JSC VTB Bank (Georgia)

Financial statements

For the year ended 31 December 2024
together with independent auditor's report

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Independent Auditor's Report

To the Shareholders and Supervisory Board of JSC VTB Bank (Georgia)

Disclaimer of opinion

We were engaged to audit the financial statements of JSC VTB Bank (Georgia) (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2024, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Bank. Because of the significance of the matters described in the section of our report entitled "Basis for Disclaimer of Opinion", we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

We draw attention to Note 2 to the financial statements, which describes that the Bank was subject to sanctions imposed by certain countries following the Russian Federation's invasion of Ukraine on 24 February 2022. These sanctions have had a negative impact on the Bank's operations for the year ended 31 December 2024 and subsequent to the reporting date. Due to the uncertainty surrounding the future development and timing of these events, as well as other circumstances described in Note 2 that are beyond the Bank's control, management was unable to conclusively assess the Bank's ability to continue as a going concern. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the use of the going concern basis of accounting in the preparation of the financial statements.

Other information

Other information comprises the annual report. Management is responsible for the annual report. Our opinion on the financial statements does not cover the annual report.

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

In our opinion, based on the work performed during the audit:

- As outlined in the "Basis for Disclaimer of Opinion" section of our report, we were unable to determine whether any adjustments might have been necessary in respect of recognized or unrecognized cash and cash equivalents, loans to customers, and customer liabilities and related elements that comprise the statement of financial position as at 31 December 2024, as well as the statements of comprehensive income, changes in equity, and cash flows for the years then ended. Accordingly, based on the work we have performed, we are unable to conclude whether the management report is materially misstated in respect of this matter.

— The information in the Management report satisfies the requirements of Article 7 of the Law of Georgia on Accounting, Reporting and Auditing and relevant normative acts.

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 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 Bank or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Bank's separate financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the "*Basis for Disclaimer of Opinion*" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

Mariam Arakelashvili

"UHY" LLC

Tbilisi, Georgia

30 May, 2025

Statement of financial position

As of 31 December

(Thousands of Georgian lari)

	Notes	*2024*	*2023*
Assets			
Cash and cash equivalents	5	176,997	153,137
Amounts due from banks and international financial institutions		119	114
Loans and advances to customers	6	171,710	196,526
Investment securities at amortized cost	7	54	54
Property, plant and equipment	8	34,040	34,609
Investment property	9	28,072	29,278
Deferred tax asset	10	317	359
Other assets	12	39,245	38,851
Total assets		450,554	452,928
Liabilities			
Amounts due to banks and international financial institutions	13	294	286
Amounts due to customers	14	12,962	16,976
Other liabilities	12	16,906	16,895
Subordinated loan	20	89,812	97,428
Total liabilities		119,974	131,585
Equity			
Share capital	15	209,008	209,008
Land and buildings revaluation reserve		12,471	11,740
Perpetual subordinated loan	15	43,189	50,857
Retained earnings		65,912	49,738
Total equity		330,580	321,343
Total liabilities and equity		450,554	452,928

Signed and authorized for issue on behalf of the Board of Directors of the Bank on 30 May, 2025:

Archil Kopiselidze
Chief Executive Officer

Mamuka Menteshashvili
Chief Financial Officer

The accompanying selected explanatory notes on pages 8 to 63 are an integral part of these financial statements.

Statement of profit or loss

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	*2024*	*2023*
Interest revenue calculated using effective interest rate			
Loans and advances to customers		16,802	21,615
		16,802	21,615
Other interest revenue		-	172
		16,802	21,787
Interest expense			
Amounts due to customers		(1,086)	(1,561)
Amounts due to banks, international financial institutions and other borrowed funds		-	(12)
Subordinated loan		(8,148)	(8,642)
Debt securities issued		-	(1)
Lease liabilities		-	(1)
		(9,234)	(10,217)
Payments to deposit insurance system		(19)	(22)
Net interest income		7,549	11,548
Credit loss expense	11	(8,038)	(6,882)
Net interest income after credit loss expense		(489)	4,666
Net fee and commission income	17	19	51
Net gains/(losses) from foreign currencies:			
Translation differences		21,395	23,992
Net losses on initial recognition of financial instruments, loan restructuring and other losses on advances to customers		(220)	(65)
Net gains from sale of financial instruments	2	-	751
Net gains on investment property revaluation	9	2,151	–
Other income	18	17	2,105
Non–interest income		23,362	26,834
Personnel expenses	19	(9,323)	(9,808)
Depreciation	8,9	(1,311)	(1,673)
Other operating costs	19	(3,804)	(22,760)
Reversal of provision for credit related commitments	11	17	134
Non–interest expenses		(14,421)	(34,107)
Profit before income tax expense		8,451	(2,607)
Income tax expense	10	(42)	3,007
Profit for the year		8,410	400

The accompanying selected explanatory notes on pages 8 to 63 are an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December

(Thousands of Georgian lari)

Other comprehensive income	*Notes*	*2024*	*2023*
Other comprehensive income reclassified to profit or loss in subsequent periods			
Revaluation of land and buildings	8	830	–
Income tax effect	10	(3)	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		–	–
Other comprehensive income for the period, net of tax		–	–
Total comprehensive income for the year		9,237	400

The accompanying selected explanatory notes on pages 8 to 63 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	Share capital	Land and buildings revaluation reserve	Perpetual subordinated loan	Retained earnings	Total equity
As of 31 December 2021		**209,008**	**13,203**	**70,514**	**112,813**	**405,538**
Total comprehensive income for the year		–	-	–	(83,562)	**(83,562)**
Amounts paid on Perpetual Subordinated Loan (equity)		–	–	–	(1,033)	(1,033)
Foreign exchange translation on perpetual subordinated loan		–	–	(8,005)	8,005	–
Depreciation of revaluation reserve, net of tax		–	(1,367)	–	1,367	–
As of 31 December 2022		**209,008**	**11,836**	**62,509**	**37,590**	**320,943**
Total comprehensive income for the year		–	–	–	400	**400**
Foreign exchange translation on perpetual subordinated loan		–	–	(11,652)	11,652	–
Depreciation of revaluation reserve, net of tax		–	(96)	–	96	–
As of 31 December 2023	18	**209,008**	**11,740**	**50,857**	**49,738**	**321,343**
Total comprehensive income for the year		–	827	–	8,410	**9,237**
Foreign exchange translation on perpetual subordinated loan		–	–	(7,668)	7,668	–
Depreciation of revaluation reserve, net of tax		–	(96)	–	96	–
As of 31 December 2024	18	**209,008**	**12,471**	**43,189**	**65,912**	**330,580**

The accompanying selected explanatory notes on pages 8 to 63 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	*2024*	*2023*
Cash flows from operating activities			
Interest received		9,198	14,666
Interest paid		(1,052)	(3,542)
Fees and commissions received		39	1,099
Fees and commissions paid		(378)	(760)
Other income received		17	1,998
Personnel expenses		(7,427)	(9,794)
Other operating expenses paid		(4,674)	(4,517)
Cash flows from operating activities before changes in operating assets and liabilities		**(4,277)**	**(850)**
Net (increase)/decrease in operating assets			
Amounts due from banks and international financial institutions		-	-
Loans and advances to customers		28,635	64,162
Other assets		(284)	(3,381)
Net increase/(decrease) in operating liabilities			
Amounts due to banks and international financial institutions		-	-
Amounts due to customers		(4,001)	(10,240)
Debt securities issued		-	(49)
Other liabilities		(1,089)	(3,693)
Net cash flows from / (used in) operating activities before income tax		**18,984**	**45,949**
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(4)	(107)
Proceeds from sale of property and equipment		-	17
Proceeds from disposal of investment property		3,903	1,033
Purchase of investment property		-	(346)
Net cash flows from investing activities		**3,899**	**597**
Cash flows from financing activities			
Repayment of lease liabilities	9	-	(26)
Net cash (paid in) / received from financing activities		**-**	**(26)**
Effect of exchange rate changes on cash and cash equivalents		977	622
Net change in cash and cash equivalents		**23,860**	**47,142**
Cash and cash equivalents at the beginning of the year	5	153,137	105,995
Cash and cash equivalents at the end of the year	5	**176,997**	**153,137**

The accompanying selected explanatory notes on pages 8 to 63 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Introduction

JSC VTB Bank (Georgia) (hereafter the "Bank") was formed as a joint stock company on 7 April 1995 under the laws of Georgia under the name of United Georgian Bank. Tbilisi Chugureti District Court gave the Bank registration number 202906427. The Bank changed its name to VTB Bank (Georgia) on 7 December 2006. The Bank operates under a general banking license issued by the National Bank of Georgia (the "NBG") on 19 May 1995.

The Bank accepted deposits from the public, extended credit, transferred payments in Georgia and abroad, exchanged currencies and provided other banking services to its corporate and retail customers until 24 February 2022. Its main office is in Tbilisi, Georgia. The Bank's headquarters are located in Tbilisi, Georgia. As of 31 December 2023 the Bank had 1 branch in Tbilisi (2022: one branch in Tbilisi; as of 31 December 2021, the Bank had 17 branches (7 of which in Tbilisi) and 9 service centers). Since 24 February 2022, the Bank's activities have been restricted due to sanctions.

The Bank's registered legal address is 14, Chanturia str., Tbilisi, Georgia.

As of 31 December 2024 and 2023, the following shareholders each held more than 1% of the Bank's outstanding shares:

Partner	*2024, %*	*2023, %*
VTB Bank OJSC	97.38	97.38
Lacarpa Enterprises Limited“	1.47	1.47
Other	1.14	1.14
Total	**100.00**	**100.00**

VTB Bank OJSC ("the Parent Bank") is the immediate parent of the Bank. The ultimate controlling party for the Group is the Government of the Russian Federation ("RF"), acting through the Federal Property Agency, which holds 60% of issued and outstanding shares of the Parent Bank as of 31 December 2024 (2023: 60%).

As of 31 December 2024 and 2023 none of the members of the Supervisory Board and the Board of Directors owned any shares of the Bank.

As of 31 December 2024, the Bank had 106 employees (2023: 88 employees;)

As of 31 December 2024 and 2023 the Bank had an average number of employees as given below:

Average number of employees	*2024*	*2023*
Key management personnel	6	6
Other	106	178
Total	**112**	**184**
Including		
Permanent contract	85	152
Temporary contract	28	32
Total	**112**	**184**

As at 31 December 2024 and 2023, the Bank does not have any subsidiaries.

(Thousands of Georgian Lari)

2. Basis of preparation, going concern, accounting policy

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except for land and buildings, investment property, derivative financial instruments and equity investment securities carried at fair value.

These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. GEL is the functional currency of the Bank. Transactions in other currencies are treated as transactions in foreign currencies.

The principal accounting policies applied in the preparation of these financial statements are set out below.

