BANK OF GEORGIA

MANAGEMENT REPORT 2023

About us

JSC Bank of Georgia (the 'Bank') was established on 21 October 1994 as a joint stock company (JSC) under the laws of Georgia. The Bank and its subsidiaries (the 'Group') mainly comprise: Retail Banking, SME Banking, and Corporate Banking operations in Georgia.

JSC Bank of Georgia, a systemically important and leading universal bank in Georgia, is the core entity of the Group.

The Group expects to benefit from the growth of the Georgian economy and aims to deliver on its strategy and its key medium-term objectives – at least 20% return on average equity (ROAE) and c.10% growth of the loan book.

At 31 December 2023, the Bank had 189 branches in all major cities of Georgia (31 December 2022: 207). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

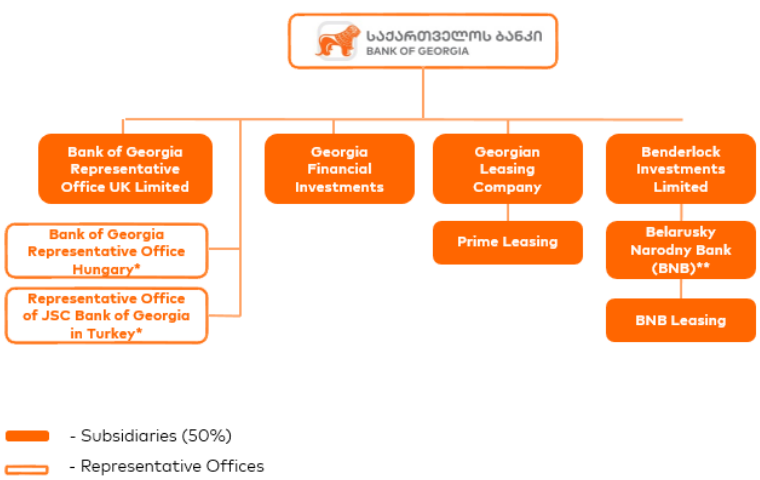
Ownership

As at 31 December 2023, 31 December 2022 and 31 December 2021 JSC BGEO Group was the principal shareholder of the Bank. Less than 0.5% of the Bank's shares were owned by up to 1,000 different individual shareholders through the listing on the Georgian Stock Exchange.

Shareholder	31 Dec 23	31 Dec 22	31 Dec 21
JSC BGEO Group	99.56%	79.78%	79.78%
Bank of Georgia Group PLC	0%	19.78%	19.78%
Others	0.44%	0.44%	0.44%
Total	100.00%	100.00%	100.00%

Before 29 May 2018 JSC BGEO Group was fully owned by BGEO Group plc, a public limited liability company incorporated in England and Wales that was the ultimate parent company of the Bank. The shares of BGEO Group plc were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange plc's Main Market for listed securities, effective from 28 February 2012. As at 31 December 2023, 31 December 2022 and 31 December 2021 Bank of Georgia Group plc (admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc with the ticker 'BGEO') was the ultimate parent company of the Bank.

Group structure



**This representative office is not operational, does not have a physical office and does not conduct any commercial activity whatsoever; however, it is still registered in the respective jurisdiction and the registration is not officially liquidated as of the date of this document.*

***49.99% of BNB is owned by JSC Bank of Georgia directly and 49.99% is owned by BenderLock Investments Limited.*

In addition to the commercial legal entities presented above, the Bank is also the founder and the major contributor to "Tree of Life Foundation", a non-profit, non-commercial legal entity established under the laws of Georgia. For a full list of subsidiaries, associates and corporate shares within the Group structure, please see Note 2 – "Basis of preparation" – of the Consolidated Financial Statements.

Financial highlights 2023

Profit (adjusted)
GEL 1,333.7M

+24.5% y-o-y

Profit (reported)[1]
GEL 1,333.7M

+34.4% y-o-y

Net loans
GEL 20,248.1M

+20.2% y-o-y

Client deposits
GEL 20,776.8M

+13.7% y-o-y

ROAE (adjusted)
32.9%

31.6% in 2022

ROAE (reported)
32.9%

29.3% in 2022

Strategic and ESG highlights 2023

Monthly active individual clients
1,808.9K
+21.0% y-o-y

Digital MAU
1,357.2K
+21.0% y-o-y

Share of products activated through digital channels[2]
70.3%
+25.1 ppts y-o-y

Acquiring market share (Dec-23)
54.9%
+3.7 ppts y-o-y

Employee Net Promoter Score (eNPS)[4]

[1] 2022 figures have been adjusted for a one-off GEL 79.3 million tax expense due to an amendment to the corporate taxation model applicable to financial institutions in Georgia.
[2] In 2Q23, we changed the methodology of calculating the share of products sold digitally and currently include all types of products sold by Bank of Georgia. The previous periods have been restated.
[4] Based on internal survey.

NPS[3]

59
58 in 4Q22

56
53 in 4Q22

Self-employed borrowers[5]

54.7K
+14.9% y-o-y

sCoolApp MAU

89.6K
+170.3% y-o-y

Our strategy

The key strategic targets of the Group are as follows: (i) achieving ROAE of at least 20% each year; and (ii) achieving annual growth in its loans to customers and finance lease receivables portfolio of approximately 10%.

To achieve these targets, the Group intends to pursue the following strategic objectives:

- **Be the main bank in its customers' daily lives and increase customer engagement by leveraging its leadership positions in digital channels and the payments business.** The Bank is focused on (i) being relevant in customers' daily lives with its products and services; (ii) increasing customer engagement across all of its business segments by further developing its award-winning digital channels for retail as well as business clients, rolling out new products and increasing the availability of products in digital channels, thus supporting increasing digitalisation; and (iii) growing its payment business by maintaining its leadership position in the payments business and leveraging digitalisation and its loyalty programme, to support a growing share of cashless payments in the economy.

- **Delivering an excellent customer experience.** The Bank is focused on maintaining a customer-centric culture. Customer-centricity means creating products and delivering experiences that and fulfil customers' needs and wants, and continuously improving product and service quality based on customer feedback. Customer experience is an important strategic differentiator, and the Bank aims to continue to build on the progress it has achieved during the past few years.

JSC Bank of Georgia business model

Retail Banking

Mass Retail Banking

We provide a comprehensive range of daily banking, payments, and related financial products and services to a broad spectrum of mass segment customers through a digitally-led user experience via our award-winning mobile application and one of the largest distribution networks in Georgia.

Net loans

GEL 4.5B
+8.9% y-o-y

Deposits

GEL 5.1B
+10.3% y-o-y

[3] Based on external research by IPM Georgia.
[5] Individuals whose share of income from self-employment exceeds 50% and who do not own a business/is not registered as individual entrepreneurs.

Premium Banking

We provide exclusive premium banking products coupled with a broad range of lifestyle offerings to mass affluent customers through the SOLO brand and high-net-worth individuals through the Wealth Management (WM) direction.

- **SOLO** is a unique banking concept in one space, combining privileged financial and advisory services and tailored and exclusive lifestyle experiences.
- **Wealth Management** serves high-net-worth individuals. WM services include a dedicated private banker, a dedicated personal concierge, exclusive financial products and lifestyle experiences on top of those offered to SOLO customers.

Net loans	Deposits
GEL 4.0B	**GEL 7.5B**
+26.1% y-o-y	+19.1% y-o-y

SME Banking

We provide a broad range of banking and payment products and value-added services to small- and medium-sized businesses, including individual entrepreneurs.

Net loans	Deposits
GEL 4.6B	**GEL 1.9B**
+12.0% y-o-y	+24.4% y-o-y

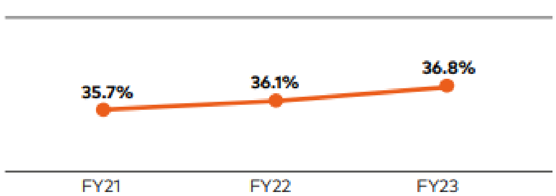
Corporate Banking

We provide the expertise and tailored solutions needed by large corporate organisations. Skilled relationship managers provide a one-to-one dedicated support to our customers.

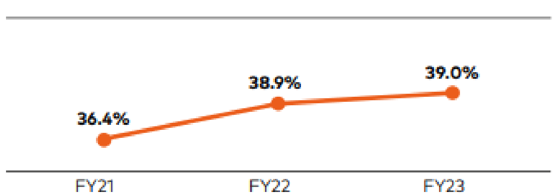
Net loans	Deposits
GEL 6.5B	**GEL 5.3B**
+32.1% y-o-y	+8.9% y-o-y

Bank of Georgia has maintained strong competitive positions[6]

Market share – total gross loans

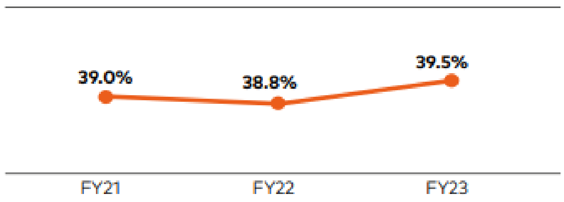


Market share – customer deposits

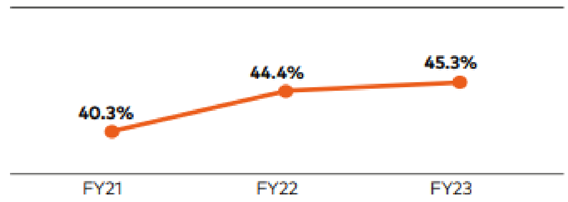


[6] Market share data are based on standalone accounts as published by the National Bank of Georgia.

Market share – loans to individuals



Market share – deposits of individuals



Key performance indicators

Financial KPIs

Profit[7] **GEL 1,333.7M** +24.5% y-o-y	ROAE[7] **32.9%** +1.3 ppts y-o-y
Profit is calculated in accordance with International Financial Reporting Standards (IFRS) and represents operating income and profit/(loss) from associates less operating expenses, cost of risk, non-recurring items and income tax expense. Profit is adjusted for one-off items.	Profit (adjusted) attributable to shareholders, adjusted for one-off items, divided by monthly average total equity attributable to shareholders. Total equity attributable to shareholders comprises share capital, additional paid-in capital, treasury shares, retained earnings, capital redemption reserve and other reserves.

Net interest margin (NIM) **6.4%** +1.0 ppts y-o-y	Cost:income ratio[7] **28.1%** -2.0 ppts y-o-y
NIM reflects the profitability of our core banking operations by taking the difference between the interest income we earn on loans and other assets and the interest expense we pay on deposits and other liabilities. NIM is one of the key ratios regularly monitored by Executive Management and communicated to investors.	Operating expenses divided by operating income, adjusted for one-off items.

Net loan book **GEL 20,248.1M** +20.2% y-o-y	Deposits **GEL 20,776.8M** +13.7% y-o-y

[7] 2022 figures have been adjusted for a one-off GEL 79.3 million tax expense due to an amendment to the corporate taxation model applicable to financial institutions in Georgia.

Net loans to customers and finance lease receivables at the end of the year divided by net loans to customers and finance lease receivables at the end of the previous year minus one. To calculate the change on a constant currency basis, net loans to customers and finance lease receivables in currencies other than GEL at the end of the year are converted to GEL using the exchange rates at the end of the previous year.	Customer deposits at the end of the year divided by customer deposits at the end of the previous year minus one. To calculate the change on a constant currency basis, customer deposits in currencies other than GEL at the end of the year are converted to GEL using the exchange rates at the end of the previous year.

Cost of credit risk ratio **0.7%** -0.1 ppts y-o-y
Cost of credit risk ratio equals expected credit loss on loans to customers and finance lease receivables for the year divided by monthly average gross loans to customers and finance lease receivables for the same year.

Non-financial KPIs

NPS **59** 58 in 2022	eNPS **56** 53 in 2022
To calculate NPS, people are asked “How likely are you to recommend Bank of Georgia to a friend or colleague?” and answers are scored on a zero-to-ten scale. NPS is simply the percentage of customers who are promoters (those who scored 9 or 10) minus the percentage who are detractors (those who scored 0 to 6).	To calculate eNPS, we ask employees “How likely are you to recommend Bank of Georgia to others as a place of work?” and answers are scored on a zero-to-ten scale. eNPS is simply the percentage of employees who are promoters (those who scored 9 or 10) minus the percentage who are detractors (those who scored 0 to 6).

Digital MAU **1,357.2K** +21.0% y-o-y	Volume of payment transactions in BOG’s acquiring **GEL 14,965.2M** +46.5% y-o-y
An individual who logged into BOG APP, sCoolApp or iBank at least once within the past month.	GEL value of all payment transactions executed in BOG’s physical POS and online acquiring network for the period.

Payments MAU **1,248.7K** +20.1% y-o-y	sCoolApp MAU **89.6K** +170.3% y-o-y

An individual who used a BOG card for payments at least once within the past month.	An individual who logged into sCoolApp at least once within the past month.

Number of self-employed borrowers

54.7K

+14.9% y-o-y

An individual, with a credit from Bank of Georgia, whose share of income from self-employment exceeds 50% and who does not own a business/is not registered as an individual entrepreneur.

