawn credit related commitments	5,048	-	-	-	-	5,048
Net liquidity gap based on expected maturities	92,473	(36,207)	12,034	(28,071)	104,232	144,461
Cumulative liquidity gap based on expected maturities	92,473	56,266	68,300	40,229	144,461	

Amounts for financial and performance guarantees and undrawn credit lines are disclosed based on expected cash outflows.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

As at 31 December 2018 the management believes it will be able to close the liquidity gap by obtaining sufficient borrowings from NBG or other banks under committed borrowings as and when necessary arises.

36 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least above the minimum level stated in borrowing agreements.

Compliance with capital adequacy ratios set by the NBG is monitored monthly, with reports outlining their calculation reviewed and signed by Deputy General Director, Finances. Other objectives of capital management are evaluated quarterly.

In the process of transition to Basel III framework, to increase transparency and comparability and segregate between available Capital instruments, for coverage of potential risks, the National Bank of Georgia ("NBG") amended Capital Adequacy requirements in December 2017 and in addition to the minimum capital requirements under pillar 1, in updated framework new Pillar 1 and Pillar 2 buffers were introduced:

Buffers under pillar 1:

- The capital conservation buffer - 2.5% of risk-weighted assets, and is designed to provide for losses in the event of stress, included in minimum capital requirements;
- The countercyclical capital buffer - was introduced within the Basel III framework and represents one of the main macro-prudential policy instruments, currently set at 0%;
- Systemic buffers - are set separately for each commercial bank considered to be systematically important (not applicable for Basis bank)

Buffers under pillar 2:

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

Under the current capital requirements set by the NBG, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Based on information provided internally to key management personnel, the amount of capital that the Group managed was GEL 218,933 thousand as of 31 December 2018 (2017: GEL 185,100 thousand), regulatory capital amounts to GEL 221,981 thousand (2017: GEL 187,028 thousand) and the Group and the Bank have complied with all externally imposed capital requirements throughout 2018 and 2017.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****36 Management of Capital (Continued)**

The following Capital adequacy report is prepared under stand alone basis in accordance with NBG standards:

<i>In thousands of Georgian Lari</i>	2018 Pillar I/II	2017 Pillar I/II
Primary capital		
Share capital	16,138	16,097
Share premium	75,784	75,284
Retained earnings according to the NBG regulations	82,129	65,530
Revaluation reserve	9,653	8,602
Current year profit according to NBG regulations	35,230	19,588
Primary capital Before Correction	218,934	185,101
Primary capital Corrections	(11,017)	(9,463)
Total primary capital After correction	207,917	175,638
Secondary capital		
General reserve	14,064	11,390
Total secondary capital	14,064	11,390
Total regulatory capital	221,981	187,028
Risk weighted assets, combining credit, market and operational risks	1,215,027	980,272
Minimum Tier 1 Ratio	<u>11.1%</u>	<u>10.1%</u>
Tier I ratio	17.11%	17.92%
Regulatory capital ratio	18.27%	19.1%

37 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 both internal 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 consolidated and separate 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 for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances tax year may remain open longer.

The Bank is under inspection of tax authorities for the tax period starting from 1 April 2015 until 31 August 2018. There are certain areas which were questioned by the tax authorities, the Bank has not agreed with the estimations, disputes were not settled as at 31 December 2018. The onsite inspection continues and is not finalised as at 31 December 2018. No provision has been made as the Group's management believes that it is not likely that any significant loss will eventuate.

The Georgian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. The Group consults with qualified external tax advisors on a regular basis.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Georgian Lari</i>	2018	2017
Not later than 1 year	327	297
Total operating lease commitments	327	297

The Group leases a number of premises and equipment under operating leases. 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.

37 Contingencies and Commitments (Continued)

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that the Group was in compliance with covenants at 31 December 2018.

As of 31 December 2017, the Bank has breached one covenant under the loan agreement with BlueOrchard Microfinance Fund. Management believes that the Group was in compliance with all other covenants at 31 December 2017. The carrying amount of the affected loan as of 31 December 2017 was GEL 52,913 thousands. The breach has been adequately reflected in the contractual maturity table under the Financial Risk Management note.

The Bank are 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 II. The Bank complied with this loan covenant.

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

<i>In thousands of Georgian Lari</i>	2018	2017
Tier 1 capital		
Share capital	90,980	90,980
Retained earnings	146,999	113,316
Total tier 1 capital	237,979	204,296
Tier 2 capital		
Revaluation reserves	9,372	8,387
General reserve	4,483	8,230
Total tier 2 capital	13,767	16,617
Total capital	251,746	220,913

General reserve included in Tier 2 is defined as lower of (a) IFRS provisions created on loans without signs of impairment and (b) 2% of loans without impairment trigger event.