Following the full-scale military invasion of Ukraine by Russian Federation on 24 February 2022, several western countries such as the United States, the United Kingdom and the European Union imposed sanctions on the Russian Federation. These sanctions included, among other measures, freezing certain Russian banks' (including those of the Parent Bank) assets, prohibiting these and other banks from conducting U.S. dollar denominated transactions (including banning the Bank and the Parent Bank from the SWIFT network), restricting certain major Russian companies and Russian government from raising funds in the U.K., U.S. and E.U. markets, halting plastic card transactions by VISA and MasterCard, and limiting Russia's access to high-end technologies. As a result, since February 2022 there has been a significant increase in volatility on the securities and currency markets, as well as a significant volatility of the Russian ruble against the U.S. dollar and the Euro. These events affected the activities of Russian enterprises in various sectors of the economy and countries. As a subsidiary of VTB Bank OJSC (the Parent bank), JSC VTB Bank (Georgia) was included in the list of sanctioned companies and as such, was banned from using SWIFT, VISA and MasterCard services, significantly restricting its ability to conduct normal business operations. Additionally, the National Bank of Georgia (NBG) closed the Bank's correspondent accounts in Georgian Lari (thus restricting the Bank's ability to settle transactions in Georgian Lari) and imposed limitations on settlement of liabilities with the Parent Bank, dispose of repossessed property to third parties or conducting any other non-cash settlements. Cash settlements are limited to the Bank's daily operating activities only.

As of the date of approval of these financial statements, the Bank retains its general banking license and continues to operate at a significantly reduced scale, serving certain corporate clients. The Bank maintains regular communication with the National Bank of Georgia and does not expect license revocation or the appointment of a temporary administration. As of today, the Bank complies with prudential ratios (based on unaudited regulatory reports), except for the open foreign currency position ratio, which is regularly shared with the NBG. The NBG closely monitors the adequacy of the Bank's cash reserves in relation to its outstanding deposit obligations. The Bank's operations are limited to essential daily functions, and all settlements must be conducted in cash—this includes loan collections, customer withdrawals, and the coverage of administrative expenses.

These financial statements have been prepared on the assumption that the Bank will continue as a going concern and will manage its assets under existing regulatory restrictions, in compliance with applicable regulations and prudential norms. However, as described above, the sanctions imposed in February 2022 have severely restricted the Bank's ability to conduct financial operations. As such, despite having sufficient financial assets to meet its current obligations, the Bank's management has concluded that there is material uncertainty about the Bank's ability to continue as a going concern.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets

Initial recognition

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. The Bank determines the classification of its financial assets upon initial recognition and subsequently can reclassify financial assets in certain cases as described below.

Categories of Financial Asset and Liability Measurement

The Bank classifies all of its financial assets based on the business model for managing them and the contractual terms of the instruments, into one of the following categories:

- Amortized Cost
- Fair Value Through Other Comprehensive Income (FVOCI)
- Fair Value Through Profit or Loss (FVPL)

The Bank classifies and measures its derivative instruments and trading portfolio at fair value through profit or loss. Additionally, the Bank may designate financial instruments at FVPL if such designation eliminates or significantly reduces an accounting mismatch in measurement or recognition.

Financial liabilities, except for borrowings and financial guarantees, are measured at amortized cost or fair value through profit or loss, depending on whether they are held for trading, are derivatives, or are designated as measured at fair value.

Receivables from Credit Institutions, Loans to Customers, and Investment Securities Measured at Amortized Cost

The Bank measures receivables from credit institutions, loans to customers, and other financial instruments at amortized cost, provided both of the following conditions are met:

- The financial asset is held within a business model whose objective is to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Assessment of the Business Model

The Bank determines its business model at a level that best reflects how financial asset portfolios are managed to achieve the Bank's business objectives.

The Bank does not assess its business model on an instrument-by-instrument basis but evaluates it at a higher, aggregated portfolio level. This assessment is based on observable empirical factors, such as:

- How the performance of the business model and the financial assets held within it are evaluated and reported to the Bank's key management personnel; and
- How the financial assets within a given business model are reported to senior management and used in decision-making processes.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued)

- How business managers are compensated (e.g., whether compensation is based on the fair value of assets under management or the contractual cash flows collected);
- The expected frequency, value, and timing of sales are also important aspects considered in the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without considering 'worst case' or 'stress case' scenarios. If after initial recognition, cash flows are realized in a way that differs from the Bank's initial expectations, the Bank does not reclassify the remaining financial assets within that business model. Instead, it uses the new information for the assessment of newly originated or newly purchased financial assets.

SPPI Test
As the second step in the classification process, the Bank assesses whether a financial asset meets the requirements of the SPPI test by analyzing its contractual terms.

For the purpose of this test, "principal" is defined as the fair value of the financial asset at initial recognition, which may change over the life of the asset (for example, due to repayments of principal or amortization of premiums/discounts).

In lending arrangements, the most significant elements of interest typically represent compensation for the time value of money and credit risk. To assess whether contractual cash flows are solely payments of principal and interest (SPPI), the Bank uses judgment and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

By comparison, contractual terms that expose the asset to risks or volatility unrelated to a basic lending arrangement would not give rise to contractual cash flows that are solely payments of principal and interest. In such cases, the financial asset must be measured at fair value through profit or loss (FVPL).

Debt Instruments Measured at Fair Value Through Other Comprehensive Income (FVOCI)

The Bank measures debt instruments at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- *The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and*
- *The contractual terms of the financial asset meet the SPPI test.*

Debt instruments classified at FVOCI are subsequently measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued)

For debt instruments measured at fair value through other comprehensive income (FVOCI), expected credit losses do not reduce the carrying amount of these financial assets in the statement of financial position, which continues to reflect the fair value. Instead, an amount equal to the loss allowance that would arise if the asset were measured at amortized cost is recognized in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. When the asset is derecognized, the cumulative loss previously recognized in other comprehensive income is reclassified to profit or loss.

Equity Instruments Measured at FVOCI

After initial recognition, the Bank may, on rare occasions, irrevocably designate its equity investments to be classified as measured at fair value through other comprehensive income (FVOCI), provided they meet the definition of equity instruments under IAS 32 Financial Instruments: Presentation and are not held for trading. This designation is made on an instrument-by-instrument basis.

Gains and losses on such equity instruments are never reclassified to profit or loss. Dividends are recognized in profit or loss as other income when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Equity instruments measured at FVOCI are not subject to impairment assessment. Upon disposal of such instruments, any accumulated revaluation reserve is transferred to retained earnings.

Fair Value Measurement

The Bank measures financial instruments at fair value either through profit or loss (FVPL) or through other comprehensive income (FVOCI), and non-financial assets such as investment property and land and buildings are measured at fair value at each reporting date.

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 fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability takes place:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Bank. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, acting in their best economic interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use, or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value. The chosen techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. All assets and liabilities measured at fair value or disclosed in the financial statements are categorized within the fair value hierarchy below, based on the lowest level input that is significant to the overall fair value measurement:

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued)

Fair Value Hierarchy

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

The Bank determines transfers between levels of the fair value hierarchy for assets and liabilities recognized in the financial statements by reassessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets after initial recognition, except in circumstances where the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, balances with the National Bank of Georgia (excluding mandatory reserves), and balances with other banks that have a maturity of less than 90 days from the date of placement and are free from any contractual encumbrances.

Derivative Financial Instruments

In the normal course of business, the Bank enters into contracts for derivative financial instruments, primarily foreign currency forwards and swaps. These financial instruments are accounted for at fair value. Fair value is determined using valuation models that consider current market and contractual prices of the underlying instruments and other relevant factors. Derivative instruments are recorded as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses from these instruments are included in net foreign exchange gains/(losses) in the income statement.

Borrowed Funds

Issued financial instruments or their components are classified as liabilities when the Bank has a contractual obligation arising from the agreement with the holder to deliver cash or another financial asset, or otherwise to satisfy the obligation, except when the obligation is to exchange a fixed amount of cash or other financial asset for a fixed number of the Bank's own equity instruments. Such instruments include amounts due to banks and international financial institutions, amounts due to customers, other borrowed funds, and subordinated debt. These instruments are initially recognized at the fair value of the consideration received, net of directly attributable transaction costs. After initial recognition, borrowed funds are measured at amortized cost using the effective interest method. Income and expenses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Amounts due to banks and international financial institutions represent funding raised for the purposes of liquidity management, while other borrowed funds comprise resources raised under general credit agreements with international financial institutions for the purposes of working capital and financing the activities of the Bank's customers.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Lease

(i) Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short–term leases and leases of low–value assets. The Bank recognises lease liabilities to make lease payments and to reimburse right–of–use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right–of–use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right–of–use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right–of–use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right–of–use assets are depreciated on a straight–line basis over the shorter of its estimated useful life and the lease term. Right–of–use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in–substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing interest rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in–substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short–term leases and leases of low–value assets

The Bank applies the short–term lease recognition exemption to its short–term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low–value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short–term leases and leases of low–value assets are recognised as expense on a straight–line basis over the lease term.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Lease (continued)

(ii) Operating lease – Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight–line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(iii) Finance lease – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, provided that an impairment loss has already been recognised. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit–impaired. Once an asset has been classified as credit–impaired as a result of modification, it will remain in Stage 3 for a minimum 3–month probation period. In order for such a restructured loan to be reclassified out of Stage 3 to Stage 2, regular payments of principal or interest have been made during the probation period in accordance with the modified payment schedule.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass–through" arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash–settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash–settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Non-performing loans

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write–off constitutes a derecognition event.

According to the Bank's policy, non–performing loans are derecognized as follows:

- Individually significant loans are being written off based on respective decision of the Bank's Credit committee;
- Bad loans are written–off against the related allowance for impairment after all necessary procedures to recover the loans have been completed and the amount of the irretrievable loss has been determined.

In case the Bank receives any amounts from the borrower after the loan is written off, respective amounts are recognized within allowance for loan impairment as recoveries.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statements of comprehensive income, with the difference in the respective carrying amount being recognized in profit or loss.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set–off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre–specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised, or the liability is settled, based on tax rates (applicable to retained earnings) and tax laws that have been enacted or substantively enacted at the reporting date.

Georgia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Property, plant and equipment

Property and equipment, except for land and buildings, are carried at cost, excluding costs of day–to–day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation. Land is measured at fair value and not depreciated. Valuations are performed regularly to ensure that the fair value of a revalued property does not differ materially from its carrying amount. Last valuation of the Bank's property was made as of 31 December 2021. Additional details are provided in Note 8.

Any revaluation surplus is credited to the revaluation reserve for land and buildings included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case the increase is recognised in the statement of profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to office premises or other premises at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight–line basis over the following estimated useful lives:

	Years
Buildings	30–50
Utility systems and related features	10–40
Computers and communication equipment	4–15
Furniture, fixtures and office equipment	3–6
Motor vehicles	5
Leasehold improvements	Over the term of the underlying lease

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate at each financial year–end.

Costs related to repairs and renewals are charged when incurred and included in operating expenses, unless they qualify for capitalization.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Investment property

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Bank or held for sale in the ordinary course of business.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Revaluation of investment property is performed on each reporting date and recognised in the statement of profit or loss as gains/losses on investment property revaluation. Rental income earned is recorded in the statement of profit or loss within rental income.