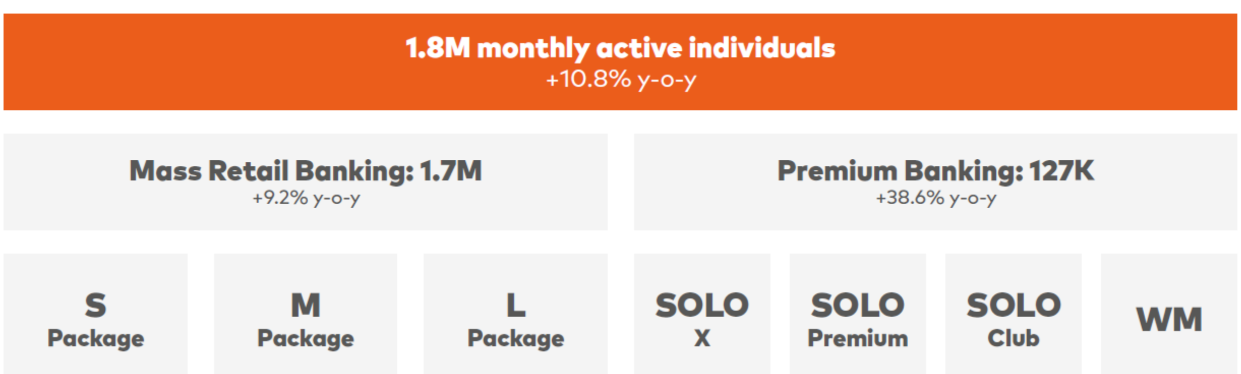
Year in review: empowering individuals

Our retail customer base is diverse, encompassing individuals ranging from school students to high-net-worth individuals. To stay relevant to our clients, we have developed distinct offerings tailored to various needs.

In Mass Retail Banking, the majority of our clients use subscription packages – S, M or L. In 2023, in Premium Banking, we introduced a new subscription option – SOLO X – designed for customers who appreciate the SOLO lifestyle and banking services but do not require a personal banker. This differentiation in packages has successfully attracted more customers.

Through BOG APP – Bank of Georgia's retail financial superapp, we not only provide core banking products to our clients, but also offer non-banking products, including investment accounts, public transport cards, and insurance marketplace. This diverse product range enhances the variety of our offerings, fostering increased client engagement. Despite offering different services to various customer segments, our commitment to delivering the best customer experience and ensuring high levels of customer satisfaction remains consistent.

As of December 2023, the number of monthly active retail clients reached 1.8 million, a y-o-y increase of 10.8%. Notably, 75% of active retail clients are monthly active digital users. This reflects the extensive adoption of Bank of Georgia's market-leading retail digital channels.



Our digital ecosystem

The cornerstone of our digital ecosystem is a global award-winning financial superapp – BOG APP. We aim to use other digital channels for client acquisition and then migrate our customers to BOG APP because we envision BOG APP as the go-to channel for our increasingly digital customer base.

We aim to transform the everyday experiences of our customers by enabling them to effortlessly discover and secure daily banking services and relevant products with a single touch, all within our financial superapp.

BOG APP has evolved during the past two years, often in response to customer feedback that we continuously track, analyse and share monthly with Executive Management. For example, in 2023, we added the possibility to cancel or prolong deposits to the app. Previously, customers whose deposits were about to expire had to contact a banker or come to a branch if they did not wish the deposit to be prolonged. This issue came up in customer surveys as a pain point, and now customers can see in the app when their deposit is about to expire shortly and they can take action themselves directly from the app. If they wish to prolong it, they can prolong it on similar or different terms, or they can cancel it so that the money saved will be transferred to the current account after expiry.

When Bank of Georgia was in the initial stages of digital transformation, we focused on making sure that more and more transactional activity happens outside of branches and moves to BOG APP. Lately, more focus has been directed towards moving product sales to digital channels by designing straightforward digital journeys for different products.

We have achieved good levels of digitalisation in unsecured consumer loans, and saw improvements in deposits digitalisation during 2023. Digitising card sales has been a challenge mainly because we lacked a simple and efficient card delivery process. We are in the process of designing the card delivery process to make it more efficient for the Bank as well as for the customers.

How we measure success

1,357K +21.0% y-o-y Digital MAU (Dec-23)	**50.9%** +3.3 ppts y-o-y Digital DAU/Digital MAU (Dec-23)
75.0% +6.3 ppts y-o-y Share of Digital MAU in total active retail customers (Dec-23)	**70.3%** +25.1 ppts y-o-y Share of products sold digitally (4Q23)[8]

2023 was a successful year for our retail digital channels. The number of digital MAU increased to 1,357K (up 21.0% y-o-y) and Digital DAU reached 691K (up 29.5% y-o-y) as at December 2023. It is noteworthy that our clients are becoming more engaged with our financial superapp, as reflected by the increasing Digital DAU:Digital MAU ratio – which stood at 50.9% (up 3.3 ppts y-o-y) – and the share of Digital MAU in total active retail customers, which increased to 75.0% (up 6.3 ppts y-o-y) as at December 2023. In the fourth quarter the percentage of products sold digitally rose to 70.3% (up 25.1 ppts y-o-y), partly boosted by gamification in BOG APP. To maximise their points in the game, customers were assigned tasks such as purchasing a product via the app or completing a digital transaction, which significantly boosted digital sales. Several improvements were implemented throughout the year, including streamlining the deposit prolongation flow – further contributing to the increased share of products sold digitally. Customer satisfaction with our digital channels remained at a high level – the CSAT score was 92% for BOG APP and 84% for iBank as at December 2023. In response to customer feedback, we also launched dark mode in BOG APP.

Payments – a daily touch point with our retail customers

Payments are an integral part of retail customers' daily experience – oftentimes so seamlessly embedded that they happen multiple times a day without users giving too much thought to the process. Being relevant in customers' daily lives means for us being dominant in the payments business, with excellent customer experience and innovative payments methods. Our main competitor in this area is cash, which, despite increasing digitalisation, is still widely used for payments. We believe cashless payments benefit people – not just because they are easier and safer, but also because they open up other possibilities, including: (a) rewards (such as cashback, discounts, and more loyalty points), (b) greater visibility of our customers' needs and preferences, enabling us to make more personalised offers, (c) greater control over personal finances, giving people a clear and full view of where and how they spend their money – so they can better manage personal finances. The Personal Finance Manager is available in our financial superapp.

During the past few years, we have significantly increased the number of retail customers who used Bank of Georgia's cards to make at least one payment within one month – **we call this Payments Monthly Active User or Payments MAU. As at 31 December 2023, Bank had 1,249 thousand payment MAU, up 20.1% y-o-y.**

[8] In 2Q23, we changed the methodology of calculating the share of products sold digitally and currently include all types of products sold by Bank of Georgia. The previous periods have been restated.

In 2023, Bank of Georgia launched BNPL for in-store payments, on top of already offering BNPL online. BNPL allows customers to split a purchase into 4 equal payments spread across four months to be paid back over time, with no interest. Our customers can activate and see their BNPL limits in our financial Superapp. A list of merchants where BNPL works as a payment method is also displayed in the app.

In-store BNPL process for customers who have BNPL limits takes not more than a minute. Customers tap their payment cards or digital wallets to Bank of Georgia's POS terminals and receive an SMS asking them to click on a link to see the terms and conditions and confirm the purchase with BNPL. Afterwards, customers can see the newly activated BNPL with its repayment schedule in the BOG APP. If they wish, customers can prepay the BNPL without any charge.

35K customers used BNPL in 2023 and 43.5% used BNPL more than once.

Lifestyle and rewards

Bank of Georgia's loyalty programme is a driving force behind increasing cashless payments and customer loyalty. Our different lifestyle offers are tailored to the needs and preferences of specific segments. Besides mass retail customers, we have special offers for sCool Card holders, Student Card holders, and Premium Banking (SOLO and WM) clients. As clients make transactions within BOG's acquiring network (physical POS and online), they accumulate either PLUS points when using debit cards or MR points when using American Express credit cards. Mass retail clients attain different status levels based on their activity with the Bank, with higher levels unlocking greater benefits. This approach not only encourages cashless transactions but also strengthens customer stickiness. We changed the programme in 2021, from product-based upgrades to product- and payment-based upgrades – with the clear objective to make daily banking a cornerstone. We offer a variety of benefits to our loyalty programme members, including discounts, cashback and PLUS points. One of the main aspects of the value proposition is the personalisation of lifestyle offers. In 2023, we remained committed to strengthening the Bank's advanced analytics and AI capabilities, aiming to improve efficiency, customer satisfaction and loyalty.

1,298
+75.9% y-o-y
Total offers (exc. SOLO-specific offers)

695,367
+42.9% y-o-y
Unique customers who exchanged PLUS points at least once

523
PLUS-card specific offers

GEL 47,856,812
+89.8% y-o-y
Value of PLUS points exchanged

In Premium Banking, we go beyond just partnering with merchants for lifestyle offers. We not only offer special deals, but also create experiences in travel, entertainment, education and wellbeing.

920
+34.7% y-o-y
Number of SOLO-specific offers

65K
+98.7% y-o-y
Number of unique clients who used SOLO offers

During 2023, responding to high demand from our customers, we significantly expanded the number of SOLO events and projects and we dedicated ourselves to enhancing the quality of event content. As a result, we achieved a remarkable 83% year-on-year increase in attendance at these events. We are committed to providing enriching and engaging experiences for our customers.

SOLO Events	big art & culture events financed by SOLO	17
SOLO Kids*	educational and entertaining activities for our clients' children	66
SOLO Talks*	discussions and meetings with various professionals	53
SOLO One to One*	individual meetings with famous professionals	2
SOLO Hobby*	outdoor/indoor activities to encourage our clients new passion or hobbies	11
SOLO Workshop*	interactive events for collaborative learning and skill-building	4
SOLO Tours*	International/local tours with interesting travelers	3

*Organised by SOLO

Lending journey

Bank of Georgia's core business activity is lending. We are committed to being a responsible lender that supports customers on every step of their lending journey and enables them to fulfil their needs. Lending is at the heart of Bank of Georgia's role in supporting the Georgian economy. Responsible lending for us means increasing access to finance whilst ensuring that prudent risk management practices as well as customer protection principles are followed during the loan underwriting process and throughout the lifecycle of a loan. We aim to create simpler end-to-end customer journeys for loans, eliminating unnecessary barriers and roadblocks. Moving product sales to digital channels is one of the ongoing focus areas for Bank of Georgia's digital agenda. Digitalisation of the lending process is a big part of the current efforts to design more efficient processes with excellent user experience. Lending processes vary for different retail customer sub-segments and different products. Bank of Georgia's digital lending gained speed in 2021 when we redesigned the unsecured consumer lending flow in digital channels. Currently, unsecured consumer lending is almost fully automated and relatively straightforward. Eligible customers who give consent to the use of their data for personalised offers can check and get information on available credit limits for unsecured loan types (including instalments) as well as conditional limits for secured loan types, including mortgages, through the BOG APP. When limits are available in BOG APP, activating an unsecured consumer loan takes seconds. The digitalisation of this process resulted a high share of total number of loans activated digitally.

Self-employed borrowers

During 2022-2023, we focused on supporting self-employed retail customers and making sure they have access to the same products and services as other retail customers. However, their irregular income posed challenges for income validation, requiring detailed questionnaires to determine credit eligibility. In 2023, we redesigned the income validation process to eliminate the need for long questionnaires and instead relied on advanced models in the back to fill out and analyse the necessary financial data.

54.7k
+14.9% y-o-y
Self-employed borrowers (Dec-23)

GEL 531.7M
+45.9% y-o-y
Loan portfolio of self-employed clients (Dec-23)

Savings – encouraging a savings culture

As a leading organisation in Georgia, fostering a robust savings culture within our community is not just a financial imperative. It is also a commitment to empowering individuals and supporting economic resilience as savings are a key component of people's financial health. We believe that by encouraging savings, we help foster a sense of security and empowerment among individuals. By providing simple products and services to promote savings and make savings easier, we equip our retail customers with the tools they need to face financial uncertainties and achieve their small or big goals. During 2023, we made our savings products more flexible and accessible for our customers, with a focus on encouraging the use of digital channels. We provided employees at our branches with an extra incentive to educate customers on opening digital deposits through BOG APP. We also continued to offer higher rates on deposits opened through BOG APP. For Premium Banking (SOLO) customers, we have an upgraded savings product, 'Premium'. SOLO clients receive a higher return on this deposit, with rates linked to the monetary policy rate. Throughout the year, more customers used a digital piggy bank – accumulating money by automatically transferring a pre-defined amount after every purchase.

71.9%
+32.8% ppts y-o-y
The share of deposits activated digitally

313.7K
+3.4% y-o-y
Number of Retail customers having an active saving deposit

304.2K
+179.6% y-o-y
Customers having an active piggy bank account

Empowering young people with special products

We believe that initiating financial education during childhood is important for setting young people up for a secure and prosperous financial future. Bank of Georgia is focused on seamlessly onboarding children and young people into the formal financial system, equipping them with critical financial literacy skills and offering support through accessible daily banking solutions and tailored lifestyle offers. We offer a free account and a daily banking card, sCool Card, to school students, and a free and specially designed mobile app – sCoolApp. At the time of launch, sCoolApp was the first financial application for children in Georgia, with an average user age of 14.

We surpassed our 2023 year-end target of 70k sCoolApp MAU, reaching c. 90k school students as at December 2023.

School students

142K
+61.0% y-o-y
Active sCool card holders

116K
+82.5% y-o-y
sCool card payment MAU

Students

196K +15.9% y-o-y Active student card holders	190K +18.1% y-o-y Monthly active digital users	153K +22.7% y-o-y Student card payment MAU

Fulfilling business customer needs

We serve a broad spectrum of business clients, including small and medium-sized enterprises (SMEs) and large corporate clients. We understand that each business is a unique entity, influenced by its own distinct characteristics – be it the intricacies of its business model, the scale of its operations, or the financial landscape it navigates. Just like people, businesses evolve and grow – and so do their needs. Customer-centricity for us means listening to different businesses and understanding their needs to design financial solutions that support our clients at different stages of their business development journeys.