37 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

<i>In thousands of Georgian Lari</i>	Note	2018	2017
Financial guarantees issued		55,573	30,979
Undrawn credit line commitments		77,771	50,477
Total loan commitments		133,344	81,456
Less: Provision for financial guarantees		(95)	(168)
Less: Provision for loan commitments		(262)	-
Less: Commitment collateralised by cash deposits		(24,422)	(23,295)
Total credit related commitments, net of provision and cash covered exposures		108,565	57,993

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

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Notes to the Consolidated and Separate Financial Statements – 31 December 2018

37 Contingencies and Commitments (Continued)

Movements in provisions for financial guarantees are as follows:

<i>In thousands of Georgian Lari</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Total provision	Gross guaranteed amount
Provision for financial guarantees at 1 January 2018	77	1	78	30,978
<i>Movements with impact on provision for credit related commitments charge for the period:</i>				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(44)	44	-	-
Issued guarantees	95	-	95	49,887
Derecognised during the period	(77)	(1)	(78)	(25,380)
Total charge to profit or loss for the year	(26)	43	17	55,485
<i>Movements without impact on provision for credit related commitments charge for the period:</i>				
FX movements	-	-	-	88
Provision for financial guarantees at 31 December 2018	51	44	95	55,573

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2018 is as follows.

<i>In thousands of Georgia</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Issued financial guarantees				
- Excellent	10,674	-	-	10,674
- Good	39,431	-	-	39,431
- Satisfactory	-	5,468	-	5,468
Unrecognised gross amount	50,105	5,468	-	55,573
Provision for financial guarantees	(51)	(44)	-	(95)
Loan commitments				
- Excellent	7,334	-	-	7,334
- Good	53,358	-	-	53,358
- Satisfactory	-	17,037	-	17,037
- Special monitoring	-	43	-	43
Unrecognised gross amount	60,692	17,080	-	77,772
Provision for loan commitments	(123)	(139)	-	(262)

37 Contingencies and Commitments (Continued)

Refer to Note 35 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 fair value of credit related commitments was GEL 638 thousand at 31 December 2018 (2017: GEL 1,379 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:

<i>In thousands of Georgian Lari</i>	Note	2018	2017
Construction		14,216	10,266
Trade		747	1,653
Service		1,454	2,081
Other		6,865	12,669
Total guaranteed amounts		23,282	26,669

Movements in provisions for performance guarantees are as follows:

<i>In thousands of Georgian Lari</i>	Note	2018	2017
Carrying amount at 1 January		179	79
Initial recognition of issued performance guarantees		9	686
Utilisation of provision		(171)	(586)
Carrying amount at 31 December		17	179

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Notes to the Consolidated and Separate Financial Statements – 31 December 2018

37 Contingencies and Commitments (Continued)

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

<i>In thousands of Georgian Lari</i>	Notes	31 December 2018		31 December 2017	
		Asset pledged	Related liability	Asset pledged	Related liability
Investments in debt securities		40,427	38,153	-	-
Mortgage Loan portfolio pledged with NBG		27,309	21,847	-	-
Bonds carried at amortized cost		-	-	39,416	30,000
Total		67,736	60,000	39,416	30,000

At 31 December 2018, restricted cash balances are balances of GEL 134 thousand (2017: GEL 130 thousand) are placed as a cover for international payment cards transactions.

In addition, mandatory cash balances with the NBG of GEL 170,444 thousand (2017: GEL 130,824 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 7.

38 Offsetting Financial Assets and Financial Liabilities

At 31 December 2018 and 31 December 2017 no financial instruments subject to offsetting, enforceable master netting and similar arrangements are presented.

39 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

<i>In thousands of Georgian Lari</i>	31 December 2018				31 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investments in equity securities	-	63	-	63	-	-	-	-
NON-FINANCIAL ASSETS								
- Premises	-	-	21,345	21,345	-	-	18,961	18,961
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS								
	-	63	21,345	21,408	-	-	18,961	18,961

39 Fair Value Disclosures (Continued)**(b) Non-recurring fair value measurements**

The non-current assets held for sale are measured at FV less cost to sell as of 31 December 2018 and 31 December 2017. The fair value belongs to level 3 measurements in the fair value hierarchy. The fair value is GEL 6,301 thousand (2017: GEL 2,800 thousand).