Repossessed assets

Repossessed collateral represents non–financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently re–measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed collateral are recorded at the lower of cost or net realisable value.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 2 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The Bank does not have any intangible assets with indefinite useful lives.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid–in capital.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Equity (continued)

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Perpetual subordinated loan

Due to undefined maturity and an option for non–cumulative cancellation of coupon payments, the Bank accounts the Perpetual Subordinated Loan as an equity instrument and as a Tier I eligible instrument for the purpose of capital adequacy ratio calculation. The Bank accounts for the Perpetual Subordinated Loan denominated in the RUB in the amount equivalent of GEL, using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in retained earnings.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest, revenue and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost by applying the EIR to the gross carrying amount of financial assets other than credit–impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit–impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit–impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit–impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit–adjusted EIR and applying that rate to the amortised cost of the asset. The credit–adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees, including fee on guarantees and letters of credit issued, are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Foreign currency transaction

The financial statements are presented in Georgian Lari, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of profit or loss as gains less losses from foreign currencies – translation differences. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The difference between the contractual exchange rate of a foreign currency transaction and the official exchange rate of the National Bank of Georgia (NBG) on the transaction date is included in income, net of losses, from foreign currency operations. The official exchange rate of the NBG was GEL 2.8068 per USD 1 as of 31 December 2024 and GEL 2.6894 per USD 1 as of 31 December 2023.

3. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying values 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 in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern

The financial statements have been prepared based on the assumption that the Bank will continue as a going concern and sell its assets and discharge its liabilities in the ordinary course of business. However, as described in Note 2, the Bank has been subject to sanctions since February 2022, significantly restricting the Bank's ability to conduct financial operations. Given these sanctions and the potential future impact, that is beyond Bank's control, management concluded that, a material uncertainty exists regarding the Bank's ability to continue as a going concern and it is impossible to conclusively determine whether the going concern basis of accounting is appropriate for the preparation of these financial statements.

(Thousands of Georgian Lari)

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 24.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large–scale business disruptions may give rise to liquidity issues for some entities and consumers.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interpretations. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Incorporation of forward–looking information by establishing multiple macroeconomic scenarios, determining the probability of their occurrence and assessing the effect of the changes in observable macroeconomic factors on ECLs;
- Development of ECL models, including the various formulas and the choice of inputs.

The Bank has a three–stage expected credit loss impairment model. The impairment charge for expected credit losses depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default or otherwise impaired, the impairment charge equals the lifetime expected credit losses (stages 2 and 3).

The financial assets recorded in each stage have the following characteristics:

- Stage 1: unimpaired and without significant increase in credit risk on which a 12–month allowance for ECL is recognised;
- Stage 2: a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;
- Stage 3: objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised; and
- Purchased or originated credit impaired ('POCI'): purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognized.

(Thousands of Georgian Lari)

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Impairment losses on financial assets (continued)

The expected credit loss is calculated for all individual facilities as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and incorporates forward–looking information. The estimation of expected credit losses involves forecasting future economic conditions over a number of years.

The assessment of credit risk and the estimation of ECL are unbiased and probability–weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, Bank calculates ECL using three main components: a probability of default, a loss given default ('LGD') and the exposure at default ('EAD').

The 12–month ECL is calculated by multiplying the 12–month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12–month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realized and the time value of money.

The calculation of expected credit losses depends on various factors, including the time to repossess and sell the collateral. Due to restrictions imposed on the Bank regarding the sale of repossessed collateral to the third parties (allowing sale only to the borrower) the level of expected credit loss allowance may materially change if assumed time to sell the collateral is increased. A sensitivity analysis related to this matter is provided in Note 6.

Revaluation of property

The Bank regularly reviews the valuation of its property (land, office buildings, and investment property) and performs revaluation to ensure that the current carrying value of property does not materially differ from its fair value. The Bank performs revaluation using special valuation techniques and information about real estate transactions entered into on the local market.

As of 31 December 2024, land and buildings were revalued to their market value. The revalued buildings have been depreciated from 1 January 2024 over their remaining useful lives. Investment property was also revalued as of 31 December 2024. As of that date, an independent appraiser determined the fair value of the Bank's properties. Information from active markets was used to determine market prices.

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right–of–use asset and to repay a loan with a similar term and with a similar security, in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. Please refer to Note 9.

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity–specific estimates.

(Thousands of Georgian Lari)

4. New accounting pronouncements

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1	Classification of liabilities as non-current or current liabilities
Amendments to IAS 1	Non-current liabilities with covenants
Amendments to IAS 7 and IFRS 7	Changes in financial transactions with providers
Amendments to IFRS 16	Lease liability in a sale and leaseback

The management does not expect that the adoption of the above new standards shall have a material impact on the Bank's financial statements in future periods.

5. Cash and cash equivalents

	2024	*2023*
Cash on hand	170,288	146,554
Current accounts with credit institutions	6,709	6,583
Cash and cash equivalents	**176,997**	**153,137**

As of 31 December 2024 and 2023, all current account balances with credit institutions were held with non-resident credit institutions. As of 31 December 2024, 99.95% of the current account balances with credit institutions were held with two non-resident credit institutions.

All cash equivalent balances are classified as Level 1. There were no significant movements in expected credit losses during the year.

6. Loans and advances to customers

	2024	*2023*
Consumer lending	7,600	9,661
Corporate lending	183,091	196,761
Small business lending	4,291	3,990
Loans and advances to customers - gross	**194,982**	**210,412**
Less: allowance for impairment	(23,272)	(13,886)
Loans and advances to customers, net	**171,710**	**196,526**

For the years ended 31 December 2024 and 2023, the analysis of changes in total carrying amount and the related expected credit loss (ECL) on corporate loans included the following:

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2024	**78,356**	**69,139**	**49,266**	**196,761**
Repaid or sold assets	(22,349)	(324)	(1,488)	**(24,161)**
Transfers to Stage 1	321	-	(321)	-
Transfers to Stage 2	(7,927)	7,927	-	-
Transfers to Stage 3	-	(52,230)	52,230	-
Change due to modification of contractual cash flows	-	(157)	(43)	**(200)**
Foreign exchange adjustments	(734)	813	2,141	**2,220**
Other net changes to models and inputs used for ECL calculations	-	804	7,667	**8,471**
as at 31 December 2024	**47,667**	**25,972**	**109,452**	**183,091**

(Thousands of Georgian Lari)

6. Loans and advances to customers (continued)

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2024	**(315)**	**(176)**	**(12,398)**	**(12,889)**
Repaid or sold assets	303	-	1,290	**1,593**
Transfers to Stage 1	(277)	-	277	-
Transfers to Stage 2	11	(11)	-	-
Transfers to Stage 3	-	132	(132)	-
Foreign exchange adjustments	(1)	(29)	(325)	**(355)**
Other net changes to models and inputs used for ECL calculations	-	(709)	(9,144)	**(9,853)**
as at 31 December 2024	**(279)**	**(793)**	**(20,432)**	**(21,504)**

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2023	**164,548**	**31,511**	**48,278**	**244,337**
Repaid or sold assets	(43,811)	-	(4,104)	**(47,915)**
Transfers to Stage 1	6,671	(6,671)	-	-
Transfers to Stage 2	(40,140)	43,061	(2,921)	-
Transfers to Stage 3	(8,164)	-	8,164	-
Change due to modification of contractual cash flows	(16)	(45)	-	**(61)**
Foreign exchange adjustments	(732)	1,283	(151)	**400**
as at 31 December 2023	**78,356**	**69,139**	**49,266**	**196,761**

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2023	**(110)**	**135**	**(6,679)**	**(6,654)**
Repaid or sold assets	28	2	-	**30**
Transfers to Stage 1	(4)	4	-	-
Transfers to Stage 2	30	2,081	(2,111)	-
Transfers to Stage 3	1,171	-	(1,171)	-
Foreign exchange adjustments	(1)	-	(44)	**(45)**
Other net changes to models and inputs used for ECL calculations	(1,429)	(2,215)	(2,567)	**(6,220)**
as at 31 December 2023	**(315)**	**(176)**	**(12,398)**	**(12,889)**

For the years ended 31 December 2024 and 2023, the analysis of changes in the total carrying amount and the related expected credit loss (ECL) on small business loans included the following:

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2024	**4**	**10**	**3,976**	**3,990**
Repaid or sold assets	(4)	-	(32)	**(36)**
Transfers to Stage 3	-	(10)	10	-
Other net changes	-	-	337	**337**
as at 31 December 2024	**-**	**-**	**4,291**	**4,291**

(Thousands of Georgian Lari)

6. loans and advances to customers (continued)

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2024	-	-	(581)	(581)
Repaid or sold assets	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(9)	(9)
Other net changes	-	-	(1,473)	(1,473)
as at 31 December 2024	–	–	(1,482)	(1,482)

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2023	7,992	2,092	-	10,084
Repaid or sold assets	(4,086)	(1,880)	212	**(5,966)**
Transfers to Stage 1	(3,902)	10	3,892	-
Amounts written off	–	–	(128)	**(128)**
as at 31 December 2023	4	222	3,976	3,990

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2023	(5)	(43)	-	(48)
Repaid or sold assets	(480)	30	(211)	**(661)**
Transfers to Stage 1	498	-	(498)	-
Transfers to Stage 2	(13)	13	-	-
Amounts written off	–	–	128	**128**
as at 31 December 2023	–	–	(581)	(581)

For the years ended 31 December 2024 and 2023, the analysis of changes in the total carrying amount and the related expected credit loss (ECL) on consumer loans included the following:

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2024	8,775	345	540	9,660
Repaid or sold assets	(1,939)	-	(106)	(2,045)
Transfers to Stage 1	384	(328)	(56)	-
Transfers to Stage 3	(20)	(17)	37	-
Foreign exchange adjustments	(13)	-	-	**(13)**
Amounts written off	-	-	(2)	**(2)**
Other net changes	-	-	-	-
as at 31 December 2024	7,187	-	413	7,600

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2024	(27)	(6)	(382)	(415)
Repaid or sold assets	85	-	42	**127**
Transfers to Stage 1	(39)	5	34	-
Transfers to Stage 3	-	1	(1)	-
Amounts written off	-	-	2	**2**
Other net changes	-	-	-	-
as at 31 December 2024	19	-	(305)	(286)

(Thousands of Georgian Lari)

6. loans and advances to customers (continued)

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2023	**11,154**	**380**	**300**	**11,834**
Repaid or sold assets	(2,264)	142	267	(1,855)
Transfers to Stage 1	(653)	306	347	-
Transfers to Stage 2	112	(198)	86	-
Transfers to Stage 3	426	-	(426)	-
Amounts written off	–	(285)	(34)	(319)
as at 31 December 2023	**8,775**	**345**	**540**	**9,660**

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2023	**(48)**	**(20)**	**(248)**	**(316)**
Repaid or sold assets	22	99	(254)	(133)
Transfers to Stage 1	-	(85)	85	-
Transfers to Stage 2	(1)	-	1	-
Amounts written off	–	–	34	**34**
as at 31 December 2023	**(27)**	**(6)**	**(382)**	**(415)**

Collateral and credit risk mitigation

The amount and type of required collateral depends on the counterparty Credit Risk assessment, for which the Bank has implemented guidelines and policies defining valuation parameters and types of the collateral.
Accepted collateral types are as follows:

- For commercial lending: real estate properties, inventories, trade receivables and bank guarantees;
- For Retail lending: bank deposits, mortgages over residential properties, inventories, household assets and third-party personal guarantees.