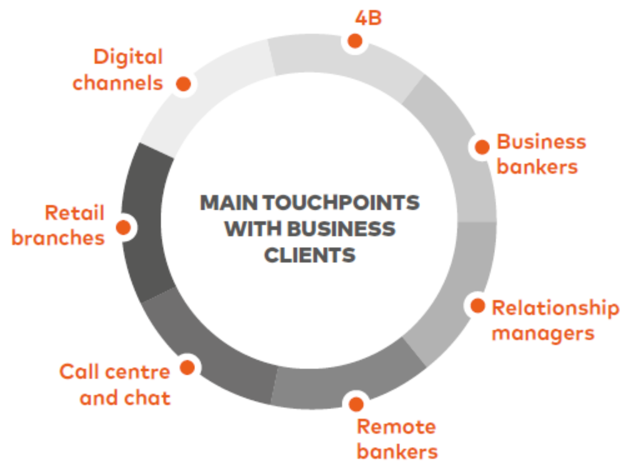
We strive to be more than just a provider of banking products for our clients – we want to be a trusted partner for businesses, offering a comprehensive suite of products and services including value-added services such as personalized advisory and access to business education and insights. Deepening customer relationships is one of our top priorities and increasing engagement among our business customers is a focus area for both SME and Corporate Banking directions.

97.8K monthly active legal entities
+20.2% y-o-y

SME Banking: 93.9K +20.2% y-o-y	Corporate and Investment Banking: 3.8K +21.0% y-o-y

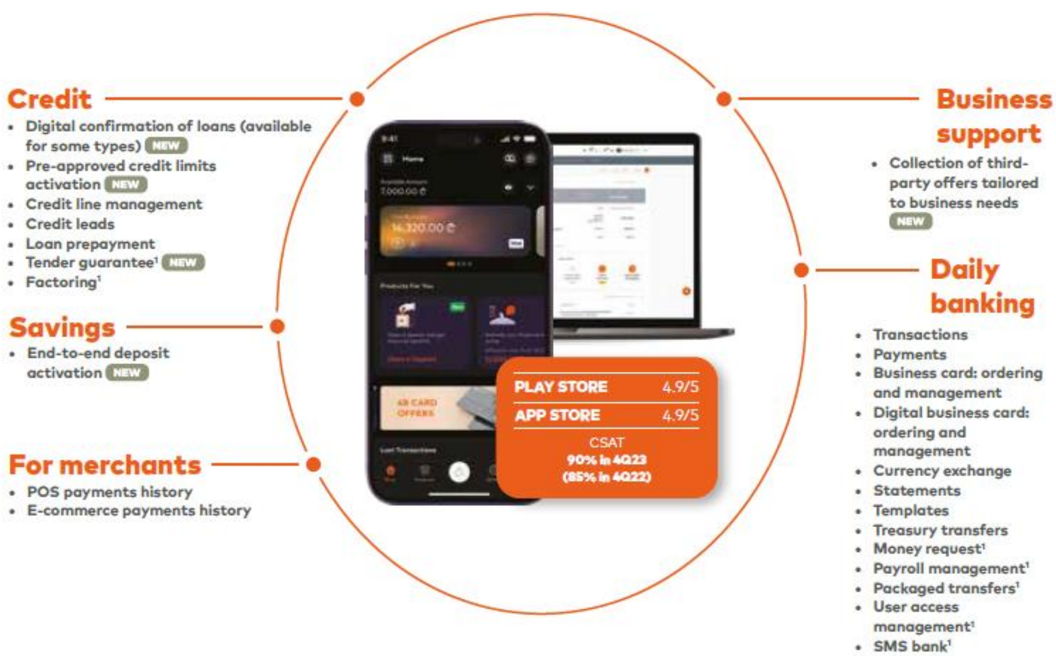
Coverage of business clients

We are committed to delivering excellent customer service to our business clients through various channels and touchpoints, with a particular focus on improving the digital experience. Bank of Georgia has different coverage models for SME and Corporate business customers. SME clients can be served in a variety of ways, including through dedicated relationship managers who offer personalised support and provide end-to-end assistance, and remote bankers who can handle client requests remotely. Some customers are served fully through digital channels. In 2020, Bank of Georgia opened its first special business branch, 4B, in Tbilisi. In 2023, a second 4B branch opened in Tbilisi – further strengthening our commitment to the SME segment. 4B serves as a hub for fostering networking opportunities among businesses, and it is a special place where business clients can meet their relationship managers, hold meetings, and participate in different events that Bank of Georgia hosts throughout the year.



Our business digital ecosystem

Central to our dedication to operational excellence through digitalisation are our award-winning digital channels for business clients – a mobile app called Business mBank and an internet banking platform called Business iBank. Since the launch of Business iBank and mBank, we have continually refined and improved these platforms to provide simple and user-friendly digital experiences to our business customers and support them in managing daily operations as well as in making more informed business decisions.



1. Available only in Business iBank.

How we measure success

While we consistently strive to enhance digital channels and increase the range of products available digitally, we see more upside and room for further improvement. While transactionally business customers have become highly digital, with more than 95% of daily transactions happening outside of physical branches, we still need to work on designing end-to-end digital product journeys. Unlike in retail, business lending is still at an early stage of digitalisation, and it will continue to be one of the main focus areas going forward. Our aspiration is to move core products to digital channels, and the recent developments are just the first steps towards a more digital product selling process.

74K
+28.6% y-o-y
Digital MAU

19.1M
+46.3%
Number of transactions in Business mBank and iBank

Merchant solutions

Bank of Georgia is the leading payments acquirer in Georgia. By prioritising user experience and service quality, the Bank has been focused on increasing digital payments by encouraging more individuals to use cashless payment methods and expanding the network of merchant clients. We also empower merchants to embrace digitalisation, driving the growth of e-commerce businesses in Georgia.

18.3K
+26.4% y-o-y
Total active merchants (Dec-23)

15.0B
+46.5% y-o-y
Total volume of transactions in BOG's acquiring (2023)

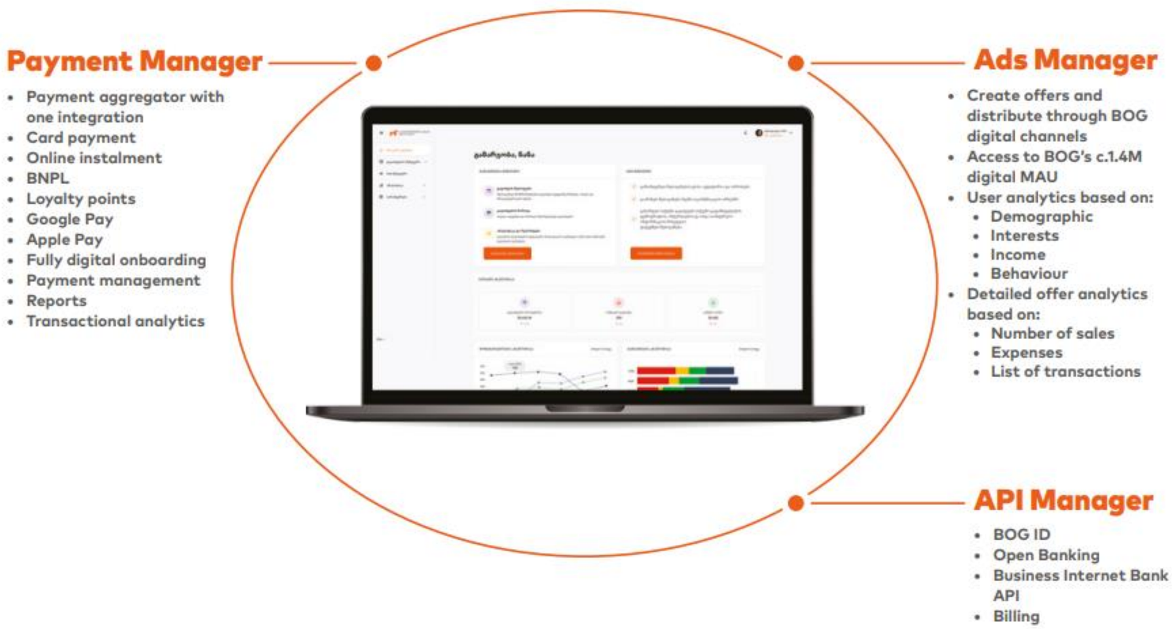
596
+27.6% y-o-y
Active e-commerce merchants (Dec-23)

54.9%
+3.7% ppts y-o-y
Market share by volume (Dec-23)

Business Manager – responding to business needs

In 2023 we introduced Business Manager – a digital platform equipped with merchant solutions vital for supporting business operations and development. Running the daily operations effectively and growing sales are two of the few critical questions that business customers grapple with and need answers to. Bank of Georgia's Business Manager is a digital platform combining three merchant solutions that are designed to help businesses answer these questions.

Business Manager is still at an early stage of use and development, and 2024 will be a year of focus on its uptake and technical development.



Sustainable business

Empowering people by creating sustainable opportunities

We believe in shared success. Sustainability for us means acting in ways that empower our customers, our employees and our communities, and doing the business the right way, following the highest standards of corporate governance and robust risk management practices. This ensures we effectively mitigate the negative impacts we may have, directly or indirectly, on the economy, people, and the environment and that we contribute to the sustainable development of the communities where we operate. Bank of Georgia is a leading financial institution in Georgia, providing innovative products and solutions to more than 1.8 million active customers. Innovation and responsibility go hand in hand, and we recognise the role the Bank can play in supporting sustainable development and inclusion in all its forms. We believe understanding and managing ESG risks is crucial to maintaining our financial strength, so our approach to ESG has been integrated in the work we do across the business. The management of ESG-related issues is subject to the governance and oversight of our Executive Management team and the Supervisory Board. We continue to make progress in understanding climate related risks and opportunities, and putting in place practices to identify, assess, monitor and manage climate related issues, focusing on the Bank's loan portfolio, as the main risks and impacts are associated with lending. We continue to support our business customers in their transition towards greener and more sustainable ways of doing business.

Information in this chapter is provided mainly for JSC Bank of Georgia standalone, unless otherwise stated.

ESG governance

Oversight of the majority of material ESG topics and related impacts on the economy, people, and the environment is allocated to specific Supervisory Board Committees: Risk, Audit, Nomination and Corporate Governance and Remuneration Committees. While the Committees retain continued responsibility for discrete ESG-related matters, the full Supervisory Board retains primary responsibility for the Bank's overarching ESG strategy, which has been framed around material ESG topics. The Supervisory Board ensures the alignment of ESG strategy with the business strategy, receives updates on progress, and oversees the Group's overall communications strategy around ESG topics and impacts. The full Supervisory Board also retains the primary responsibility for overseeing the management of climate risks and opportunities, and it oversees the management of other E&S risks and opportunities that may arise in the Bank's loan portfolio. Updates on material ESG topics are regularly reported to the full Supervisory Board or respective Committees. The management of ESG topics is delegated to the Bank's Executive Management team. Discrete ESG matters are managed by individual members of Executive Management. Management-level Environmental and Social Impact (ESI) Committee reviews and discuss the Bank's ESG-related (including climate) matters and impacts.

Key developments in 2023

1. We conducted the second formal ESG Materiality Assessment and updated our ESG strategy
2. We created ESG and Sustainability function, which is responsible for Bank of Georgia's sustainability practices
3. We updated internal sector classification system to NACE2, the European classification system used by the NBG's Sustainable Finance Taxonomy for identifying sectors and activities that are or could potentially be green. We operationalised selected taxonomy criteria so bankers could determine whether our customers fit the criteria under the taxonomy

2023 KPIs & results

KPI	Target	Result
eNPS	Min. 54	56
sCoolApp MAU	70K	90K
Number of self-employed borrowers	57K	55K*

*In 2023, the number of self-employed borrowers was slightly short of the target despite the fact that the loan portfolio itself grew significantly. The Retail Banking team continues to be focused on reaching this segment, especially outside of the capital city, Tbilisi, and simplifying the user experience to attract more customers into the formal banking system.

ESG materiality assessment

To formalise our ESG strategy, we undertook our first formal ESG materiality assessment in 2021. As a result, we identified material issues and defined commitments for each of them. Building upon this groundwork, we decided to undergo a reassessment in 2023. The primary motivation for the 2023 materiality reassessment was to align with best practices, considering the recommended timeframe of 2-3 years for updates. Furthermore, we aim to adhere to the latest Global Reporting Initiative (GRI) Standards.

ESG materiality assessment results – material topics

1. Business ethics
2. Customer protection and product responsibility
3. Data security and privacy
4. Local economic development
5. Sustainable finance
6. Product and service innovation
7. Sustainable financial inclusion and empowerment
8. Fair working conditions and employee well-being
9. Human capital development
10. Diversity, equity, and inclusion
11. Gender equality
12. Engagement with communities and the environment
13. Responsible supply chain
14. Internal environmental management

ESG strategy

The aim of the materiality assessment was to determine the relative priority of relevant ESG topics and to define the material topics to base our ESG strategy on. Based on the robust materiality assessment process described above, we updated our ESG strategy. Our ESG priorities continue to evolve, and we are committed to being transparent about our practices and progress.