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs at 31 December 2018 and 31 December 2017 are as follows:

	Fair value at 31 December		Valuation technique	Inputs used	Range of inputs (weighted average)
<i>In thousands of Georgian Lari</i>	2018	2017			
ASSETS AT FAIR VALUE					
NON-FINANCIAL ASSETS					
				Price per square meter	Commercial area 3,640-10,831 Office area 2,460- 4,100 Garage 1,179-1,591 (3,568)
- Premises	21,345	18,961	Market comparable assets		
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3					
	21,345	18,961			

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****39 Fair Value Disclosures (Continued)****(d) 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:

<i>In thousands of Georgian lari</i>	31 December 2018				31 December 2017			
	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	32,099	-	-	32,099	30,341	-	-	30,341
- Cash balances with the NBG	-	31,750	-	31,750	-	27,902	-	27,902
- Correspondent accounts and overnight placements	-	68,650	-	68,650	-	81,333	-	81,333
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	-	-	-	-	15,094	-	15,094
Mandatory balances with the NBG	-	170,443	-	170,443	-	130,824	-	130,824
Investments in debt securities								
-Georgian government treasury bonds	-	107,067	-	106,109	-	-	-	-
-Georgian government treasury bills	-	66,948	-	66,850	-	-	-	-
-NBG deposit Certificate	-	2,731	-	2,731	-	-	-	-
Loans and advances to customers at AC								
- Corporate loans	-	-	679,068	683,919	-	-	594,712	604,695
- Mortgage loans	-	-	142,684	134,980	-	-	110,060	99,049
- Consumer loans	-	-	82,602	77,245	-	-	51,497	49,140
- Credit cards	-	-	4,659	4,659	-	-	4,990	4,990
Bonds carried at amortised cost								
Georgian government treasury bonds	-	-	-	-	-	88,721	-	87,747
Georgian government treasury bills	-	-	-	-	-	56,103	-	56,156
NBG deposit Certificate	-	-	-	-	-	-	-	-
Other financial assets	-	5,066	-	5,066	-	1,429	-	1,429
NON-FINANCIAL ASSETS								
- Investment properties	-	-	3,972	1,572	-	-	1,636	1,078
TOTAL	32,099	452,655	912,985	1,386,073	30,341	401,406	762,895	1,189,779

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****39 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:

	Level 1 fair value	Level 2 fair value	Level 3 fair value Total	Carry-ing value	Level 1 fair value	Level 2 fair value	Level 3 fair value Total	Carry-ing value
<i>In thousands of Georgian Lari</i>								
FINANCIAL LIABILITIES								
<i>Due to other banks</i>								
- Correspondent accounts and overnight placements of other banks	-	1	-	1	-	1	-	1
- Short-term placements of other banks	-	50,155	-	50,155	-	29,963	-	29,963
- Short-term loans of NBG	-	50,039	-	50,039	-	30,018	-	30,018
<i>Customer accounts</i>								
- Current/settlement accounts of state and public organisations	-	128,789	-	128,789	-	151,577	-	151,577
- Term deposits of state and public organisations	-	-	35,638	35,137	-	-	14,387	13,638
- Current/settlement accounts of other legal entities	-	135,716	-	135,716	-	136,051	-	136,051
- Term deposits of other legal entities	-	-	163,226	161,995	-	-	187,130	171,321
- Current/demand accounts of individuals	-	109,751	-	109,751	-	93,866	-	93,866
- Term deposits of individuals	-	-	159,211	156,033	-	-	128,551	111,367
<i>Other borrowed funds</i>								
- Borrowings from International Financial institutions	-	374,476	-	345,782	-	296,617	-	270,270
- Borrowings from government	-	-	-	-	-	10	-	10
<i>Other financial liabilities</i>								
	-	6,352	-	6,352	-	7,673	-	7,673
TOTAL	-	855,279	358,075	1,179,750	-	745,776	330,068	1,015,755

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

The Group's liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

40 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.

For the purposes of measurement at 31 December 2017, IAS 39 “Financial Instruments: Recognition and Measurement”, classified financial assets into the following categories: (a) L&R; (b) AFS financial assets; (c) financial assets HTM and (d) financial assets at FVTPL. Financial assets at FVTPL had two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables formed a separate category. All of the Group’s financial assets at 31 December 2017 fell in the L&R category except for financial derivatives and investment securities available for sale. Derivatives belong to the fair value through profit or loss measurement category and were held for trading. The group held no derivative financial assets as at 31 December 2018 (nil for December 2017).

Investment securities available for sale belong to available-for-sale measurement category. All of the Group’s financial liabilities except for derivatives were carried at AC. Derivatives belonged to the FVTPL measurement category and were held for trading.