Below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit–impaired (stage 3) assets. Dependent on the level of collateral, some Stage 3 exposures may not have individual ECLs when the expected value of the collateral is greater than the LGD. However, the Stage 3 ECL can be higher than net exposure shown below. Due to the imposed sanctions, the Bank is restricted to sell repossessed collateral to a third party, except for the parties to the loan agreement or their legal successors.

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*						*Net exposure*	*Associated ECL*
		Cash/ deposits	*Securities*	*Property*	*Other**	*Surplus collateral*	*Total collateral*		
as at 31 December 2024	**114,156**	**777**	**63,992**	**158,557**	**95,620**	**(207,062)**	**111,884**	**2,273**	**22,182**
Consumer lending	**413**	-	-	525	-	(384)	**141**	**273**	268
Corporate lending	**109,452**	577	63,992	153,785	95,561	(206,246)	**107,669**	**1,783**	20,432
Small business lending	**4,291**	200	-	4,247	59	(432)	**4,074**	**217**	1,482

(Thousands of Georgian Lari)

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*						*Net exposure*	*Associated ECL*
		Cash/ deposits	*Securities*	*Property*	*Other**	*Surplus collateral*	*Total collateral*		
as at 31 December 2023	**53,783**	**200**	**34,422**	**93,252**	**21,463**	**(99,193)**	**50,144**	**3,639**	**13,361**
Consumer lending	**541**	–	–	637	–	(452)	**185**	**356**	382
Corporate lending	**49,266**	–	34,422	85,991	21,463	(95,810)	**46,066**	**3,200**	12,398
Small business lending	**3,976**	200	–	6,624	–	(2,931)	**3,893**	**83**	581

**Movable property, equipment and inventories.*

The table above includes information only about collateral that is incorporated in the ECL estimation. The Bank might hold other types of collateral which do not affect ECL estimates. Comparative information was represented to align with the current period presentation.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. However, as described in Note 2, as a result of sanctions, the Bank is restricted from disposing the repossessed property to a third party, except for the parties to a loan agreement or their legal successor.

Sensitivity of Credit Loss Allowance for Loans to Customers

If assumed time to repossess and sell the collateral related to individually assessed loans is extended by 3 years, the credit loss would increase by GEL 2,381 thousand. In case of collectively assessed credit loss allowance, increasing the haircut (which, in addition to valuation, should also reflect uncertainty related to the time to sell the collateral) from 30% to 40% would result in an increase in the allowance by GEL 700 thousand.

As of 31 December 2024, the Bank's loan concentration to its ten largest borrowers amounted to GEL 141,350, representing 72.49% of the total loan portfolio (2023: GEL 135,528 or 64.41%). An allowance for expected credit losses of GEL 14,580 was recognized for these loans (2023: GEL 2,890).

In 2024, total loans to customers included GEL 26,730 issued to a group of related borrowers, representing 13.71% of the total loan portfolio (2023: GEL 28,608 or 13.60%). These loans bear annual interest rates ranging from 6.5% to 12.00% and mature in June 2026 (2023: annual interest rates ranging from 6.5% to 13.50%, maturing by June 2026).

Loans have been issued to the following types of customers:

	2024	*2023*
Commercial legal entities	187,382	200,751
Individuals	7,600	9,661
Total loans and advances to customers	**194,982**	**210,412**

As of 31 December 2024, and 2023, the distribution of loans and advances to customers (which are primarily issued in Georgia) by industry sector was as follows:

	2024	*2023*
Trading and service enterprises	110,557	145,801
Manufacturing	38,675	38,714
Individuals	7,600	9,661
Agriculture and food processing	5,562	5,949
Financial	331	321
Real estate construction	7,777	-
Telecommunication and transportation	53	-
Other	24,427	9,966
Total loans and advances to customers	**194,982**	**210,412**

(Thousands of Georgian Lari)

7. Investment and trading securities

Investment securities comprise:	*2024*	*2023*
Equity securities at FVOCI		
Corporate shares	54	54
Equity securities at FVOCI	**54**	**54**
Investment securities	**54**	**54**

8. Property, plant and equipment

The movement in property and equipment during 2024 and 2023 was as follows:

	Land and buildings	Computers and communication equipment	Furniture, fixtures and office equipment	Utility systems and related features	Motor vehicles	Leasehold improvements	Total
Cost or revalued amount							
as at 31 December 2022	**31,886**	**8,344**	**3,725**	**1,938**	**1,523**	**21**	**47,437**
Additions	-	20	93	-	123	-	**236**
Revaluation effect	-	(17)	-	-	-	(21)	(38)
as at 31 December 2023	**31,886**	**8,347**	**3,818**	**1,938**	**1,646**	**-**	**47,635**
Additions	-	1	2	-	-	-	**3**
Elimination of accumulated depreciation	(1,704)	-	-	-	-	-	**(1,704)**
Revaluation effect	739	-	-	-	-	-	**739**
As at 31 December 2024	**30,921**	**8,348**	**3,820**	**1,938**	**1,646**	**-**	**46,673**
Accumulated depreciation and impairment							
as at 31 December 2022	**(568)**	**(5,271)**	**(3,346)**	**(770)**	**(1,413)**	**(8)**	**(11,376)**
Depreciation charge	(568)	(757)	(162)	(66)	(108)	(8)	**(1,669)**
Disposals and write–offs	-	3	-	-	-	16	**19**
as at 31 December 2023	**(1,136)**	**(6,025)**	**(3,508)**	**(836)**	**(1,521)**	**-**	**(13,026)**
Depreciation charge	(568)	(532)	(118)	(62)	(31)	-	**(1,311)**
Elimination of accumulated depreciation	1,704	-	-	-	-	-	**1,704**
as at 31 December 2024	**-**	**(6,557)**	**(3,626)**	**(898)**	**(1,552)**	**-**	**(12,633)**
Net book value							
as at 31 December 2022	**31,318**	**3,073**	**379**	**1,168**	**110**	**13**	**36,061**
as at 31 December 2023	**30,750**	**2,322**	**310**	**1,102**	**125**	**-**	**34,609**
as at 31 December 2024	**30,921**	**1,791**	**194**	**1,040**	**94**	**-**	**34,040**

As of 31 December 2024, an independent appraiser determined the fair value of the Bank's land and buildings. The appraiser is a specialist in the valuation of such types of property, plant and equipment. Information from active markets was used to determine market prices. The market approach was primarily used to assess fair value, while the income approach was applied to support the valuation where there was no available data on recent sales or rental rates for comparable properties within the same geographic area. The fair value assessment of the Bank's land and buildings is described in detail in Note 21. As a result of the revaluation, the carrying amount of land and buildings increased by GEL 736.8, of which GEL 830.5 was recognized in other comprehensive income, and a loss of GEL 93.7 was recognized in other operating expenses.

The total value of fully depreciated property and equipment in use as of 31 December 2023 and 2022, amounted to GEL 8,732 and GEL 6,612, respectively.

(Thousands of Georgian Lari)

9. Investment property

	2024	*2023*
Opening balance at 1 January	**29,278**	**29,214**
Disposals	(3,293)	(676)
Gain on revaluation and sale of investment property	2,151	740
Closing balance at 31 December	**28,072**	**29,278**

The fair value of investment property was determined based on market data. The market approach was used in the fair value assessment (see Note 21).

10. Taxation

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except for banks, insurance companies and microfinance organizations, for which the effective date was initially set at 1 January 2019. On 27 December 2018 the effective date of the amendment for banks was revised to 1 January 2023. Under the new regulation, corporate income tax will be levied on profit distributed as dividends, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008–2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

In 2024 and 2023, the Bank's income was subject to a corporate income tax rate of 20%. The effective tax rate differs from the statutory tax rate. The reconciliation between the profit tax expense calculated at the statutory rate and the actual income tax expense is presented below:

	2024	*2023*
Current tax expense	-	(73)
Deferred expense – origination and reversal of temporary differences	(42)	3,080
Income tax expense	**(42)**	**3,007**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2024	*2023*
Expense before income tax expense	8,452	(2,607)
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate		
Theoretical income tax benefit/(expense) at the statutory rate	(1,690)	521
Change in unrecognized deferred tax assets	1,933	3,282
Non–deductible expenses	(285)	(1,478)
Income exempts from tax less income recognized for tax purposes only	-	682
Income tax (expense)/benefit	**(42)**	**3,007**

(Thousands of Georgian Lari)

10. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

Tax effect of deductible temporary differences	*2022*	In the statement of profit or loss	*2023*	In the statement of profit or loss	*2024*
Allowances for impairment and provisions for other losses (DTA)	602	(49)	**553**	60	**613**
Tax losses carried forward	11,229	(3,282)	**7,947**	(1,933)	**6,014**
Financial instruments adjustment for effective interest rates	1,640	(1,640)	–	-	–
Accrued expenses	53	2	**55**	406	**461**
Property and equipment and Intangible assets	–	–	–	2,393	2,393
Other	2	–	**2**	–	**2**
Gross deferred tax asset	**13,526**	**(4,969)**	**8,557**	926	**9,483**
Unrecognized deferred tax asset	(11,229)	3,282	**(7,947)**	1,933	**(6,014)**
Deferred tax assets	**2,297**	**(1,687)**	**610**	**2,859**	**3,469**
Tax effect of taxable temporary differences:					
Allowance for loan impairment	(2,060)	2,060	–	-	–
Property, plant and equipment	(2,325)	2,798	**473**	(2,500)	**(2,027)**
Investment property	(633)	(91)	**(724)**	(401)	**(1,125)**
Deferred tax liabilities	**(5,018)**	**4,767**	**(251)**	**(2,901)**	**(3,152)**
Net deferred tax (liabilities/assets)	**(2,721)**	**3,080**	**359**	**(42)**	**317**

11. Credit loss (expense)/recovery and other impairment and provisions

The table below presents the expected credit loss (ECL) charges on financial instruments recognized in the statement of profit or loss for the year ended 31 December 2024:

	Note	Stage 1	Stage 2	Stage 3	*Total*
Loans and advances to customers	6	(462)	(486)	(6,907)	**(7,855)**
Other financial assets		-	–	(183)	**(183)**
Credit loss recovery/(expense)		**(462)**	**(486)**	**(7,090)**	**(8,038)**
Financial guarantees		17	-	–	**17**
Provision for credit related commitments		**17**	**-**	**–**	**17**

The table below presents the expected credit loss (ECL) charges on financial instruments recognized in the statement of profit or loss for the year ended 31 December 2023:

	Note	Stage 1	Stage 2	Stage 3	*Total*
Cash and cash equivalents		(7)	-	-	(7)
Loans and advances to customers	6	(1,784)	(105)	(4,984)	(6,873)
Other financial assets		(2)	–	–	(2)
Credit loss recovery/(expense)		**(1,793)**	**(105)**	**(4,984)**	**(6,882)**
Financial guarantees		146	(12)	–	134
Reversal of provision for credit related commitments		**146**	**(12)**	**–**	**134**