Focus areas			
Governance & Integrity	Financial Inclusion	Sustainable Finance (integrated Risk Management)	Employee Empowerment
Objectives			
To do business in line with the highest standards of corporate governance, highest ethical principles and assure accountability, transparency, fairness and responsibility in every decision we make	To use the power of technology and product innovation to drive digital financial inclusion and deliver innovative financial services	To manage financial risks stemming from climate change and other E&S risks, while fostering greater transparency and long-term focus	To be the employer of choice for top talent, providing equal opportunities for development and ensuring the best employee experience based on our values and business principles

2024 KPIs

KPI	Target
Digital transactional MAU	1,291,000 (2023: 1,182,399)
sCoolApp MAU	150K (2023:90K)
Number of self-employed borrowers	60K (2023: 55K)
Cash withdrawals in total transactions %	25% (2023: 28%)
Green portfolio (gross)	GEL 874M (2023: GEL 752M)

Financial inclusion

We believe that improving access to financial services is crucial for enhancing people’s quality of life and fostering economic growth. Lack of access to financial services and finance poses a significant barrier to sustainable and inclusive socioeconomic development. In 2021, we identified financial inclusion as one of our primary impact focus areas, which is intertwined with our overall business objectives. We aim to foster financial inclusion by offering people relevant, accessible, and affordable services tailored to the diverse needs of different customer segments – spanning various socioeconomic backgrounds and geographic locations, from rural to urban communities. In addition to our core business, we actively engage in corporate social responsibility (CSR) initiatives in the communities where we live and operate, providing educational resources, workshops and tools to empower individuals and businesses – equipping them with the knowledge and skills they need to effectively manage their finances.

To enhance financial inclusion, we focus on:

- Increasing the use of digital financial products and services
- Building financial literacy among young people
- Building capabilities of local businesses with relevant tools and information

We believe financial inclusion starts with the use of digital channels for daily banking and cashless payments. Through our digital platforms, we provide easy access to a formal financial system to anyone across Georgia. Financial technologies, be it mobile app or secure online payments, empower people to safely handle their money, carry out transactions, and get necessary services without relying on cash or visiting traditional bank branches. We measure the uptake of our mobile app and internet banking platform through Digital MAU and the use of cards for payments instore and online through Payment MAU. Both metrics are key business metrics, but we believe by focusing on these metrics and reaching more people monthly through our digital and payments technologies, we contribute to stronger communities.

Financial inclusion focus area	Why we think it is important	Where we are now (December 2023)
Use of digital channels	• Convenience and quick access to our products and services • Visibility of personal finances and access to tools to manage money more effectively • Ability to see all personalised financial and lifestyle offers • Chatbot/chat available 24/7 • Access to information and educational content • Increased control over personal finances, giving people a full view of where and how they spend their money	**1.4 million** **+21.0% y-o-y** Digital MAU
Use of cashless payments	• More benefits – personalised offers, ability to save money through our loyalty programme • Greater visibility of customers' financial history, income and behaviour, enabling banks to better assess their creditworthiness	**1.2 million** **+20.1% y-o-y** Payment MAU

Access to finance – removing barriers for self-employed and underserved people

Self-employed individuals

Since 2022, we have been focused on closing the gap between self-employed individuals and the financial services sector. We understand the challenges faced by those with income from self-employment or unofficial sources when trying to access credit. That is why we have worked on refining our lending processes, removing the artificial barriers that have long hindered their financial inclusion.

In 2023, we improved the income validation procedures for self-employed clients and extended the full spectrum of credit products, previously unavailable to them. As a result, we achieved a 14.9% y-o-y growth in the number of self-employed borrowers as at 31 December 2023.

54.7K
+14.9% y-o-y
Self-employed borrowers (Dec-23)

GEL 531.7M
+45.9% y-o-y
Gross loan portfolio of self-employed clients (Dec-23)

Underserved individuals

In Georgia, most of the economic activity happens in big cities, leaving rural areas feeling left out when it comes to financial opportunities. Therefore, creating an inclusive environment where everyone regardless of their location or occupation, feels empowered to access financial tools requires addressing the disparity in access to financial products and services between urban and rural areas. Bank of Georgia's goal is to be accessible to people living in locations beyond major urban centres, in rural areas, and to those of different socioeconomic backgrounds, through a variety of financial services and products. For instance, we have strategically placed ATMs and self-service terminals (BOG Pay) in regions for individuals to gain access to basic banking services without needing to travel to urban centres. We also have a number of branches in rural communities providing residents with access to a wider range of financial services and personalised assistance Part of Bank of Georgia's Mass Retail Banking strategy is to encourage people living in Georgia's regions to adopt digital channels, particularly our financial superapp for a fast, easy and seamless daily banking experience. In 2023, we focused on making sure our customer facing employees in regional branches were equipped with the knowledge of various digital tools and incentivised to raise awareness of the benefits of using digital channels among their customers.

479K
+91.0% y-o-y
Active costumers in Georgia's regions[9]

Empowering school and university students in Georgia with daily banking solutions

In 2022, we launched sCoolApp – the first financial mobile app for school students in Georgia. The average age of sCoolApp user is 14. Our objective is to expand our reach to school students and use sCoolApp as one of the main avenues for teaching essential financial literacy skills to children from a young age.
In 2023, we developed sCoolApp with innovative features aimed at prompting financial inclusion and education among school students.

90K
+170.3% y-o-y
sCoolApp MAU

Sustainable finance

Sustainable finance for us means integrating ESG criteria into core operations and decision-making processes. This involves aligning investment decisions, risk assessments and lending practices with a commitment to long-term sustainability. As a leading lender and a reliable partner for businesses of any size in Georgia, Bank of Georgia is committed to mobilising and prudently channelling financing to support customers and drive economic growth while reasonably mitigating climate, environmental and social (CE&S) risks in our financing. The CE&S management of the Bank's loan portfolio is based on the Environmental and Social Risk Management System (ESMS) and Climate Risk Management (CliRM) framework and encompasses a systematic identification, assessment, mitigation and monitoring of CE&S risks associated with the projects that are financed by the Bank's Corporate Banking and SME Banking segments. We understand, that businesses can no longer operate in isolation from the impact they have on the planet and the people, and, therefore, we are planning to develop green products and create green finance opportunities for the businesses. This will help us identify opportunities for sustainable growth and, mitigate potential adverse impacts and reduce risk of financial losses, and foster the development of a resilient and sustainable financial system and businesses around us.

Environmental and social risk management

Environmental and social risks are risks of negative materialisation of E&S factors that affect our clients, borrowers, other counterparties and the Bank itself. The most common are environmental risks – financial risks stemming from an institution's exposure to activities that may be affected by or contribute to the negative impacts of environmental

[9] Number of monthly active customers in Georgia excluding the top four large cities: Tbilisi, Batumi, Kutaisi and Rustavi.

factors. Social risks are financial risks arising from an institution's exposure to activities that may be affected by or contribute to the negative impacts of social factors.

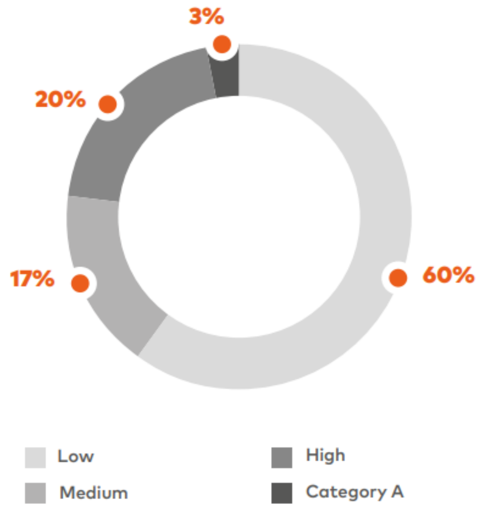
E&S risk definition and management approach to the E&S risk appraisal

Risk level	Definition	E&S due diligence	E&S monitoring requirements
Low	Transactions with minimal or no adverse E&S impact.	No in-depth assessment required.	Monitoring visits not required.
Medium	Transactions with specific E&S impacts that are few in number, generally site-specific, largely reversible, clearly evident at the time of the assessment, and readily addressed through mitigation measures and international best practice.	Gaps are identified and where appropriate an E&S action plan is developed to minimize the gap. When the total project exposure is more than US$ 5 million, clients have to comply with applicable International Finance Corporation (IFC) Performance Standards 1-8.	In case of non-compliance, monitoring visits should be performed at least every two years until major E&S issues are resolved accordingly and properly monitored by the customer.
High	Transactions with significant adverse E&S impacts that are sensitive, diverse or unprecedented.	In-depth assessment required. Gaps are identified and, where appropriate, an E&S action plan is developed to minimise the gap. If E&S issues are complex or outside the in-house team's competence, a qualified external consultant(s) should be hired to undertake an E&S assessment. When the total project exposure is more than US$ 5 million, clients have to comply with applicable IFC Performance Standards 1-8	Monitoring visits to poor E&S performance clients on an annual basis. Monitoring visits to all other clients should be performed at least every two years until major E&S issues are resolved accordingly and properly monitored by the customer.
Category A	Developments on 'greenfield' land or major extension or transformation conversion projects which may give rise to significant or long-term E&S risks and impacts.	In-depth assessment required. Gaps are identified and where appropriate an E&S action plan is developed to minimise the gap. If E&S issues are complex or outside the in-house team's competence, a qualified external consultant(s) should be hired to undertake an E&S assessment. These projects have to comply	Customers should provide the Bank with an annual E&S performance report and monitoring visits should be performed every year until major E&S issues are resolved accordingly and properly monitored by the customer.

		with applicable IFC Performance Standards 1-8.	

Category A projects constituted 3.1% of the Bank's gross SME Banking and Corporate Banking loan portfolio, and 1.7% of the Bank's total gross loan portfolio as at 31 December 2023.

E&S categorisation of loan portfolio as at 31 December 2023



Mitigating E&S risks in Bank of Georgia's loan portfolio

E&S risk framework

E&S risk management is integrated into the underwriting process related to business clients. There are procedures, application forms and actions that have been integrated into the Bank's credit procedures since 2013. E&S risk management is based on IFC Performance Standards and the EBRD Performance Requirements – the benchmarks for E&S risk assessments in lending. A dedicated E&S team has been in place since 2013, within the Enterprise Risk Management function. The ESMS and the associated E&S procedures are periodically updated and approved by the Environmental and Social Impact (ESI) Committee and the Supervisory Board of the Bank to ensure they remain fit for purpose and reflect the Bank's strategic objectives and current performance, expectations of stakeholders, and changes in the legal and regulatory environment. Our ESMS aligns with our risk management framework and provides additional clarity and transparency regarding our approach to E&S risks, including climate risk.

The Bank bases its E&S risk management on the following standards, regulations and policies:

1. The Bank of Georgia group PLC's Environmental Policy
2. The Bank's CliRM framework
3. Georgia's environmental, climate, social, health and safety, and labour laws and regulations
4. International Labour Organization's core labour standards
5. Applicable international environmental, health and safety (EHS) conventions that Georgia is signatory to
6. IFC's Performance Standards
7. The EBRD's Performance Requirements

Activities in 2023:

- The Bank's ESI Committee and the Supervisory Board received updates on the implementation of ESMS and approved the updated version of ESMS.
- We started to assess climate-related risks for the Bank's clients, based on a standardised E&S due diligence process.

- We provided Environmental Awareness trainings to SME Banking and Corporate and Investment Banking clients and bankers.

Activities planned for 2024:

- The Supervisory Board will review E&S risk assessment reports for all large credit requests. These reports provide information on current regulatory requirements and details on the client's E&S performance, potential risks and mitigation measures.
- We are taking measures to fully comply with the NBG's new ESG Guidelines, which are expected to come into force from January 2025.
- We will develop specific guidance for clients operating in oil and gas, agriculture, mining, forest and biodiversity, recycling and heavy industry. These sectors are identified as those with potentially high adverse E&S impacts.

Managing our transition to a climate resilient future

Changing climate presents both risks and opportunities for Georgia, its people and its companies, and thus for the financial services sector. The Group recognises its role in addressing this global challenge, and initiated its climate transition journey in 2021.

This report focuses on the Group's main operating entity, the Bank, which constituted [95.3%] of the Group's total assets as at 31 December 2023.

Governance

The Supervisory Board oversees the Bank's operations and ensures it is being managed in accordance with its strategies and targets. Since 2022, the Supervisory Board has been actively involved in ensuring the quality and efficacy of the Bank's approach to climate change:

The Supervisory Board is responsible for reviewing the Bank's strategies, policies and budgets:

- In 2022, the Supervisory Board reviewed and approved the Bank's Climate Action Strategy and CliRM framework (internal).
- In 2023, the Board of Directors approved the Environmental Policy of Bank of Georgia Group PLC. The policy also applies to JSC Bank of Georgia and its subsidiaries. The new policy sets the general principles and the key management and control objectives to be followed by the Group in terms of environmental protection with a focus on climate change, E&S risk management and sustainable finance.
- The Supervisory Board considers performance against the objectives defined in the Bank's strategies.

The Supervisory Board regularly examines opportunities and risks as well as the measures taken as a result:

- In September 2023, the Board was also informed on the Bank's progress on climate action during one of its quarterly Board meetings.
- From 2024, the Bank's new climate-related due diligence, which was launched in 2023, will generate more detailed information on climate risks and opportunities in the portfolio, the results of which will be reviewed by the Supervisory Board. The Supervisory Board receives quarterly risk reporting that provides updates on the green portfolio.
- In 2023, we started preparing climate risk assessment reports for all large credit requests and presented to the Supervisory Board for their review. These reports provide information on current regulatory requirements, including the country's climate-related strategy and action plan towards the specific sectors and details on client's climate transition plans.