As of 31 December 2018 and 31 December 2017, all of the Group’s financial liabilities were carried at AC.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

	Equity instru- ments at FVOCI	AC	Total
<i>In thousands of Georgian Lari</i>			
ASSETS			
Cash and cash equivalents	-	132,500	132,500
Mandatory cash balances with the NBG	-	170,443	170,443
Investments in debt securities	-	175,690	175,690
Georgian government treasury bonds	-	106,109	106,109
Georgian government treasury bills	-	66,850	66,850
NBG certificates of deposit	-	2,731	2,731
Investments in equity securities	63	-	63
Loans and advances to customers	-	900,803	900,803
- Standard lending	-	683,919	683,919
- Mortgage loans	-	134,980	134,980
- Consumer loans	-	77,246	77,246
- Credit cards	-	4,659	4,659
Other financial assets:	-	5,066	5,066
TOTAL FINANCIAL ASSETS	63	1,384,501	1,384,564

BasisBank Group

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41 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 in Separate Statement of Financial Position are investments in Basis Asset Management Holding LLC, Hualing Insurance JSC and BHL Leasing JSC.

In thousands of Georgian Lari

Name	Principal activities	2018		2017	
		Investment	Accumulated Profit/(loss)	Investment	Accumulated Profit/(loss)
Basis Asset Management – Holding LLC	Asset management	3,796	(52)	3,797	(56)
Hualing Insurance JSC	Insurance	4,300	1,470	4,300	8
BHL Leasing JSC	Leasing	2,000	(3)		
Total		10,096	1,415	8,097	(48)

At 31 December 2018, the outstanding balances with related parties were as follows:

	Ultimate shareholder	Other shareholders	Immediate parent company	Supervisory Board	Management Board	Companies under common control	Other related parties
<i>In thousands of Georgian Lari</i>							
Loans and advances to customers (contractual interest rate: 4.7% – 16 %)	-	23	-	7	676	261	195
Credit loss allowance at 31 December 2018	-	(1)	-	-	(15)	(9)	(4)
Customer accounts (contractual interest rate: 2% – 10%)	386	1,241	9,800	560	2,288	37,486	829

The income and expense with related parties for 2018 other than key management personnel remuneration were as follows:

	Ultimate shareholder	Other shareholders	Immediate parent company	Supervisory Board	Management Board	Companies under common control	Other related parties
<i>In thousands of Georgian Lari</i>							
Interest income	-	6	-	21	59	1,455	20
Interest expense	(22)	(33)	(230)	(42)	(145)	(1,649)	(49)
Credit loss allowance	-	-	-	1	(3)	4	1
Gains less losses from trading in foreign currencies	-	5	-	4	-	597	-
Foreign exchange translation gains less losses	-	(23)	(236)	33	(90)	1,498	(16)
Fee and commission income	-	-	-	-	-	5	-
Administrative and other operating expenses	-	-	-	-	(2)	-	(86)

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****41 Related Party Transactions (Continued)**

At 31 December 2018, other rights and obligations with related parties were as follows:

	Ultimate share- holder	Other share- holders	Immedi- ate parent company	Superviso- ry Board	Manage- ment Board	Compa- nies under common control	Other related parties
<i>In thousands of Georgian Lari</i>							
Performance Guarantees issued by the Group at the year end	-	-	-	-	-	1,065	-
Financial Guarantees issued by the Group at the year end	-	-	-	-	-	1,536	-
Undrawn credit line commitments	-	295	-	160	496	739	18

Aggregate amounts lent to and repaid by related parties during 2018 were:

	Ultimate share- holder	Other share- holders	Immedi- ate parent company	Supervisory Board	Manage- ment Board	Companies under common control	Other related parties
<i>In thousands of Georgian Lari</i>							
Amounts lent to related parties during the year	-	1,042	-	849	332	3,613	-
Amounts repaid by related parties during the year	-	(1,364)	-	(1,253)	(626)	(41,234)	(114)

At 31 December 2017, the outstanding balances with related parties were as follows:

	Ultimate shareholder	Other shareholder	Immediate Parent Company	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>						
Gross amount of loans and advances to customers (contractual interest rate: 4% -24%)	-	-	-	1	959	36,424
Impairment provisions for loans and advances to customers at 31 December	-	-	-	-	(6)	-
Customer accounts (contractual interest rate: 0% - 12.25%)	363	1,007	6,757	1,034	1,845	85,837

The loans advanced to related companies are fully covered with pledged deposits.