(Thousands of Georgian Lari)

12. Other assets and liabilities

Other assets comprise:

	2024	*2023*
Financial assets		
Unsettled transactions	16,921	15,896
Other	209	222
Allowance for impairment of other financial assets	(3,067)	(2,765)
Total financial assets	**14,063**	**13,353**
Non–financial assets		
Inventories of repossessed collateral	21,654	22,021
Intangible assets	1,015	1,228
Prepayments	907	822
Prepaid operating expenses	753	500
Inventories in stock	327	335
Prepaid expenses	257	318
Other	269	274
Total non–financial assets	**25,182**	**25,498**
Other assets	**39,245**	**38,851**

The movement in intangible assets during 2024 and 2023 was as follows:

	Intangible assets
At cost	
as at 31 December 2022	**31,474**
Additions	72
Disposals and write–offs	(28,387)
as at 31 December 2023	**3,159**
Additions	-
Disposals and write-offs	-
As at 31 December 2024	**3,159**
Accumulated amortisation and impairment	
as at 31 December 2022	**(12,268)**
Amortization charge for the year (Note 22)	(1,885)
Write–offs of fully amortised items	12,222
as at 31 December 2023	**(1,931)**
Amortization charge for the year (Note 22)	(213)
Write-offs of fully amortized items	-
As at 31 December 2024	**(2,144)**
Net book value	
as at 31 December 2022	**19,206**
as at 31 December 2023	**1,228**
as at 31 December 2024	**1,015**

As of the reporting date, all financial assets were classified as Level 1, and there were no significant movements in expected credit loss during the year.

(Thousands of Georgian Lari)

12. Other assets and liabilities (continued)

Other liabilities comprise:

	2024	*2023*
Financial liabilities		
Accrued bonuses	1,906	4
Unsettled transactions on money transfers	12,022	14,098
Accrued expenses	804	792
Provisions for credit related off balance commitments	8	10
Settlements on plastic cards	842	819
Other	1	1
Total financial liabilities	**15,583**	**15,724**
Non–financial liabilities		
Advances received	262	109
Dividends payable to shareholders of the Bank	1,060	1,060
Operational taxes payable	1	2
Total non–financial liabilities	**1,323**	**1,171**
Other liabilities	**16,906**	**16,895**

13. Amounts due to banks and international financial institutions

	2024	*2023*
Current accounts	294	286
Amounts due to banks and international financial institutions	**294**	**286**

As of 31 December 2024, and 2023, current accounts included amounts received from companies within the VTB Group.

14. Amounts due to customers

	2024	*2023*
Individuals		
Current/on demand accounts	3,303	3,495
Term deposits	609	563
Total due to individuals	**3,912**	**4,058**
Commercial Legal entities		
Current/settlement accounts	8,664	10,085
Term deposits	386	2,833
Total due to commercial legal entities	**9,050**	**12,918**
Total amounts due to customers	**12,962**	**16,976**

(Thousands of Georgian Lari)

14. Amounts due to customers (continued)

Analysis of customer accounts by industries is as follows:

	2024	*2023*
Trade and service	8,764	12,582
Individuals	3,920	4,058
Real estate construction	127	138
Agriculture	52	52
Manufacturing	45	45
Financial	12	53
Energy	9	10
Transport and communication	7	6
Education	6	6
Other	20	26
Amounts due to customers	**12,962**	**16,976**

15. Share capital

Subscribed capital

Movements in ordinary shares authorized and fully paid were as follows:

	Number of shares authorized	*Number of shares fully paid*	*Nominal amount, GEL*
31 December 2023	209,008,277	209,008,277	209,008
31 December 2024	209,008,277	209,008,277	209,008

The capital contribution by the shareholders to the Bank's equity was made in Georgian Lari; accordingly, the capital shall be distributed, whether as dividends or otherwise, exclusively in Lari.

Perpetual subordinated loan

On 29 December 2016, the Bank received a perpetual subordinated loan of RUB 300 million (GEL 13,098). As of 31 December 2024, the carrying amount of the perpetual subordinated loan was GEL 7,622 (2023: GEL 8,975). During 2023 and 2024, the Bank made no interest payments. The perpetual subordinated loan has an unlimited term and is redeemable at the Bank's option. The coupon rate comprises the Central Bank of Russia key rate + 2.5%. The Bank has, at its sole discretion, an unconditional right to cancel interest payments by giving notice to the creditor prior to the payment date.

On 29 December 2021, the Bank received a perpetual subordinated loan of RUB 1,400 million (GEL 58,780). As of 31 December 2024, the carrying amount of the perpetual subordinated loan was GEL 35,567 (2023: GEL 41,882). During 2023 and 2024, the Bank made no interest payments. The perpetual subordinated loan has an unlimited term and is redeemable at the Bank's option. The coupon rate comprises the Central Bank of Russia key rate + 5.89%. The Bank has, at its sole discretion, an unconditional right to cancel interest payments by giving notice to the creditor prior to the payment date.

If the Bank's Common Equity Tier 1 (CET1) capital ratio falls below the threshold specified in the agreement, the contingent subordinated loan with interest payables shall be written off to the extent necessary to restore the CET1 capital requirement specified in the agreement.

(Thousands of Georgian Lari)

15. Share capital (continued)

Dividends

In accordance with Georgian legislation, dividends may be declared to the Bank's shareholders from the net profit reported in the Bank's individual financial statements prepared in compliance with the requirements of the National Bank of Georgia (NBG). The NBG must be informed about the declaration of dividends. If a commercial bank breaches NBG's regulatory requirements, the NBG has the right to suspend or prohibit the payment of dividends.

Due to existing sanctions, the Bank is restricted from distributing dividends; accordingly, no dividends were declared or paid in 2024 and 2023.

16. Contingent liabilities

Operating environment

In 2024, Georgia's economic activity remained resilient, though the pace of growth moderated. Real GDP increased by 5.2%, representing a normalization following the high growth rates observed in recent years. The fiscal deficit narrowed to 2.9% of GDP, highlighting the country's continued financial stability.

Conditions in the external sector deteriorated further in 2024, driven by ongoing global economic crises and declining international commodity prices. Growth in exports and imports denominated in USD slowed to 7.5% and 11.3%, respectively. Nonetheless, exports of domestically produced goods maintained a positive trajectory, particularly in the fields of technological products and services. Re-export volumes also remained high. The share of IT-related services in Georgia's exports increased significantly, supported by a rising number of migrants in the region and growing competitiveness in international markets.

A stable Georgian lari and reduced pass-through from international markets contributed to a notable decrease in consumer price inflation. As of December 2024, inflation stood at 0.2%, down from 0.4% in December 2023. Prices of domestically produced goods and services remained stable, approaching the target inflation level. Against this backdrop of low inflation, the National Bank of Georgia continued its monetary policy reforms, cutting the policy rate by 100 basis points to 8.4%.

At the end of December 2024, the USD/ GEL exchange rate stood at 2.70, nearly unchanged from 2.69 in December 2023. Over the year, the National Bank of Georgia purchased USD 1,230 million and sold USD 145 million. The banking sector continued to support economic activity through ongoing credit expansion, contributing to the country's overall macroeconomic stability.

Legal

From time to time and in the normal course of business, claims against the Bank are received. At the reporting date the Bank had several unresolved legal claims. However, Management is of the opinion that there would be no outflow of resources and accordingly no provisions have been made in these financial statements. As of 31 December, the Bank's financial commitments and contingencies comprised the following:

(Thousands of Georgian Lari)

16. Contingent liabilities (continued)

	2024	*2023*
Credit related commitments		
Guarantees issued	216	2,874
Financial commitments and contingencies (before deducting collateral)	**216**	**2,874**
Less – cash held as security against letters of credit, undrawn loan facility and guarantees issued (Note 15)	(47)	(2,465)
Financial commitments and contingencies	**169**	**409**

The commitments are mainly allocated to stage 1. There were no significant movements in ECL during the year.

17. Net fee and commission income

	2024	*2023*
Commission on guarantees and other credit related commitments	33	69
Commission on cash operations	1	6
Commission on settlements operations	-	5
Fee and commission income	**34**	**80**
Commission on settlements operations	(14)	(28)
Commission on cash operations	(2)	(1)
Commission on guarantees and other credit related commitments	1	-
Fee and commission expense	**(15)**	**(29)**
Net fee and commission income	**19**	**51**

18. Other income

	2024	*2023*
Income from operating lease	-	1,103
Reimbursement of integrated marketing communication campaign costs	-	688
Penalties received from lending operations	17	245
Penalties received for deposit redemption before maturity	-	35
Reimbursement of legal fees	-	8
Other	-	26
Other income	**17**	**2,105**

19. Personnel and other operating expenses

	2024	*2023*
Salaries	7,372	9,699
Bonuses and premiums	1,873	-
Defined contribution pension expense	78	109
Personnel expenses	**9,323**	**9,808**

(Thousands of Georgian Lari)

	2024	*2023*
Operating expenses	917	917
Repair and maintenance of fixed assets	424	393
Office supplies	394	304
Maintenance of computer software	378	992
Utility services	375	514
Legal and consulting services	236	214
Security measures	222	261
Amortization of intangible assets (Note 13)	213	1,885
Communication	165	195
Professional service expenses	118	206
Depreciation of fixed assets	94	-
Representation expenses	78	99
Insurance	73	77
Business trip and related expenses	51	78
Impairment of intangible assets	-	16,172
Accommodation and rent	-	3
Other	66	450
Other Operating expenses	**3,804**	**22,760**

Auditor's remuneration

The Bank's auditor remuneration for the year ended 31 December 2024 amounted to GEL 100 (including VAT). For the year ended 31 December 2023, the auditor remuneration amounted to GEL 130 (excluding VAT)

20. Risk management

Risk is an integral part of the Bank's activities and is managed through a continuous process of identification, measurement, monitoring, risk control and other risk control measures. The Bank's risk position includes credit risk, liquidity risk, market risk and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Bank's Supervisory Board is ultimately responsible for identifying and controlling risks of the Bank; however, there are separate independent bodies responsible for managing and monitoring risks.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles. The Supervisory Board reviews the risk and capital adequacy report quarterly in the prescribed format.

Directorate

The Directorate has the responsibility to monitor the overall risk process within the Bank. The Directorate has the overall responsibility for the development of the risk strategy and implementing and approving principles, frameworks, policies and limits.

(Thousands of Georgian Lari)

20. Risk management (continued)

Risk management structure

The risk management structure (Risk Department) is responsible for the implementation and operation of risk-related procedures to ensure the independence of the risk control process.

Compliance risk management

The Risk Compliance Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business Bank has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Supervisory Board through the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected losses likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also considers possible consequences of the worst-case scenarios that would arise in the event that extreme events which could arise under extreme conditions that are usually unlikely to occur.

Information received from various business units is reviewed and processed to identify, analyze, and control risks at an early stage. This information is provided to the Board of Directors, for the head of each business unit. The report includes aggregate credit exposure, credit metric forecasts, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Risk management department assesses the appropriateness of the allowance for possible credit losses on a monthly basis.