The Supervisory Board bears the overall responsibility for the Bank's ESG strategy

- The Supervisory Board of the Bank, as exemplified in its statute adopted in accordance with the NBG's Corporate Governance Code, bears the overall responsibility for the Bank's ESG strategy and its implementation. This includes overseeing the Bank's E&S risk management framework and building governance structures to ensure proper attention to E&S issues, and fulfilment of the Bank's strategic goals in this regard.

- In December 2021, the Supervisory Board decided to maintain the primary decision making and reporting on E&S matters at the full Board level.

At the instruction of the Supervisory Board, to anchor climate change and other sustainability-related topics, a management-level ESI Committee was established and held for the first time in 2022, comprising the Management Team and senior managers, including the Bank's CEO, CRO, Head of Operations, Chief Financial Officer (CFO), CLO, Head of HR, Chief Marketing Officer, Head of Investor Relations, and Head of Funding. The Committee is appointed by the Supervisory Board and shall consist of a minimum of three members. The Committee Chairman is the CEO. The Committee is responsible for managing the Bank's CE&S impacts, focusing on those arising from its lending and operational activities. It holds overall responsibility for designing, implementing and enhancing CE&S strategies and policies, and for setting and monitoring targets. The Committee intends to further embed E&S risk management into the Bank's daily operations. The Committee Chairman reports to the Board on its proceedings and decisions within its duties and responsibilities. The final responsibility for the decisions made by the ESI Committee rests with the Supervisory Board. The Committee met three times in 2023.

Strategy

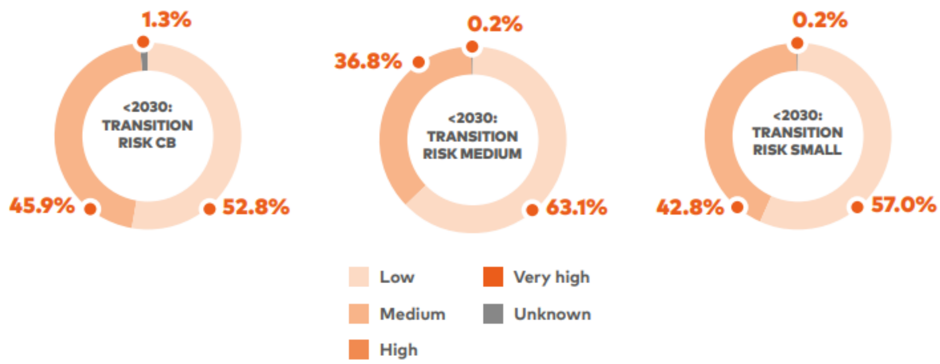
Risks and opportunities for Bank of Georgia under different scenarios

Climate-related risks may adversely impact the Bank both directly and indirectly. Such risks arise from the physical or transitional effects of climate change and manifest through more common risk types, including credit risk, market risk, operational risk and reputational risk. Physical risks result from climate and weather-related events (such as floods and droughts), while transition risks arise from the move towards a low-carbon economy (new climate policies or changes in consumer preferences, for example). The transition to a low-carbon, climate-resilient economy also creates opportunities for the financial sector to support innovative green products and services that meet growing sustainable investment needs, such as climate-smart agricultural technology or more energy efficient buildings. Bank of Georgia continues to integrate these risks and opportunities into its risk assessment and management framework as part of an ongoing commitment to building more resilient and sustainable communities.

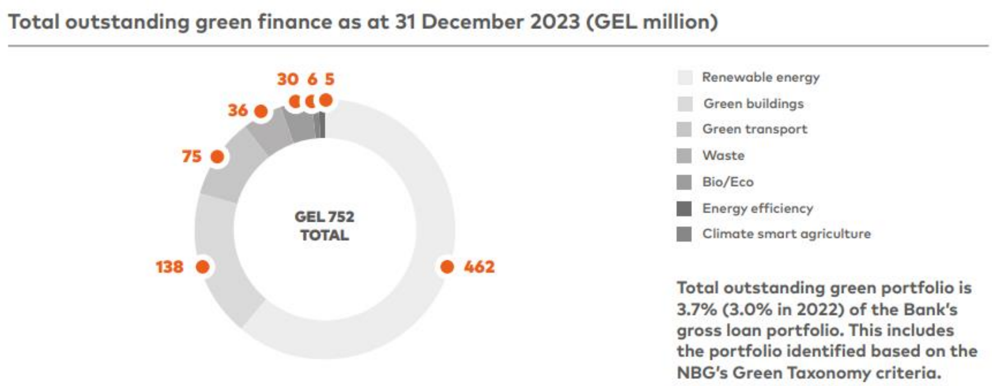
Assessing the climate resilience of our business model and strategy

To assess climate-related risks and opportunities in the short, medium and long term, we use scenario analysis to consider how risks and opportunities may evolve under different situations and impact our business model and strategic planning. Scenario analysis assists in the identification, measurement and ongoing assessment of climate risks, so we can better evaluate potential threats to the Bank's strategic objectives and its ability to create value over the longer term. We started to use qualitative scenario analysis in 2021, combining our research of climate change and climate policies in Georgia with selected terminology, assumptions and narratives from the scenarios developed by the Network for Greening the Financial System. Our scenario analysis capabilities are evolving with market realities. Over the past two years, the modelling of climate risk impact over the short-, medium and long-term time spans have been hamstrung across multiple dimensions, including scenario data and pathways, availability of client-specific data, missing national legislation on climate change. We are constantly revising our data strategy to bridge data gaps. This is a multi-year endeavour involving periodically working with external consultants, use of proxies and engaging clients to gather more information.

Based on the qualitative analysis conducted, before 2030, the risks caused by climate change are considered to be low. The likelihood of certain scenarios to materialise may change over time, as decisions are made and assumptions become true or false. In our analysis we have found that risks will not differ significantly between the defined short-, medium- and long-term timeframes – that is, within the next seven years. The qualitative analysis of the sectors financed has also indicated that before 2030, the majority of the CB and SME portfolios are low risk while the rest could be medium risk, based on sectoral assessment alone, rather than an individual assessment of borrowers.



Bank of Georgia also sees the opportunities in the transition to a low-carbon economy



Compliance with national Sustainable Finance Taxonomy

In 2022, the NBG published its Sustainable Finance Taxonomies, covering green and social topics. From January 2023, all Georgian banks are required to report on the amount of lending aligned with these taxonomies. Bank of Georgia prepared for implementing the taxonomy by updating its internal classification system to NACE2 – the European classification system used by the NBG's taxonomies for identifying sectors and activities that are or could potentially be green – and by operationalising selected taxonomy criteria so bankers can determine whether clients are compliant. We started reporting in January 2023. We may not be able to assess compliance with all taxonomy criteria yet – possibly leading to a situation in which we report less taxonomy aligned lending than we might actually have. This is due to several criteria being highly complex (for example, referring to European Directives that are implemented differently in different Member States of the EU), making it difficult or impossible to check compliance during a standard loan appraisal process.

Risk management

Beyond risk identification and assessment, Bank of Georgia has undertaken the following steps to manage climate-related risks and opportunities:

1. Development of a CliRM framework:
   This framework describes climate-related responsibilities across the Bank and summarises all methods and processes for risk assessment, evaluation and management. It includes detailed manuals for all climate-related activities, from Bank-wide climate risk assessment to the calculation of financed emissions. The CliRM framework was approved by our ESI Committee and by the Board in 2022. It is available to all staff via our

intranet and will be reviewed regularly to ensure any changes in our approach to climate risks and opportunity management are reflected.

2. Integration of climate-related risks in our ERM framework:
   In 2020, the Group identified climate change as an emerging risk for the first time, making climate-related risk an integral part of our risk inventory. In 2021/22, an approach to understanding the magnifying effects of climate change on traditional banking risks was developed and refined. Further steps to integrate climate into overall risk assessment and monitoring will be considered. This could include reflecting climate risks in our Risk Appetite Statement and in our credit policies.
3. Integration of climate considerations in our due diligence process:
   In 2023, we continued to develop our climate-related due diligence process, to assess and address climate-related risks as part of our loan appraisal and E&S monitoring. The process comprises four steps, as illustrated below. We started to implement steps one to three in 2023, with step four to be introduced once we have gathered sufficient information on our existing client base and their risks and when national regulation on climate change will be in place.

Risk identification and evaluation
Bank of Georgia has an ESMS in place, but climate is a complex topic that requires expertise from across the Bank and beyond. To accelerate progress, we will continue to engage with third-party consultants in 2024.

In 2023, we conducted the following exercises:
Qualitative analysis of the effect of climate change on enterprise-wide risks:
Based on the results of the 2022 Bank-wide climate risk analysis (see Management Report 2022), we reassessed how the transition and physical effects of climate change can drive credit, liquidity, market, capital, operational and reputational risk for the Bank over varying time horizons and for different scenarios. Overall, our assessment of the magnifying effects of climate change and climate-related transformations on Bank-wide risks remains similar to 2022.

Qualitative analysis of climate-related risks in our portfolio:
Based on the 2022 portfolio climate risk assessment, we reassessed transition and physical risks – on a scale from zero (no risk) to four (very high risk) – for more than 640 activities conducted by our clients and aggregated risks for 25 sectors. The overall results are very similar to those of 2022 and show that over half of our business portfolio is expected to face low transition risks over the coming years. The remainder of the business portfolio could face medium risks (please see more in the Strategy section).

Bottom-up climate risk assessment at client level:
From 2023, the 'top-down' analysis of our business portfolio is accompanied by 'bottom-up' client-level assessments through an updated due diligence process.

Bottom-up climate risk assessment at client level

1. Initial screening
   We preliminarily assess clients' climate-related risks by looking at their sector and location.
2. Awareness raising
   We make clients facing climate-related risks aware, so they can start to act (see flyer - https://bankofgeorgia.ge/en/about/management#docs)
3. Additional data collection
   We address high-risk clients to determine whether they actually face climate risks identified in step one.
4. In-depth climate risk assessment
   We will engage with selected (corporate) clients to support their climate management.

Measuring financed emissions
Understanding the emissions, we finance is important for managing climate risks in our portfolio and steering our contribution to Georgia's climate-related transition goals. In 2022, we assessed financed emissions for parts of our business portfolio using the methodology developed by the Partnership for Carbon Accounting Financials (PCAF). We will repeat this exercise annually, covering more and more of our portfolio. The necessary data will be collected as part of the climate-related due diligence process described above and on the next page. Moreover, in 2023, we piloted a methodology for assessing financed emissions from larger parts of our portfolio using a methodology

developed by IFIs. Please see the ‘Metrics and targets’ section for further detail on the results of the 2023 assessment and on the methodologies for borrower-specific and portfolio-level GHG assessment.

GHG emissions: our operational footprint

Bank of Georgia GHG emissions 2021-2023				2021	2022	2023
category		emission source category		tCO2e	tCO2e	tCO2e
GHG Protocol standards: Corporate Scope 1 and 2, Value Chain Scope 3	Scope 1	Direct emissions arising from owned or controlled stationary sources	Fuels	907.6	957.3	1,026.2
		Direct emissions from owned or controlled mobile sources	Passenger vehicles	1,089.5	1,110.1	1,104.5
	Scope 2	Location-based emissions from the generation of purchased electricity, heat, steam or cooling	Electricity	1,661.5	1,864.2	2,094.8
	Scope 3	Fuel- and energy-related activities	All other fuel- and energy-related activities	545.6	593.3	603.7
			Transmission and distribution losses	350.7	347.1	414.5
		Waste generated in operations	Waste water	42.0	18.4	29.2
			Waste	0.1	0.1	0.5
		Purchased goods	Water supplied	20.4	10.1	16.0
			Material use	224.8	281.1	395.5
		Business travel	All transportation by air	19.9	80.9	36.7
			Hotel accommodation	2.1	6.8	13.6
			Land transportation by outsourced vehicles	615.0	565.2	566.1
			Employees commuting	-	3,822.3	4,550.1
Scope 1				1,997.1	2,067.4	2,130.7
Scope 2				1,661.5	1,864.2	2,094.8
Scope 1 and 2				3,658.6	3,931.6	4,225.5
Scope 3				1,820.5	5,828.4	6,625.9
Total emissions				5,479.1	9,760.1	10,851.5
tCO2e/employee				0.9	1.5	1.5
BOG employees (year-end)				6,207.0	6,597.0	7,435.0

Notes on methodology: We used the most recent Georgia electricity conversion factor provided by JRC. GHG emissions from business flights were calculated using the ICAO online calculator. GHG emissions from overnight hotel stays were calculated on a ‘room per night’ basis, with emission factors based on the Cornell Hotel Sustainability Benchmarking Index Tool, version 2. Further conversion factors were taken from the 2023 UK Government GHG reporting: conversion factors – and updated against the 2020 version used for our 2021 reporting. Given that differences are mostly minor, and that updated emission factors also reflect real changes in different activities’ emissions intensity, GHG emissions for 2021 and 2022 were not remodelled using the updated emission factors. Compared to 2021 and previous years, our gas consumption significantly decreased in 2022/23 as the result of major improvements to our heating system. Our petrol, diesel and electricity consumption, in turn, rose due to growth of the car fleet, office size and staff numbers, and due to staff returning to the office. In 2023, we assessed Scope 3 emissions from ‘Employee commuting’ for the second time. This was based on a survey of employees’ mode of transportation, distance travelled and – where known fuel used. 22% of employees participated in the survey and final figures were calculated by extrapolating to all employees. While we acknowledge this approach is not fully accurate, the results are sufficiently informative for the time being, e.g. to estimate the approximate share of commuting emissions in our total emissions. It was not possible to assess commuting emissions for 2021 due to a lack of data and irregularities in commuting patterns throughout the COVID-19 pandemic.