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****41 Related Party Transactions (Continued)**

The income and expense items with related parties for 2017 other than key management personnel remuneration were as follows:

	Ultimate shareholder	Other Immediate shareholder Parent Company	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>					
Interest income	4	-	-	56	910
Interest expense	(25)	(28)	(205)	(47)	(2,044)
(Provision charge)/Recovery of loan impairment	-	-	-	(1)	245
Gains less losses from trading in foreign currencies	9	-	1	4	603
Foreign exchange translation gains less losses	-	(23)	(75)	(4)	1,087
Administrative and other operating expenses	-	-	-	-	(71)

At 31 December 2017, other rights and obligations with related parties were as follows:

	Ultimate Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Performance Guarantees issued by the Group at the year end	-	-	-	452
Financial Guarantees issued by the Group at the year end	-	-	-	1,553
Undrawn credit line commitments	98	38	288	-

Aggregate amounts lent to and repaid by related parties during 2017 were:

	Immediate Parent Company	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Amounts lent to related parties during the year	275	-	621	45,654
Amounts repaid by related parties during the year	(733)	-	(453)	(12,723)

BasisBank Group**Notes to the Consolidated and Separate Financial Statements – 31 December 2018****41 Related Party Transactions (Continued)**

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

<i>In thousands of Georgian Lari</i>	2018		2017	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	173	-	173	-
Total	173	-	173	-

Key management compensation is presented below:

<i>In thousands of Georgian Lari</i>	2018		2017	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	838	-	837	-
- Short-term bonuses	1,360	837	905	780
<i>Share-based compensation:</i>				
- Equity-settled share-based compensation	488	-	463	-
Total	2,686	837	2,205	780

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

42 Accounting Policies Applicable before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or AC as described below. Refer to Note 3 for the definition of fair value and AC as well as for description of valuation techniques.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Loans and advances to customers. Loans and advances to customers were carried at AC and impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Group determined that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics, and collectively assessed them for impairment.

The primary factors that the Group considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there was objective evidence that a credit loss has occurred:

- any instalment was overdue and the late payment could not be attributed to a delay caused by the settlement systems;
- the borrower experienced a significant financial difficulty as evidenced by the borrower’s financial information that the Group obtained;
- the borrower considered bankruptcy or a financial reorganisation;
- there was an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impacted the borrower; or
- the value of collateral significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of credit loss, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that were collectively evaluated for credit loss, were estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts would become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

Credit loss was always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which excluded future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflected the cash flows that might result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

If the terms of an impaired financial asset held at AC were renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment were measured using the original effective interest rate before the modification of terms. The renegotiated asset were then derecognised and a new asset

42 Accounting Policies applicable before 1 January 2018 (Continued)

were recognised at its fair value only if the risks and rewards of the asset substantially changed. This were normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the credit loss decreases and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss was reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets were written off against the related credit loss allowance after all the necessary procedures to recover the asset had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off were credited to credit loss account in profit or loss for the year.

Investments carried at cost. Management could not reliably estimate fair value of the Group's AFS investments in shares of GEL 63 thousand. The investments are carried at a cost. The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible.

Credit related commitments. Financial guarantees and commitments to provide a loan are initially recognised at fair value and subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities AFS. This classification included investment securities which the Group intended to hold for an indefinite period of time and which might be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities AFS were carried at fair value. Interest income on AFS debt securities was calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on AFS equity instruments were recognised in profit or loss for the year when the Group's right to receive payment was established and it was probable that the dividends would be collected. All other elements of changes in the fair value were recognised in other comprehensive income until the investment was derecognised or impaired, at which time the cumulative gain or loss was reclassified from other comprehensive income to profit or loss for the year. Impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities AFS. A significant or prolonged decline in the fair value of an equity security below its cost was an indicator that it was impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – was reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments were not reversed and any subsequent gains were recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss for the year.

HTM Securities. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities HTM at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities HTM are carried at AC.

42 Accounting Policies applicable before 1 January 2018 (Continued)

Promissory notes purchased. Promissory notes purchased are included in trading securities, AFS securities, in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Finance lease receivables. Impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group used the same principal criteria to determine whether there is objective evidence that an impairment loss had occurred, as for loans carried at AC. Impairment losses were recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflected the cash flows that may result from obtaining and selling the assets subject to the lease.

Income and expense recognition. Interest income and expense are recorded for all debt instruments 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 fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. 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.

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, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

43 Abbreviations

The list of the abbreviations used in these consolidated and separate financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
ADR	American Depository Receipt
AFS	Available For Sale
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
GDR	Global Depository Receipt
HTM	Held To Maturity
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
SDIA	State Deposit Insurance Agency
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