Risk mitigation

As part of its overall risk management, the Bank uses various mitigation instruments to manage exposures, including the use of collateral to reduce its credit risks (see below for more detail).

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties failed to meet their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

Credit related commitments risks

The Bank makes available to its customers guarantees and letters of credit which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the respective agreement. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies applied to loans.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Impairment assessment

The Bank calculates ECL based on several probability–weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

Stage 1	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3. Key Criteria for the transition to Stage 2: Overdue amounts of loan principal and/or interest payable to the Bank at the reporting date, as well as other contractual payments on any counterparty's instrument that are 31 to 90 days overdue; Downgrade of the internal rating by more than 5 notches for A–ratings, by more than 4 notches for B–ratings, and for more than 3 notches for other ratings since initial recognition of the instrument; Any instrument of a counterparty has a status of a potentially problem transaction.
Stage 3:	The criteria for the transition to Stage 3 are the criteria defining credit impairment, equivalent to indications of default under Bank's Methodology. The Bank records an allowance for the LTECL.
POCI:	For purchased or originated credit–impaired (POCI) financial assets, the calculation of an effective interest rate adjusted for the credit risk should take into account ECL at the initial recognition date; no impairment allowances for such financial instruments are made. At the consecutive reporting dates, the calculation of impairment allowances requires only the measurement of accumulated lifetime movements of credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore on Stage 3 (credit–impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In addition, there are the following default factors for corporate borrowers: default restructuring, write–off or sale of deals, bankruptcy or liquidation of the counterparty, problem loans. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of qualitative assessment process of whether a counterparty is in default, the Bank also considers a variety of instances that may indicate unlikeliness to meet its debt obligations and are relevant to the risk of default occurring.

Other financial assets are automatically allocated to Stage 3 when the borrower becomes 14 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay, such as:

- External rating of the borrower indicating default;
- Bankruptcy or liquidation of the counterparty;
- Recall of the customer's license.

When restructuring of a creditor's debt commitments is done by replacing the original loan (with more than 90 days past) with a new loan with different economic terms (often referred to as a debt exchange), it is the Bank's policy to consider financial instrument as "cured" when none of the listed above default criteria have been present for at least six consecutive months before reporting date. When this condition is satisfied, the new loan is reclassified out of Stage 3 to Stage 2. In case when the initial loan that was restructured was less than 90 days past due, after six monthს probation period the new loan is reclassified out of Stage 2 to Stage 1.

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

Internal rating and PD estimation process

The Bank's independent Credit Risk unit operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 13 (A1, A2, A3, B1, B2, B3, C1, C2, C3, D1, D2, D3, E (Default)). The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from international external rating agencies. PDs, incorporate forward looking information and the IFRS 9 stage classification of the exposure. This is repeated for each economic scenario as appropriate.

PD for retail portfolio is determined by internal statistical data. One–year PD is estimated at the segment level. Instruments in each segment are divided into groups of days past due (Group 1 – 0 days past due, Group 2 – one to 30 days past due, Group 3 – 31 to 60 days past due, Group 4 – 61 to 90 days past due, Group 5 – over 90 days past due). The calculation of one–year PD requires initial estimation of a transition matrix. For this purpose, an analysis is performed on the consecutive monthly periods of the loan portfolio based on history (all homogeneous statistical data available is used, with the time horizon limited to 10 years). Last column of resulting matrix represents an average one–year TTC PD. For the estimation of one–year PIT PD taking into account macroeconomic forecasts for this segment, each element of vector PD TTC is adjusted by calibration coefficient.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions and banks. For these relationships, the Bank's credit risk unit analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating based on overdue days, as shown in the table below.

Corporate and small business lending

For corporate loans, specialised credit risk employees of the Bank assess the borrowers. The credit risk assessment is based on a credit scoring/rating model that takes into account various historical, current and forward–looking information in accordance with the Bank rating methodology.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and residential mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lendings are rated by an automated scorecard tool primarily driven by days past due.

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

The Bank's internal credit rating grades for loans to customers are as follows:

Internal rating grade (in Numbers)	*International external rating agency (Fitch) rating*	*Internal rating description*	*Lifetime expected credit loss*
1–2	BB– to BBB–	High grade	0–2%
3	B+		
4	B		
5–6	B–	Standard grade	2–15%
7–9	CCC/C		
10–11	CCC/C	Sub–standard grade	16–100%
12–13	D	Impaired	100%

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

The Bank applies a qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on individual and collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

A decision to estimate an instrument on an individual basis is made based on expert judgments, which, inter alia, take into account the following factors:

- The amount of all exposures of the borrower exceeds GEL 200 thousand;
- All Stage 3 assets, regardless of the class of financial assets;
- Stage 2 and Stage 3 corporate lending portfolio;
- The large and unique exposures of the small business lending portfolio;
- The treasury and interbank relationships (such as amount due from banks, cash equivalents and debt investment securities at amortised cost and FVOCI);
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's small business lending;
- Stage 1 and 2 retail mortgages and consumer lending and Stage 1 corporate lending portfolio;
- Purchased POCI exposures managed on a collective basis.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan–to–value ratios, or borrower's industry.

Forward–looking information and multiple economic scenarios

The estimation of expected credit losses involves forecasting future economic conditions over the upcoming years. Such forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty that have significant risk of resulting in a material adjustment to a carrying amount in future periods. The incorporation of forward–looking elements reflects the expectations of the Bank's senior management and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario. The purpose of using multiple scenarios is to model the non–linear impact of assumptions about macroeconomic factors on the expected credit losses.

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

In order to consider forward–looking information when estimating ECL, the influence of macroeconomic factors on PD is determined at the level of the aggregate share of overdue debts in the total loan portfolio of the Georgian banking sector (according to the NBG).

The functional relationship between the credit risk and macroeconomic factors is established in consideration of forward–looking information. Variables include centered and normalized shares of overdue debts (or possible transformations of those, including absolute variations and relative gains) in the total loan portfolio of the Georgian banking sector (according to the NBG). Explanatory variables include centered and normalized values of macroeconomic factors: the logarithm of the GDP growth rate and the t–2 lag of the absolute change in export growth (over the period under review), and the effect on PDs.

In its ECL model, the Bank relies on a range of forward–looking information as economic inputs, such as:

- GDP growth rate;
- Unemployment rate.

Credit quality per class of financial assets

The credit quality of financial assets is managed based on the Bank's internal credit rating system, as described above. The table below presents the credit quality by class of financial asset, for loan commitments disclosed in the statement of financial position, based on the Bank's credit rating system as at 31 December 2024 and 31 December.

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

	Notes	Stages	High grade *2024*	Standard grade *2024*	Sub–standard grade *2024*	*Impaired*	*Total 2024*
Cash and cash equivalents, except for cash on hand	5	Stage 1	6,709	–	–	–	**6,709**
Amounts due from banks and international financial institutions		Stage 1	119	–	–	–	**119**
Loans and advances to customers	6						
- Corporate lending		Stage 1	51,667	-	-	-	**51,667**
		Stage 2	-	21,972	-	-	**21,972**
		Stage 3	-	-	-	109,452	**109,452**
- Small business lending		Stage 1	-	-	-	-	**-**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	4,291	**4,291**
- Consumer lending		Stage 1	216	-	-	-	**216**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	273	**273**
- Mortgage loans		Stage 1	6,972	-	-	-	**6,972**
		Stage 3	-	-	-	139	**139**
Debt Investment securities	7						
- measured at amortised cost		Stage 1	54	–	–	–	**54**
Financial guarantees	19	Stage 1	216	-	-	-	**216**
Other assets	13	Stage 1	14,343	-	-	-	**14,343**
		Stage 3	-	-	-	2,787	**2,787**
Total			**80,296**	**21,972**	**-**	**116,942**	**219,210**

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

	Notes	*Stages*	*High grade 2023*	*Standard grade 2023*	*Sub-standard grade 2023*	*Impaired 2023*	*Total 2023*
Cash and cash equivalents, except for cash on hand	5	Stage 1	6,583	–	–	–	6,583
Amounts due from banks and international financial institutions		Stage 1	114	–	–	–	114
Loans and advances to customers	6						
- Corporate lending		Stage 1	78,356	-	-	-	78,356
		Stage 2	-	41,567	27,572	-	69,139
		Stage 3	-	-	-	49,266	49,266
- Small business lending		Stage 1	4	-	-	-	4
		Stage 2	-	10	-	-	10
		Stage 3	-	-	-	3,976	3,976
- Consumer lending		Stage 1	443	-	-	-	443
		Stage 2	-	19	-	-	19
		Stage 3	-	-	-	358	358
- Mortgage loans		Stage 1	8,332	-	-	-	8,332
		Stage 2	-	326	-	-	326
		Stage 3	-	-	-	183	183
Debt Investment securities	7						
- measured at amortized cost		Stage 1	5,491	–	–	–	5,491
Financial guarantees	19	Stage 1	2,754	-	-	-	2,754
		Stage 2	-	120	-	-	120
Other assets	13	Stage 1	13,448	-	-	-	13,448
		Stage 3	-	-	-	2,670	2,670
Total			115,525	42,042	27,572	56,453	241,592

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates effective management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The risk ratings are assessed and updated regularly.

For the purpose of these financial statements a loan is considered overdue when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognised as overdue.

Loans and advances to customers have been assessed for impairment on a collective basis. Details of loan loss allowance of loan portfolio are disclosed in Note 6.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated (restructured and refinanced) financial assets, by class:

	2024	*2023*
Loans and advances to customers		
Consumer lending	493	379
Corporate lending	55,808	47,706
Total	**56,301**	**48,085**

Individually assessed allowances

The measurement of expected credit losses on an individual basis is performed taking into account time value of money, as well as information about the past, current and forecast economic conditions that is reasonably available. When measuring a provision for each financial instrument on an individual basis, possible scenarios of cash inflows to settle the debt are determined. For each financial instrument measured on an individual basis, the provision is calculated as the difference between the current gross carrying amount and present value of cash flows weighted by the probability of the respective scenario. Scenarios of cash flows are based on the settlement strategies, which are applied/are planned to be applied/may be applied to the borrower. Probabilities of scenarios, amounts and timing of cash inflows are determined by expert judgment.

Collectively assessed allowances

- The key inputs into the measurement of ECL are the term structure of the following variables:
- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

ECL for exposures in Stage 1 is calculated by multiplying the 12–month PD by LGD and EAD. For Stage 2 and Stage 3 LTECL is calculated by multiplying the lifetime PD by LGD and EAD.

- ECL is calculated for the following assets:
- Corporate customers;
- SMEs;
- Amounts due from banks and international financial institutions
- Guarantees and letters of credit;
- Securities portfolio;
- Individuals (by products).