Operational environmental footprint

We are a service business, and our direct environmental impact is less significant than the impact we have on the environment through our lending activities. Nevertheless, we aim to be a more resource-efficient company, mitigating any negative impacts we may have on the environment through our operations. We undertake measures to identify and monitor environmental aspects relevant to our direct operations and strive to adopt a ‘reduce, reuse, and recycle’ approach. The direct environmental impact of our business activities arises from electricity, natural gas and fuel consumption, water use, paper use, as well as through other types of waste produced.

Energy consumption

The types of energy used by the Bank include electricity, natural gas, and fuel oil, the principal type being electricity provided by the national grid. To be more energy-efficient, our branches are equipped with LED lighting. Remote control lighting systems are installed in new branches. Since 2018, the majority of our newly opened branches have operated remote heating and air conditioning systems, ensuring efficient electricity consumption during non-working hours.

Energy consumption data

	2021	2022	2023
Electricity (kWh)	17,489,358	19,623,529	22,050,710
Gas (m^3)	448,718	349,205	389,485
Gas (kWh, assuming that 1 m^3 gas = 9.7 kWh)	4,352,565	3,387,285	3,778,003
Total energy consumption (kWh)	21,841,923	23,010,813	25,828,713
Total energy consumption (kWh) per square metre of office space	**243**	**238**	**267**

Waste management

Clarification of the definition of waste within the organisation contributed to the improvement of the waste management system. As a result, during the reporting period, we conducted an inventory of waste and separated two types of waste:

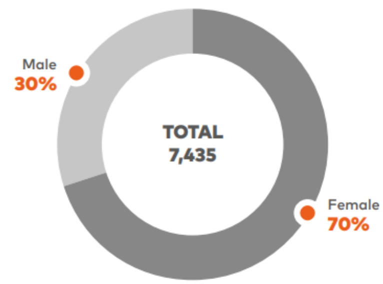
- Waste management Recyclable waste plastic, glass, cardboard, metal and electronic waste, which will be transferred to companies that have 1 the appropriate license for recycling.
- Non-recyclable waste will be transferred to those enterprises that ensure the destruction of waste by physical and 2 chemical methods, so that it does not harm the environment and human health.

Type of waste	**Amount (in 2023)**
Glass	60 tonnes
Mixed stationery and office supplies	250 m3
Lead-acid batteries	6 tonnes

Recycled paper from the archive	70 tonnes
Recycled paper from offices	2 tonnes

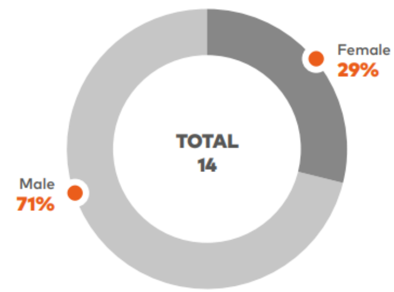
Empowering our employees

All employees by gender*
JSC Bank of Georgia

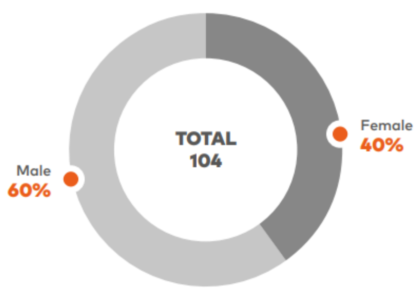


* 99.9% of our employees are with permanent contracts.

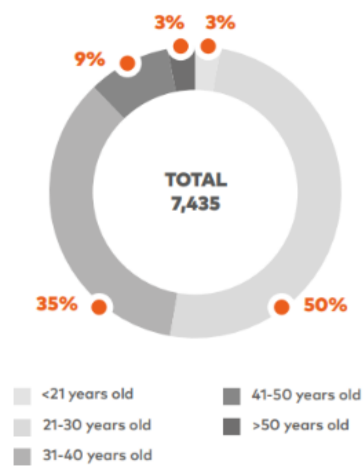
Executive management by gender
JSC Bank of Georgia



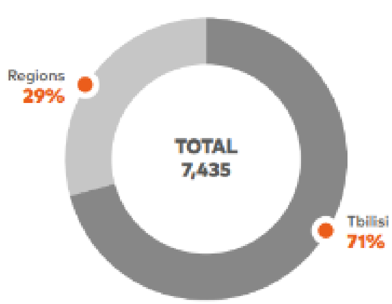
Senior Management by gender
JSC Bank of Georgia



All employees by age
JSC Bank of Georgia



All employees by location*
JSC Bank of Georgia



* Five employees worked outside of Georgia.

We deliver on our strategic objectives and can make the difference in our customers' lives through the actions of our people and their commitment to shared success. We continue to focus on empowering our employees by fostering a high trust, diverse environment and a strong feedback culture, equipping employees with the skills and capabilities for the future. Bank of Georgia's Human Capital Management (HCM) function plays a critical role in helping us onboard and retain the right talent, while maintaining employee engagement and wellbeing. HCM combines HR expertise with business knowledge to design and implement policies and practices in line with the Bank's purpose, values, business principles and strategic objectives. HCM reports to the Head of Human Capital Management, who reports directly to the CEO. The Supervisory Board of the Bank and its Nomination and Corporate Governance, Remuneration, Audit and Risk Committees oversee all matters related to the Bank's employees:

- diversity overview provided to Nomination Committee; remuneration and related policies overview provided to Remuneration Committee;
- overview of employee grievances related to ethical issues (if any) provided to Joint Audit and Risk Committee; and
- key people risk metrics reported quarterly to the Risk Committee.

Our Human Capital strategy is focused on the following key areas:

- Promoting diversity and equal opportunities
- Attracting, developing and retaining top talent
- Providing positive employee experience

Promoting diversity and equal opportunities

We are committed to the highest ethical standards in everything we do. We expect every employee to act in line with our values and business principles, complying with applicable laws, regulations, and internal policies and procedures. We communicate our expectations of employee conduct through multiple channels, including but not limited to: Our Employee Corporate Handbook, which defines employee behaviour standards and procedures. The Handbook is available to all employees in Georgian and English, via our intranet. The Code of Conduct – an integral part of the Handbook and employment agreement between the Bank and its employees. It clearly sets the expectation that all employees act legally, ethically, and transparently in all their dealings. Failure to do so may lead to disciplinary action, up to and including the termination of employment. We monitor employee awareness of internal policies and continue to work on strengthening internal communications to clearly explain our policies and procedures through online, interactive, self-paced courses.

Whistleblowing and grievance mechanisms

We maintain an open-door policy where our people are encouraged to share their questions, concerns, suggestions or complaints with their managers, HCM, or anonymously if they wish. We prohibit any form of retaliation against an employee raising a concern or participating in an investigation.

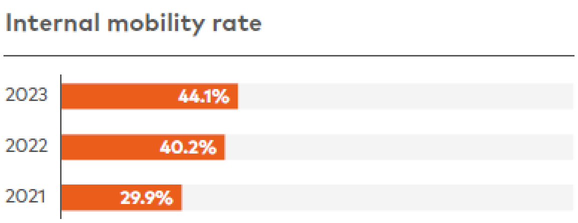
- WhistleB is an external, independent whistleblowing reporting channel and case management tool that allows employees to report any concern anonymously or confidentially.
- Grievances can be submitted via email, anonymous hotline call or electronic form. We are currently reviewing and updating the Grievance Policy based on global best practices for handling employee complaints. In 2023, we had eight cases reported under the Grievance Policy, two of which were provided anonymously. Seven cases were investigated and resolved; one is being investigated

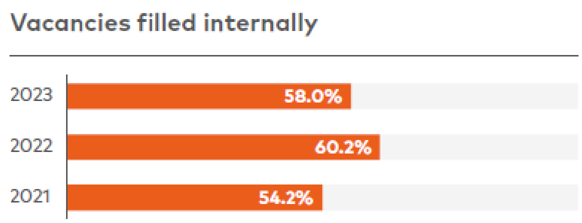
Attracting talents

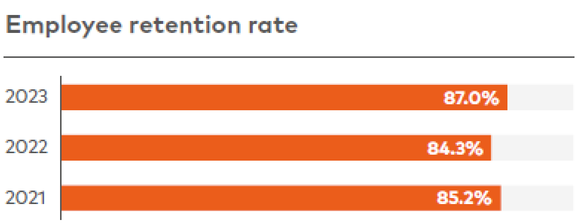
Bank of Georgia is an equal-opportunity workplace where people from different backgrounds and experiences come together, support each other, and create value for our stakeholders. The Bank's Recruitment Policy and practices, including panel interviews, relevant control procedures and an online applicant tracking system, ensure a fair hiring process. We do not ask for candidates' date of birth, gender or photograph, nor do we collect information on race, religion, sexual orientation, disabilities or nationality, to make sure no candidate or employee is discriminated against on any grounds. We continuously develop our acquisition channels, tailoring them to target segments of diverse talent while tracking and systematically improving the candidate experience.

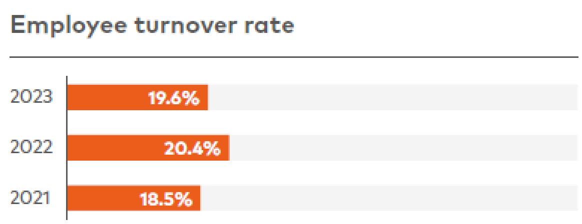
We enrich our employee base in different ways:

1. One priority is to develop talent internally, and current employees have priority when filling vacancies, especially for managerial positions.
2. Our Talent Acquisition team actively monitors the labour market and regularly engages with potential candidates in Georgia and abroad.
3. Collaborative initiatives with educational institutions and industry partners. In 2023, Kutaisi International University and the International School of Economics at Tbilisi State University joined our network of partners.
4. The use of alumni networks not only enhances our outreach and engagement initiatives but also establishes a valuable avenue for connecting with experienced professionals, helping us access a pool of talent and expertise.
5. We have implemented an internal and external IT referral programme, actively fostering the identification and recruitment of highly qualified professionals. This multifaceted strategy cultivates a culture of ongoing learning, collaboration and inclusivity.
6. We continue to strengthen our Talent Acquisition team members with the skills required to successfully achieve our recruitment goals. In 2023, we advanced our tech recruiters team and ensured their presence at top tech events in Georgia.









Leaderator: nurturing young talent for future success

Since 2017, Bank of Georgia's Leaderator internship programme has been a dynamic career accelerator for young talent. We recruit promising undergraduates and engage them in professional training, job rotations across departments, and hands-on experience in ongoing projects. Leaderator participants are mentored by Bank of Georgia's professionals. Every year, we tailor the programme to organisational needs and add new tracks or update existing ones. We have seen a consistent increase in the representation of female participants in technology related tracks over the past three years.

376 Total participants after launch	**79%** Hired after programme completion

Developing talent

When we onboard employees, we shift the focus to their development. Talent development is an ongoing process that is critical no matter the tenure. We aspire to have a learning culture where employees can access opportunities for lifelong learning and personal development. Our learning and development ecosystem is divided into the following areas:

Professional programmes	Management programmes	Executive programmes
Onboarding	Management skills programme	Leadership development: Executive coaching programme (individual and team coaching, mentoring sessions)
Risks and compliance programme	Feedback skills programme	Individual business coaching programme
Banking products and services	Leadership development: Executive coaching programme (individual and team coaching)	Financing masters' programmes and other professional certification
Software-related programmes	Financing masters' programmes and other professional certifications	
Communication skills programmes		
HiPos programme		
Tailored training sessions and educational content provided		

Our benefits for supporting employee wellbeing

Along with competitive remuneration, Bank of Georgia's employee value proposition includes benefits supporting work-life balance and family-friendly arrangements as well as opportunities for personal and professional development.

Health:

- Corporate health insurance and night-shift employee's medical check-up
- Workplace ergonomics for pregnant women

Financial:

- Special rates for banking services and financial aid for various life events including marriage, the birth of a child, or the illness of a family member

Well-being:

- Back-to-work adaptation trainings for those returning to front-office positions after parental leave
- TOIL and PTOs for special needs in accordance with Georgian regulations: medical check-ups related to pregnancy, breastfeeding hour during the first year, monthly day-off for a legal representative/supporter of a person with a disability

Time-away:

- Maternity leave, newborn adoption leave and parental leave with salary compensation in addition to state allowance
- Additional paid time-off: 5 sick-leave days and 5 days-off
- Educational vacation: short-term educational vacation to employees attending western MBA or Professional Certification programmes. The Bank also provides the possibility of co-financing the cost of academic or certification programmes at foreign universities for professional development in the relevant field (e.g. MBA, CFA programme, etc.)

Parental leave at Bank of Georgia

Employees on maternity/parental leave by gender	Return-to-work rate after maternity leave	Retention rate of employee who returned to work after maternity/parental leave, staying for at least 12 months
314 woman / 1 man	**90%**	**84%**

Providing positive employee experiences

We have a systematic approach for identifying employee needs and concerns, delivering solutions and interventions that help create more positive experiences at every step of the employee journey. Our Employee Experience (EXM) team is responsible for gathering regular feedback from employees and providing insights on issues and solutions:

Getting in touch with new hires to ensure smooth onboarding.	Collecting and analysing employee sentiment data through focus groups and individual interviews.	Analysing responses from regular surveys to identify pain points for further research and interviews.

Key metric with which we measure success – eNPS

eNPS (eop)

56

2022: 53 (eop)

The increase in eNPS (BoG internal survey) is attributed to key initiatives that reflect our commitment to employee growth and well-being. The refinement of promotion criteria at the Bank level created transparent and personalised guidelines for every position, simplifying career paths and empowering employees with a clear view of their professional trajectory. Our business areas actively cultivated a culture of mutual feedback, enhancing collaboration and engagement through improved interpersonal communication. Furthermore, the comprehensive annual review of employee pay demonstrates our dedication to recognising the intrinsic value of each role and responding to market dynamics. These concerted efforts collectively foster a positive and motivating work environment, aligning with our corporate ethos of prioritising employee satisfaction and professional development.

Empowering communities

We are committed to being a significant contributor to the local communities where we operate, by not only creating innovative products and services, but also by driving positive impact through various community projects and initiatives beyond our core business. A significant focus of our community outreach efforts is education as access to quality education is one of the main challenges that people name in various surveys. We believe that access to high-quality education opens doors to limitless opportunities, shaping brighter futures for individuals and contributing to the prosperity of countries. By actively engaging in educational initiatives, we aim to make a meaningful difference to the lives of those around us.

Within our educational initiatives, we have identified three main objectives:

- Promoting STEM education
- Improving educational infrastructure
- Increasing access to quality education

Bank of Georgia X Komarovi school

We believe STEM (science, technology, engineering and mathematics) education is a key to unlocking the potential of the next generation as scientists and innovators. By promoting STEM education, we want to inspire and prepare young people in Georgia for the challenges and opportunities ahead. This is why in 2023 we deepened our partnership with Komarovi School, one of the few top schools in Georgia focused on physics and mathematics, in the following projects:

STEM school

STEM School is an online, one-year comprehensive educational programme for students in the seventh to 10th grades across Georgia, designed to foster creativity and learning and encourage ideas and discovery. Students have the unique opportunity to work with Komarovi teachers on different STEM projects and delve into the professions of the future. Each year, we cover the programme fees for 60 students, providing them with essential equipment and devices required for the course.

Up to 400
Participants

68%
from Georgia's regions

c.100
BOG scholarship holders

100%
from Georgia's regions

STEM Olympiad

With the same goal of popularising technical disciplines and natural sciences in Georgia, STEM Olympiad is an innovative competition, not only giving seventh to 11th graders opportunities to represent their schools, but also facilitating the practical application of the knowledge acquired in traditional subjects such as physics, mathematics, informatics and engineering. The competition unfolds in different stages, offering a comprehensive evaluation of participants' skills and understanding. At the final stage, the ten top-performing teams compete to solve practical tasks.

c.1,100
Students registered

65%
from Georgia's regions

Improving educational infrastructure

Educational infrastructure – buildings, classrooms, laboratories and equipment – matter for learning. Spaces in schools where children spend most of their time are critical components of the overall educational experience – and, when designed with students in mind, they have the power to support learning and wellbeing. We recognise the importance of a conducive learning environment, and are committed to enhancing educational infrastructure. This includes supporting the development and improvement of schools and educational facilities, ensuring students have access to safe and supportive spaces for learning. Since 2020, Bank of Georgia has been designing Ideathecas. These colourful, multifunctional libraries in Georgia's public schools provide access to books and technology to students living in Georgia's regions, supporting teamwork and collaboration in bright, open spaces full of educational resources. In 2023 we also added a STEM corner to our Ideathecas, highlighting the importance of mathematics, science and technology, and encouraging a more hands-on approach to learning STEM. Most of our Ideathecas are located in rural regions that have high poverty rates and/or are home to ethnic minorities.

8	**22**	**10,000+**
Regions	Ideathecas since 2019	Students reached

Increasing access to quality education

We aim to contribute to a more inclusive and empowered society by improving access to quality education. This includes initiatives to support underprivileged communities and create opportunities for those who may face educational challenges.

International scholarships

For more than a decade Bank of Georgia has been dedicated to empowering students to pursue a world-class educational experience abroad through three distinguished programmes: the Fulbright Scholarship programme, the Chevening Scholarship programme and the Miami Ad School EU. These international scholarships aim to assist young professionals in gaining access to high-quality education at master's or other post-graduate levels. 43 students were sponsored since 2013.

Local scholarships

We believe in boundless potential of young individuals and recognise that the student phase of life holds immense significance, shaping one's future professional success. In line with our commitment to supporting and empowering young people, in 2023 we launched two new scholarships for local experience – the Bank of Georgia Scholarship in Partner Universities and the Giorgi Chakhava Scholarship – both focusing on undergraduate students within the country. Within the framework of the Bank of Georgia Scholarship, the Bank cooperates with 15 Georgian universities, through which students have unique opportunities to join our partner universities and receive either full or partial funding for the entire year. Whether it is in business, science or the arts, this scholarship is designed to help students in any field they are passionate about. The Giorgi Chakhava Scholarship supports students interested in architecture only. Named after the brilliant architect behind some of the most iconic buildings, including our own headquarters, this scholarship supports future architects who have the passion and leadership to make a real difference. For both scholarships, students are selected based on their high academic performance and leadership potential, however the final winners are individually selected by our partner universities. We firmly believe that investing in the education of young minds today will shape a brighter and more promising future for all.

Bank of Georgia Scholarship

15 Partner universities

5 Georgian regions

Giorgi Chakhava Scholarship

4 Partner universities

Risk management

The effective management of risk is key for achieving the Group's strategic objectives. Material risks and uncertainties are key focus areas for the Supervisory Board. The Supervisory Board has ultimate responsibility for risk governance and management. The Bank's Enterprise Risk Management (ERM) framework embeds day-to-day accountability throughout the organisation to ensure we operate within acceptable risk tolerances, as set by the Supervisory Board's risk appetite, with our governance structure and three lines of defence providing a foundation for continuous oversight.

Key components of our ERM framework

Risk governance	Non-executive risk management	The risk appetite limits are reviewed and approved annually by the Supervisory Board. The Board sets the tone 'from the top' and is advised by the Risk Committee.
	Executive risk governance	Executive Management assesses the effectiveness of the implementation of the risk management and internal control policies and procedures
Roles and responsibilities	"Three lines of defence" model	The Bank's ERM framework is based on the industry standard 'three lines of defence' model for risk management.
Processes and tools	Risk appetite	The Bank has processes in place to identify, assess, measure, manage and report risks to ensure we remain within risk appetite.
	Active risk management: identification, measurement, mitigation, reporting	
Internal controls	Policies and procedures	The Bank continuously develops the control environment in business processes – including

	Control activities	through segregation of duties, preventive tools integrated in the systems, restrictions of user rights.

Risk management processes

Risk identification

Risk identification is performed regularly and is a joint effort of the business and the risk management functions. The main goal is to detect potential risks in a timely manner and to avoid or mitigate potential harm those risks would bring. In case of material internal or external change, additional ad hoc risk identification can be performed. The Supervisory Board also regularly discusses and debates key risks and management's approach managing those risks.

Risk assessment and measurement

Each identified risk is assessed based on its likelihood and potential financial and non-financial impacts, before being compared to our overall risk appetite and specific limits or triggers. We then prioritise risks and decide which need immediate risk response strategies aligning identified exposures with the Bank's risk tolerances.

Risk treatment

Risk mitigating activities are developed and implemented to reduce the potential impact of a particular risk. When evaluating possible mitigating actions, costs and benefits, residual risks (those that are retained) and secondary risks (those arising from risk mitigation itself) are also considered. All key controls are recorded and reviewed on a regular basis. When a control is not working effectively, root causes are analysed and action plans are developed and implemented to improve the control design.

Risk monitoring and reporting

The Bank monitors if appropriate actions are taken in a timely, consistent and systematic manner. Executive Management assesses the effectiveness of the implementation of the risk management and internal control policies and procedures, and periodically reviews the output from the bottom-up process. Key risks are escalated to the appropriate level of authority. Any significant changes and developments affecting our risks and respective mitigating actions are reviewed quarterly (of more often, if necessary) by the Audit and Risk Committees and reported to the Supervisory Board. In addition, monthly risk reporting provides senior management with the information they need to manage risks.

Risk appetite framework

The risk appetite framework is a key component of the ERM framework and supports effective risk management by promoting sound risk-taking within agreed limits. The Bank has established risk appetite limits for principal risks to ensure it can meet its strategic objectives and medium-term targets even during challenging economic and operating environments.

The risk appetite limits are reviewed and approved annually by the Supervisory Board. A risk appetite dashboard is presented monthly to Executive Management and quarterly to the Risk Committee which reports to the Board. This process ensures timely escalation of a breach and remediation action plan development.

Risk culture

Risk culture is at the heart of the Bank's risk management framework and risk management practice. A strong culture, starting with the Supervisory Board, supports the Bank in ensuring ethical business operations and that performance, risk and reward are aligned.

Our risk culture aims to ensure that all employees: (i) understand the risks associated with their individual roles; (ii) consider risks and consult with the Risk function during the development of new products, procedures, policies and systems; (iii) align risk appetite and decision-making; (iv) identify, escalate and proactively manage risk matters in accordance with the risk management framework; and (v) report and communicate risks transparently.

To develop risk culture, the Bank focus on giving employees the awareness and capabilities to manage risk. We provide a wide range of training programmes to our employees across the risk disciplines – some mandatory for all employees, others role-specific or part of individual development plans. Mandatory training programmes are accessible online and ensures we keep our customers, employees and the whole organisation safe. Topics covered include operational risks, business continuity, information security and data protection, health and safety, corporate security, business ethics, and financial crime risks and sanctions risks. The completion rate of the risks and compliance training programme at the end of 2023 was 91%.

Our Code of Conduct and Ethics and Whistleblowing

The Code of Conduct and Ethics and the Whistleblowing Policy are the primary documents governing culture and ethics. Our Code of Conduct clearly sets the expectation that all employees act legally, ethically, and transparently in all their dealings.

Whistleblowing tool allows employees to report any concern anonymously if they wish so. Responsibility for the Whistleblowing Policy resides with the Supervisory Board who, together with Audit Committee, receive reports on its operation quarterly.

Through our grievance mechanism, which is part of our Human Rights and Grievance Policy, employees can communicate legitimate concerns about illegal, unethical or questionable practices - confidentially, if necessary- without risk of retaliation.

Internal controls

Supervisory Board is responsible for reviewing and approving the Bank's system of internal controls, and its adequacy and effectiveness. Controls are reviewed to ensure effective management of the risks we face. Certain matters – such as the approval of major capital expenditures, significant acquisitions or disposals, and major contracts – are reserved exclusively for the Supervisory Board. For other matters, the Supervisory Board is often assisted by both the Audit and Risk Committees.

With respect to internal controls over financial reporting our financial procedures include a range of system, transactional and management oversight controls. The Bank prepares detailed monthly management reports that include analyses of results, comparisons, relevant strategic plans, budgets, forecasts and prior results.

These are presented to, and reviewed by, the Executive Management. Each quarter, the Bank's Chief Financial Officer and other members of the Finance team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Supervisory Board. The Audit Committee also reviews quarterly, half-year and full-year financial statements and corresponding results announcements, and advises the Supervisory Board.

The external and internal auditors attend each Audit Committee meeting, and the Audit Committee meets them regularly both with and without the presence of the Executive Management.

Audit and Risk Committees monitor internal controls over operational and compliance risks. The Bank's Chief Risk Officer and Chief Financial Officer, Head of Internal Audit and other Executive Management members report to the Audit and Risk Committees on a quarterly basis. Any key issues identified are escalated to the Supervisory Board. The Supervisory Board also receives regular reports directly from the head of each risk function of the Bank, in which principal risks and internal control issues are addressed.

Effectiveness review

Each year the Bank reviews the effectiveness of risk management processes and internal controls, with the assistance of the Audit and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year ended 31 December 2023 and obtained assurance from the Executive Management and Internal Audit.

The Supervisory Board concludes with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively during 2023 and that these systems continued to operate effectively up to the date of approval of this report. The review did not identify any significant weaknesses or failures in the systems. The Bank's risk management processes and internal control systems comply with the UK

Corporate Governance Code 2018 and the Financial Reporting Council's (FRC) guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Risk management structure

The Bank's risk management framework is based on the industry- standard 'three lines of defence' model for risk management. All roles below the CEO fall within one of the three lines. All employees are responsible for understanding and managing risks within their individual roles and responsibilities.

Risk management bodies

The main risk management bodies of the Bank are the Supervisory Board, Audit Committee, Risk Committee, Executive Management, Credit Committee, Asset and Liability Management Committee (ALCO), and Environmental and Social Impact Committee.

The Executive Management has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. To effectively implement the risk management system, the Executive Management delegates individual risk management functions to each of the Bank's various decision- making and execution bodies.

The Bank's Internal Audit function is an internal independent, objective assurance and consulting provider. As the third line of defence, it adds value and improves the Bank's operations through the assessment of the effectiveness and adequacy of Bank-wide processes, controls, governance and risk management. The Chief Auditor reports to the Audit Committee at least quarterly on significant risk exposures and control issues if any are identified through audit engagements.

The Bank has five Credit Committees, each responsible for managing the Bank's credit risk across loan portfolios in all businesses.

The Credit Committee comprises three tiers of subcommittees for retail loans; one tier for micro loans; three tiers for SME loans; three tiers for corporate loans; and one tier for corporate recovery.

Lower-tier subcommittees meet on a daily basis, whereas higher tier ones meet as needed – typically once or twice a week. Each subcommittee of the Credit Committees makes its decisions by a majority vote of its members.