The geographical concentration of Bank's financial assets and liabilities is set out below:

	2024				*2023*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	170,288	6,705	3	**176,996**	146,554	6,580	3	**153,137**
Amounts due from banks and international financial institutions	–	119	-	**119**	–	114	–	**114**
Loans and advances to customers	166,016	–	5,694	**171,710**	190,645	-	5,881	**196,526**
Investment securities	54	–	–	**54**	54	–	–	**54**
Equity securities at FVOCI	54	–	–	**54**	54	–	–	**54**
Other financial assets	7,774	183	6,107	**14,064**	8,408	221	7,395	**16,024**
	344,132	**7,007**	11,804	**362,943**	**345,661**	**6,915**	**13,279**	**365,855**
Liabilities								
Amounts due to banks and international financial institutions	–	–	294	**294**	–	–	286	**286**
Amounts due to customers	12,962	–	-	**12,962**	16,827	–	149	**16,976**
Subordinated Loans	–	–	89,812	**89,812**	–	–	95,901	**95,901**
Other borrowed funds	–	–	15,582	**15,582**	–	–	15,724	**15,724**
	12,962	-	**105,688**	**118,650**	**16,827**	-	**112,060**	**128,887**
Net assets/(liabilities)	331,170	7,007	(93,884)	244,293	328,834	6,915	(98,781)	236,968

(Thousands of Georgian Lari)

20. Risk management (continued)

Credit risk (continued)

Collateral and credit risk mitigation

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. Management monitors the market value of collateral and may request additional collateral in accordance with the underlying agreement. It is the Bank policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

The list of acceptable forms of credit support is subject to periodical review. The Bank has a set of requirements applicable to each form of credit support. The value of the pledged property is determined by reference to its market value taking into account a liquidity margin.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security should be detailed in the Application for Credit Facility Form. Where practical, a bank officer conducts inspection of the physical existence of collateral offered.

The Bank reassesses the fair value of pledged property with frequency stated for each form of pledge and, if necessary, requires additional collateral or other acceptable forms of credit support.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Bank's Management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of state securities that can be pledged to the NBG to obtain financing in the event of demand. The Bank also has committed lines of credit that it can use to meet liquidity needs.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratio established by the NBG.

Under this requirement Banks must hold the liquid assets that can be used to meet their liquidity needs for upcoming 30–calendar days. As of 31 December 2023, and 2022 the ratio was as follows:

The Banks are obliged to keep LCR at least equal to 100%, 75% and 100% in foreign currency ("FC"), national currency ("NC") and in total, respectively.

(Thousands of Georgian Lari)

20. Risk management (continued)

Liquidity risk and funding management (continued)

	2024 (local standard)	*2023 (local standard)*
LK "Liquidity Coverage Ratio" in FC (hold high–quality liquid assets / Total net cash outflow)	603%	417%
LK "Liquidity Coverage Ratio" in NC (hold high–quality liquid assets / Total net cash outflow)	1,306%	1,030%
Total LK "Liquidity Coverage Ratio" (hold high–quality liquid assets / Total net cash outflow)	849%	631%

Since 1 September 2019, the National Bank of Georgia (NBG) has introduced a minimum requirement for the Net Stable Funding Ratio (NSFR) for commercial banks operating in Georgia, which must be at least 100%. As of 31 December 2024, the Bank's actual NSFR amounted to 162% (2023: 152%).

Analysis of financial liabilities by remaining contractual maturities

The table below presents the Bank's analysis of financial liabilities by maturity as at 31 December 2024 and 2023 based on contractual undiscounted repayment obligations. Payments subject to notice are treated as if notice were given immediately. However, the Bank expects that the majority of depositors will not demand repayment earlier than the contractual maturity. The table does not reflect the expected cash flows based on the Bank's historical retention of deposits.

Non–derivative liabilities as of 31 December 2024	*On demand and less than or equal to 1 month*	*More than 1 month and less than or equal to 3 months*	*More than 3 months and less than or equal to 6 months*	*More than 6 months and less than or equal to 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	294	–	–	–	–	**294**
Amounts due to customers	11,967	286	359	9	356	**12,977**
Subordinated loan	–	–	–	–	92,008	**92,008**
Other financial liabilities, except lease liabilities	–	–	–	–	15,583	**15,583**
Total cash flow payable under non–derivative liabilities	**12,261**	**286**	**359**	**9**	**107,947**	**120,862**

(Thousands of Georgian Lari)

20. Risk management (continued)

Liquidity risk and funding management (continued)

Non–derivative liabilities as of 31 December 2023	*On demand and less than or equal to 1 month*	*More than 1 month and less than or equal to 3 months*	*More than 3 months and less than or equal to 6 months*	*More than 6 months and less than or equal to 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	286	–	–	–	–	**286**
Amounts due to customers	–	–	–	–	16,976	**16,976**
Subordinated loan	–	–	–	–	95,901	**95,901**
Other financial liabilities, except lease liabilities	–	–	–	–	15,724	**15,724**
Total cash flow payable under non–derivative liabilities	**286**	**-**	**-**	**-**	**128,601**	**128,887**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	On demand and less than or equal 1 month	*More than 1 month and less than or equal to 3 months*	*More than 3 months and less than or equal to 6 months*	*More than 6 months and less than or equal to 1 year*	*More than 1 year*	*Total*
2024	-	-	16	-	200	**216**
2023	400	138	2,120	-	216	**2,874**

Commitments and contingencies may be callable on demand, however, liquidation historically has taken place over a longer period.

Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency and interest rate risks, the Bank has no significant concentration of market risk.

Market risk – trading

The bank does not trade derivative financial instruments or other securities.

(Thousands of Georgian Lari)

20. Risk management (continued)

Market risk (continued)

Market risk – non–trading

Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates will affect the Bank's future cash flows or the fair value of its financial instruments.

Market risk – non–trading (continued)

The table below presents the sensitivity of the Bank's statement of profit or loss to potential changes in interest rates, assuming all other variables remain constant.

This sensitivity analysis reflects the impact of hypothetical changes in interest rates on the Bank's net interest income over a one-year period, under the assumption of a parallel shift in the interest rate curve across all maturities.

Currency risk
The Bank is exposed to currency risk. Currency risk arises from open position in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Bank. The Management Board has set limits on positions by currency based on the NBG's regulations. Positions are monitored on a daily basis.

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to be prepaid at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income
2024	1,818
2023	2,039

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to effectively manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

As at 31 December 2024, the Bank had no operational losses (2023: GEL 413,238), which primarily related to fines imposed by the National Bank of Georgia due to certain types of errors in operational activities.

(Thousands of Georgian Lari)

21. Fair value measurement

The Bank's Board of Directors has determined the policies and procedures for the remeasurement of fair value of investment property.

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually by the Board of Directors. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Board of Directors decides, after discussions with the Bank's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Board of Directors analyses the movements in the values of assets and liabilities which are required to be remeasured as per the Group's accounting policies. For this analysis, the management in conjunction with Bank's external valuers verifies the major inputs applied in the latest valuation by reconciling the information in the valuation computation to contracts and other relevant documents.

Fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are determined by level of the fair value hierarchy:

As at 31 December 2024	Level 1	Level 2	Level 3	*Total*
Assets measured at fair value				
Equity securities at FVOCI	–	–	54	**54**
Total investment property	**–**	**–**	**28,072**	**28,072**
Land	–	–	1,459	**1,459**
Residential properties	–	–	14,667	**14,667**
Non–residential properties	–	–	11,946	**11,946**
Total Land and buildings	**–**	**–**	**34,040**	**34,040**
Land	–	–	8,300	**8,300**
Office buildings	–	–	25,740	**25,740**
Assets for which fair value has not been determined				
Cash and cash equivalents	170,288	6,709	–	**176,997**
Amounts due from banks and international financial institutions	–	119	–	**119**
Loans and advances to customers	–	–	171,710	**171,710**
Liabilities for which fair value has not been determined				
Amounts due to banks and international financial institutions	–	294	–	**294**
Amounts due to customers	–	–	12,962	**12,962**
Subordinated loan	–	89,812	–	**89,812**

(Thousands of Georgian Lari)

21. Fair value measurement (continued)

Fair value hierarchy (continued)

As at 31 December 2023	Level 1	Level 2	Level 3	*Total*
Assets measured at fair value				
Equity securities at FVOCI	–	–	54	**54**
Total investment property	**–**	**–**	**28,278**	**29,278**
Land	–	–	1,102	**1,102**
Residential properties	–	–	14,225	**14,225**
Non–residential properties	–	–	13,951	**13,951**
Total Land and buildings	**–**	**–**	**34,609**	**34,609**
Land	–	–	8,028	**8,028**
Office buildings	–	–	26,581	**26,581**
Assets for which fair value has not been determined				
Cash and cash equivalents	146,554	6,583	–	**153,137**
Amounts due from banks and international financial institutions	–	114	–	**114**
Loans and advances to customers	–	–	196,526	**196,526**
Liabilities for which fair value has not been determined				
Amounts due to banks and international financial institutions	–	286	–	**286**
Amounts due to customers	–	–	16,976	**16,976**
Subordinated loan	–	97,428	–	**97,428**

During the years ended 31 December 2024 and 2023, there were no transfers between the levels of the fair value hierarchy.

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

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position, except for assets for which fair value approximates carrying value – those assets that are liquid or have a short-term maturity (less than three months or bear floating interest rate).

(Thousands of Georgian Lari)

21. Fair value measurements (continued)

Fair value hierarchy (continued)

	Carrying amount *2024*	Fair value 2024	Unrecognised gain/(loss) 2024	Carrying amount *2023*	Fair value 2023	Unrecognised gain/(loss) 2023
Financial assets						
Debt securities at amortised cost	176,997	176,997	-	153,137	153,137	-
Amounts due from banks and international financial institutions	119	119	-	114	114	-
Loans and advances to customers	171,710	167,357	(4,353)	196,526	192,949	(3,577)
Financial liabilities						
Amounts due to banks and international financial institutions	294	294	-	286	286	-
Amounts due to customers	12,962	12,962	-	16,976	16,926	50
Debt securities issued	-	-	-	-	-	-
Other borrowed funds	-	-	-	-	-	-
Subordinated loan	89,812	75,784	14,028	97,428	96,009	1,419
Total unrecognised change in unrealised fair value			**9,675**			**(2,108)**

The following describes the methodologies and assumptions used to determine fair values for the financial instruments.

Assets for which fair value approximates carrying value

Typically, for financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) or bear floating interest rate, it is assumed that the carrying amounts approximate their fair value.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money–market interest rates for debts with similar credit risk and maturity.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are already recorded at fair value in the financial statements.

Equity securities at FVOCI

Equity securities at FVOCI are valued using valuation technique. These securities are valued using models which incorporate data observable in the market and at other times use both observable and non–observable data. The non–observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Thousands of Georgian Lari)

21. Fair value measurements (continued)

Fair value hierarchy (continued)

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange swaps and forward rates and interest rate curves.

Property and equipment (buildings and land) and investment property

The market value of the property is determined based on the market data. The market approach is used to determine the fair value, the income approach is used to validate the obtained value estimates, and the cost approach is used to determine the value of real property where no information on recent sales or lease rates for similar properties within the same area is available.

Description of significant unobservable inputs to valuations of non–financial assets

The table below provides a description of significant unobservable inputs used in Level 3 valuations of investment property and revalued property, plant, and equipment as of 31 December 2024.

	Amount	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (Weighted average)	Sensitivity of the inputs to fair value
Investment property	**28,072**						
Land	1,460	Market approach	Price per square metre	39-75 (62) Georgian lari	Square metre	111–120,867 (8,523)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 146 Georgian lari
Residential properties	22,326	Market approach	Price per square metre	28-4,191 (1,845) Georgian lari	Square metre	158–6,811 (1,821)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 2,233 Georgian lari
Non–residential properties	**4,286**						
	4,286	Market approach	Price per square metre	28-4,191 (1,845) Georgian lari	Square metre	40–13,560 (3,704)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 429 Georgian lari
Revaluation of land and buildings	**30,921**						
Land	8,300	Market approach	Price per square metre	100-5,988 (2,850) Georgian lari	Square metre	500–7,500 (2,033)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 830 Georgian lari
Office buildings	22,621	Market approach	Price per square metre	1,095-12,065 (3,476) Georgian lari	Square metre	12–1,000 .(182)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 2,262 Georgian lari

(Thousands of Georgian Lari)

21. Fair value measurements (continued)

Fair value hierarchy (continued)

The table below provides a description of significant unobservable inputs used in the Level 3 valuation of investment property and revalued property, plant and equipment as at 31 December 2023.

	Amount	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the inputs to fair value
Investment property	**29,278**						
Land	3,046	Market approach	Price per square metre	0.02–451 (45) Georgian lari	Square metre	111–120,867 (8,523)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 305 Georgian lari
Residential properties	14,225	Market approach	Price per square metre	0.86–3,025 (534) Georgian lari	Square metre	158–6,811 (1,821)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,345 Georgian lari
Non–residential properties	**13,951**						
	13,951	Market approach	Price per square metre	1.62–47,283 (1,204) Georgian lari	Square metre	40–13,560 (3,704)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,278 Georgian lari
Revaluation of land and buildings	**31,886**						
Land	7,992	Market approach	Price per square metre	93–3,604 (1,848) Georgian lari	Square metre	999–2,192 (1,596)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 799 Georgian lari
Office buildings	23,894	Market approach	Price per square metre	365– 12,141 (2,551) Georgian lari	Square metre	16–4,344 (343)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 2,389 Georgian lari

(Thousands of Georgian Lari)

22. Maturity analysis of financial assets and liabilities

The table below presents the assets and liabilities as of 31 December 2024 and 2023, classified by their remaining contractual maturities. The Bank's undiscounted contractual payment obligations are disclosed in Note 23.

Following principles underlying gap analysis presentation and the Bank's liquidity risk management are based on the mix of NBG approach and the Bank's practice:

- Cash and cash equivalents represent highly liquid assets and are classified as "On demand, less than or equal to 1 month";
- Loans and advances to customers, investment securities, amounts due from banks and international financial institutions, other assets, amounts due to banks and international financial institutions, debt securities issued, other borrowed funds, subordinated debt and other liabilities are included into gap analysis table based on remaining contractual maturities;
- Diversification of customer deposits of the bank by number and type of depositors and the past experience of the Bank indicates that such accounts and deposits provide a long–term and stable source of funding, and as a result they are allocated per expected time of funds outflow in the gap analysis table on the basis of statistical data accumulated by the Bank during the previous periods and assumptions regarding the "stable part" of current account balances.

	2024							
	On demand and less than or equal to 1 month	More than 1 month and less than or equal to 3 months	More than 3 months and less than or equal to 6 months	More than 6 months and less than or equal to 1 year	More than 1 year	*Overdue*	No stated maturity	*Total*
Financial assets								
Cash and cash equivalents	176,997	–	–	–	–	–	–	**176,997**
Amounts due from banks and international financial institutions	-	119	–	–	–	–	–	**119**
Loans and advances to customers	–	–	–	–	171,710	–	–	**171,710**
Investment securities - FVOCI;	–	–	–	–	–	–	54	**54**
Other financial assets	–	–	–	–	–	–	14,063	**14,063**
Total	**176,997**	**119**	–	–	**171,710**	-	**14,117**	**362,943**
Financial liabilities								
Amounts due to banks and international financial institutions	294	–	–	–	–	–	–	**294**
Amounts due to customers	–	–	–	–	12,962	–	–	**12,962**
Subordinated loan	–	–	–	–	89,812	–	–	**89,812**
Other financial liabilities	–	–	–	–	15,583	–	–	**15,583**
Total	**294**	-	–	–	**118,357**	–	-	**118,651**
Net	**176,703**	**119**	–	–	**53,353**	-	**14,117**	**244,292**
Cumulative maturity gap	**176,703**	**176,822**	**176,822**	**176,822**	**230,175**	**230,175**	**244,292**	–

(Thousands of Georgian Lari)

22. Maturity analysis of financial assets and liabilities (continued)

	2023							
	On demand and less than or equal to 1 month	More than 1 month and less than or equal to 3 months	More than 3 months and less than or equal to 6 months	More than 6 months and less than or equal to 1 year	More than 1 year	*Overdue*	No stated maturity	*Total*
Financial assets								
Cash and cash equivalents	153,137	–	–	–	–	–	–	**153,137**
Amounts due from banks and international financial institutions	-	114	–	–	–	–	–	**114**
Loans and advances to customers	–	–	–	–	196,526	–	–	**196,526**
Investment securities - FVOCI;	–	–	–	–	–	–	54	**54**
Other financial assets	–	–	–	–	–	–	13,353	**13,353**
Total	**153,137**	**114**	**–**	**–**	**196,526**	**-**	**16,078**	**363,184**
Financial liabilities								
Amounts due to banks and international financial institutions	286	–	–	–	–	–	–	**286**
Amounts due to customers	–	–	–	–	16,976	–	–	**16,976**
Subordinated loan	–	–	–	–	95,901	–	–	**95,901**
Other financial liabilities	–	–	–	–	15,724	–	–	**15,724**
Total	**286**	**-**	**–**	**–**	**128,601**	**–**	**-**	**128,887**
Net	**152,851**	**114**	**–**	**–**	**67,925**	**-**	**13,407**	**234,297**
Cumulative maturity gap	**152,851**	**152,965**	**152,965**	**152,965**	**220,890**	**220,890**	**234,297**	**–**

Long–term loans are generally not available in Georgia. However, on the Georgian market, many short–term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

23. Related party disclosures

As of 31 December 2024, and 2023, the outstanding balances from transactions with related parties are as follows:

	2024			*2023*		
	The Parent	Entities under common control	Key managemen t personnel	The Parent	Entities under common control	Key managemen t personnel
Cash and cash equivalents	–	3	–	–	3	–
Loans and advances to customers, gross	–	–	–	–	1,488	–
Less: allowance for impairment	–	–	–	–	(1,290)	–
Loans and advances to customers, net	–	–	–	–	198	–
Amounts due to banks and international financial institutions	–	294	–	–	286	–
Subordinated loan	89,812	–	–	95,901	–	–
Other liabilities	11,595	–	–	13,654	–	–

(Thousands of Georgian Lari)

23. Related party disclosures (continued)

Entities under common control are companies that directly or indirectly through one or more intermediaries are managed or controlled by or are under common control with the Bank (this includes subsidiaries and fellow subsidiaries and holding companies). In these financial statements included into entities under common control are the members of VTB Group and other legal entities controlled by the Russian Federation.

On 13 October 2014, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 126,400. The carrying value as of 31 December 2021 was GEL 5,243 (2020: GEL 5,657), with interest rate of 11% payable quarterly and maturity on 13 October 2021. On 15 December 2020 the subordinated loan was restructured with interest rate of 8.93% payable quarterly and maturity on 29 October 2027.

On 31 August 2018, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 816,985. The carrying value as of 31 December 2021 was GEL 33,888 (2020: GEL 36,293), with interest rate of 10.5% payable quarterly and maturity on 29 August 2025. On 31 August 2020 subordinated loan was restructured with interest rate of 10.5% payable quarterly and maturity on 29 August 2027.

On 31 December 2018, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 414,000. The carrying value as of 31 December 2021 was GEL 17,172 (2020: GEL 18,242), with interest rate of 11.5% payable quarterly and maturity on 26 December 2025. On 15 December 2020 subordinated loan was restructured with interest rate of 8.99% payable quarterly and maturity on 1 December 2027.

On 29 December 2020, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 455,394. The carrying value as of 31 December 2021 was GEL 18,889 (2020: GEL 20,061) with interest rate of 8.92% payable quarterly and maturity on 17 December 2027.

On 29 December 2021, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 900,000. The carrying value as of 31 December 2021 was GEL 37,331 with interest rate of 11.51% payable quarterly and maturity on 25 December 2028.

In the case of a liquidation of the Bank, these loans are only repayable after all the obligations to the Bank's senior creditors have been met.

As at 31 December 2024, other liabilities to key management personnel include accrued bonuses in the amount of GEL 1,663 (2023: GEL 0) and unused vacation pay in the amount of GEL 0 (2023: GEL 0)

The income and expense arising from related party transactions are presented in the table below:

	2024			*2023*		
	The Parent	**Entities under common control**	**Key management personnel**	**The Parent**	**Entities under common control**	**Key management personnel**
Interest expense	(8,148)	–	–	(8,642)	-	-

As at 31 December 2024, total compensation to key management personnel, including salaries, bonuses, and other benefits, amounted to GEL 4,944 (2023: GEL 3,163).

As at 31 December 2024, the Bank's key management consisted of 4 members of the Supervisory Board and 6 members of the Management Board (2023: 4 members of the Supervisory Board and 6 members of the Management Board). The Bank did not have any significant transactions with the members of the Supervisory Board during 2024 and 2023.

(Thousands of Georgian Lari)

24. Capital adequacy

The Bank maintains and actively manages capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may return capital to shareholders or issue capital securities.

NBG requires that all banks comply with Basel II regulations in their capital adequacy assessment. NBG adopted amendments to the regulations, introducing amendment relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important commercial banks, on determining new systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar II.

Capital adequacy ratio

As at 31 December 2024, in accordance with the requirements of the National Bank of Georgia, the Bank is required to maintain minimum supervisory capital, Common Equity Tier 1 (CET1) capital, and Tier 1 capital ratios individually calculated based on the applicable methodology at 29.81%, 22.85%, and 25.84%, respectively (2023: 28.07%, 21.19%, and 24.15%, respectively, under the local standards).

The Bank complied with these capital adequacy ratios as at 31 December 2024 and 31 December 2023. The Bank's capital adequacy ratios on this basis were as follows:

	2024	*2023*
Common Equity Tier 1 capital	273,906	261,350
Additional Tier 1 capital	43,189	50,857
Tier 1 capital	**317,094**	**312,207**
Tier 2 capital	**42,080**	**64,023**
Total regulatory capital	**359,174**	**376,230**
Risk weighted assets	**538,310**	**584,688**
Common Equity Tier 1 capital adequacy ratio	**50.88%**	**44.70%**
Tier 1 capital adequacy ratio	**58.91%**	**53.40%**
Total capital adequacy ratio	**66.72%**	**64.35%**