The ALCO is the core asset liability management and financial risk management body establishing policies and guidelines with respect to capital adequacy, market risks, funding and liquidity risk, interest rate and prepayment risks and respective limits, money market general terms, and credit exposure limits.

The ALCO reviews scenario analyses and stress tests, regularly monitors compliance with the pre-set risk limits, and approves treasury deals. The management-level Environmental and Social Impact Committee is responsible for the development and implementation of the Bank's ESG strategy, including its climate risk and opportunity management strategy. The Committee manages the Bank's climate, environmental and social impacts, focusing primarily on those associated with its lending activities.

Stress testing

Stress testing and scenario analysis are important risk management tools providing input for strategic decision-making and planning as they enable to assess the impact of plausible but
severe stress scenarios relating to the Bank's liquidity and capital positions. We regularly assess the vulnerabilities of our portfolios to adverse macroeconomic factors, financial market stresses and geo (political) developments. Portfolio sensitivities are fed into the impact assessment of profit and loss (P&L), liquidity and capital.

The Bank performs different types of stress tests:

- Viability stress tests: scenario assumptions for all relevant macroeconomic and financial market variables are set, and potential impacts are assessed against the viability of the Bank. These stress tests include reverse stress testing, where the Bank identifies circumstances that may lead to business failure. This type of test is performed at least annually and reported to the Supervisory Board.
- Risk-specific stress tests: depending on the tendencies on the market, specific portfolios are tested for various market-wide scenarios. The impact of various shocks is assessed against portfolio quality, profitability, liquidity and capital.

- Idiosyncratic stress-tests: conducted on an ad hoc basis, based on certain idiosyncratic factors that may arise in the business over time.
- Regulatory stress-tests: mandated by the NBG, which also provides the context and methodology for stress tests.

Stress test methodologies vary by type and objective. Depending on the risk type, respective risk management units are responsible for performing the analysis. If unacceptably high risks are identified, risk units adopt measures to mitigate them and reflect those measures in their strategic plans. The ERM department is responsible for results aggregation, analysis and reporting.

Principal risks and uncertainties

Each business line identifies key risks that are inherent to their activity and may significantly influence the Group's performance or prospects. The principal risks and uncertainties faced by the Group are identified through this bottom-up process. Information compiled from all the businesses is examined and processed to identify, assess and manage emerging risks. This information is presented and discussed with the Executive Management and the head of each business division as appropriate. The Group also considers wider macroeconomic risks and escalate these to the Supervisory Board in regular presentations.

The Bank has identified climate risk as an emerging risk. We continue to assess climate-related risks, both transitional and physical, for our client base and determine potential impacts on the Bank.

Macro and Geopolitical risks

Macro and geopolitical risks are the risks that would lead to the Bank being unable to execute its strategy – and therefore result in a deterioration in its financial position – due to macroeconomic and geopolitical instability affecting the Georgian economy.

Mitigation

Governance: The Supervisory Board receive a regular, quarterly update on global, regional, and local economic developments and risks from the Bank's economist. The Supervisory Board is also regularly updated, sometimes by external consultants, on major political and geopolitical developments that affect the broader region. Economic analysis is also regularly presented to the ALCO, with a specific focus on interest rates, exchange rates, inflation and economic growth outlook.

Monitoring and reporting:

The Bank continuously monitors macroeconomic conditions and performs stress and scenario analyses to test its position under adverse economic and geopolitical conditions including adverse currency movements. We assess the sensitivities of certain portfolios to different macroeconomic factors and geopolitical scenarios, enabling us to take portfolio-related actions if necessary, including increasing monitoring and changing our credit risk appetite.

Mitigation: In accordance with the Georgian legislation, in 2023 loans up to GEL 200,000 were issued only in Lari; starting from 1 January 2024, loans up to GEL 300,000 will be issued only in the local currency. Additionally, the NBG has determined a currency-induced credit risk (CICR) capital buffer that aims to reduce systemic risks caused by dollarisation. This buffer is created for risk positions denominated in a currency different from that used to cover those positions. For loans to individuals, the NBG's payment-to-income (PTI) and loan-to-value (LTV) requirements are more conservative for foreign currency loans to mitigate borrower-level credit risk: PTI requirements for foreign currency loans are 5 ppts higher for income below GEL 1,500 and 20 ppts higher for income above GEL 1,500; the LTV requirement for foreign currency mortgage loans is 15 ppts tighter.

In addition, the Bank's open currency position limits set by the Supervisory Board are currently more conservative than those imposed by the NBG. The open currency position on a day-to-day basis is managed by the Treasury and monitored by the Capital Adequacy and Financial Risk Management (CFRM) unit.

Credit risk

Credit risk is the risk that the Bank will incur a financial loss because its customers or counterparties fail to meet their contractual obligations.

Mitigation

Governance: The Bank has three independent Credit Risk Management departments: Retail Credit Risk direction; Corporate Credit Risk department; and MSME Credit Risk department. The Credit Risk Management departments oversee and challenge frontline credit risk management activities. Each department is supported by the following teams:

- Credit Risk Analysis team: responsible for analysing customers' creditworthiness based on financial information/credit ratings, sharing analyses with the risk owners and providing recommendations at underwriting or monitoring stages. It controls compliance with credit limits through regular reporting and systemic alerts, and ensures compliance with credit risk management procedures.
- Portfolio Risk Analysis team: responsible for analysing and monitoring the credit risk position of the Bank while establishing and maintaining the credit risk framework and policies. It assesses credit risk, reporting to management and business lines.

The Enterprise Risk Management (ERM) department oversees the bank wide credit risk assessment process, manages quality monitoring policies, continuously monitors the Bank's credit portfolio quality parameters using various tools and techniques, and manages risk budgeting, stress testing and scenario analysis. The ERM department provides regular reports to the Executive Management and the Supervisory Board on the Bank's credit risk profile and the effectiveness of risk management strategies.

Risk appetite: The credit risk appetite consists of quantitative limits and is specifically designed to mitigate the occurrence of excessive credit risk and credit concentrations at various levels within the Bank's portfolio. The credit risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Supervisory Board.

Credit risk identification and assessment: The process of identifying credit risks primarily relies on effective relationship management and the prudent oversight of customer and portfolio credit. The credit assessment process is distinct across segments and is further differentiated across various product types to reflect the specifics of different asset classes. The assessment process depends on transaction complexity: Corporate, SME and larger Retail loans are assessed individually; unsecured Retail loan decisions are largely automated. The performance of all models used in credit risk management is monitored in line with the Bank's model risk management framework.

To ensure a robust credit-granting process, the Bank has implemented several measures and frameworks:

- Well-defined lending standards: The Bank has established clear standards for granting credit, outlining the requirements and standards that borrowers must meet. These standards serve as a benchmark for evaluating the creditworthiness of customers, enabling the identification and assessment of potential risks associated with extending credit.
- Segregation of duties: The credit analysis and approval process involves a clear segregation of duties among the parties involved. In the case of Corporate, SME clients, the analytics team is involved in credit risk analysis, while for Retail loans only loan officers and credit risk officers are involved. Credit analysts and loan officers prepare presentations with key borrower information which are then reviewed by a business credit risk officer, ensuring all risks and mitigating factors are identified and addressed, and that loans are properly structured.
- Multi-tiered loan approval committees: The loan is reviewed and approved by multi-tiered credit committees, with different loan approval limits to consider a customer's overall risk profile. Different committees are responsible for reviewing credit applications and approving exposures based on the size and risk of a loan.

Loan portfolio quality monitoring and reporting: The Bank actively monitors the credit risk of its loan portfolio. Processes and controls are in place to ensure macro and micro developments are identified in a timely manner. Monitoring includes a full assessment against risk appetite limits, supported by a series of key risk and early warning indicators to identify areas of the portfolio with potentially increasing credit risk. The Bank's Chief Risk Officer and Credit Risk Management departments review the credit quality of the portfolio monthly.

Retail and SME loans are subject to periodic reviews, and the Bank monitors exposures to identify customers with signs of potential financial difficulty. For CB loans above US$ 5 million, the Bank updates the financial information of borrowers and reviews significant non-financial changes quarterly. Exposures up to US$ 5 million are monitored semi-annually, or as needed if signs of credit stress are detected.

The Bank strictly adheres to customer exposure limits set by the NBG for CB loans and limits set internally, monitors the level of concentration in the loan portfolio and the financial performance of its largest borrowers, and maintains a well-diversified loan book.

The Bank provides updates monthly to Executive Management and quarterly to the Supervisory Board of Directors on the Bank's exposures and loan portfolio quality, and detailed information on the largest CB borrowers. In addition to these recurring updates, some point-in-time analyses are occasionally performed upon request of the Supervisory Board Risk Committee to monitor exposures in specific sectors and/or single-name exposures.

Collateral valuation: Property and other security arrangements are used to mitigate credit risk across portfolios. The main forms of collateral in CB and SME Banking are liens over real estate, property, plant, equipment, inventory, transportation equipment, corporate guarantees, and deposits and securities. The most common form of collateral in Retail Banking for loans to individuals is a lien over residential property.

The Bank monitors the market value of collateral during reviews of the adequacy of the allowance for ECL. When evaluating collateral for provisioning purposes, the Bank discounts the market value of assets to reflect the liquidation value of collateral. An evaluation report of the proposed collateral is prepared by the Asset Evaluation department or a reputable third-party asset appraisal company and submitted to the appropriate Credit Committee alongside a loan application and a credit risk officer's report.

Restructuring and collections: The Bank provides solutions to help borrowers experiencing financial difficulties to meet contractual obligations. Cases are managed on an individual basis by the Collection teams, with the circumstances of each customer are considered separately. When a customer surpasses an agreed-upon limit or fails to make a regular monthly payment, the Bank contacts the customer and asks her to remedy the position. If the issue is not resolved, the Collection teams may initiate a loan restructuring process, modifying the contractual payment terms to support customers and transfer loans back to the performing category. For unsecured retail loans overdue for more than 30 days, restructuring alternatives are automatically offered through digital channels. Helping a customer return to financial health and restoring a normal banking relationship is always the preferred outcome – however, where a solvent outcome is not possible, insolvency may be considered as a last resort.

Recovery process is initiated when a borrower enters default on their lending facility and the Bank demands full repayment. The main aim is to negotiate a loan recovery strategy with the borrower by offering acceptable terms for cash payments, or to negotiate repayment through a collateral sale or repossession. If the Bank and the borrower cannot agree on acceptable terms, the collateral repossession process is initiated, which may include court, arbitration or notary procedures.

ECL measurement: The Bank uses the ECL model of IFRS 9 to determine loss allowances, acknowledging its forward-looking nature. The model follows a conventional approach that involves dividing the estimation of credit losses into its components: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

Under IFRS requirements, allowance for credit losses is based on ECL associated with the probability of default in the next 12 months, unless there has been a significant increase in credit risk since loan origination – in such cases, allowance is based on ECL over the lifetime of an asset. Allowance for credit losses is based on forward-looking information, considering past events, current conditions and forecasts of economic parameters.

The Bank uses a three-stage model for ECL measurement:

- Stage 1: If, at the reporting date, exposure is not credit impaired and credit risk has not increased significantly since initial recognition. The Bank recognises a credit loss allowance in an amount equal to a 12-month ECL.
- Stage 2: If, at the reporting date, exposure is not credit impaired but credit risk has increased

significantly since initial recognition. The Bank recognises a credit loss allowance in an amount equal to lifetime ECL.

- Stage 3: If, at the reporting date, exposure is credit impaired. The Bank recognises a loss allowance in an amount equal to lifetime ECL, reflecting a PD of 100% for those financial instruments that are credit impaired.

The Bank determines ECL of financial assets on a collective basis, and for individually significant loans on an individual basis, when a financial asset or a group of financial assets is impaired. The Bank creates ECL provisions considering a borrower's financial condition, days past due, changes in credit risk since loan origination, forecasts of adverse changes in commercial, financial or economic conditions affecting the creditworthiness of the borrower, and other qualitative indicators such as external market or general economic conditions. If ECL subsequently decreases, the previously recognised loss is reversed by an adjusted ECL account. Under the Bank's internal credit loss allowance methodology, which is based on IFRS requirements, the Bank categorises its loan portfolio into individually significant and non-significant loans. The Credit Risk Management departments assess all defaulted significant loans individually. Non-defaulted significant loans are given a collective assessment rate. For the purpose of collective provisioning, all loans are categorised into homogenous groups (such as mortgage, consumer and micro loans).

Counterparty risk: By performing banking services – including lending on the inter-bank money market, settling a transaction on the inter-bank FX market, entering into inter-bank transactions related to trade finance or investing in securities – the Bank is exposed to the risk of loss due to failure of a counterparty to meet its contractual obligations. To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty based on an external credit rating and overall risk profile, as well as country limits to manage concentration risk. Counterparty credit risk exposures are monitored daily and any breaches are escalated in line with escalation policies to the Bank' Executive Management. As at 31 December 2023 95.4% of the Bank's inter-bank exposure was to 'Investment Grade' banks (based on Fitch, Moody and Standard and Poor's assessments).

Other products: The Bank also offers guarantees and letters of credit which may require that the Bank makes payments on customers' behalf. Such payments are collected from customers based on the terms of the product. The risks related to these products are managed and mitigated with the same policies and controls as loan-related risks.

Liquidity and funding risks

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.

Funding risk is the risk that the Bank will not be able to access stable and diversified funding sources at an acceptable cost.

Mitigation

Governance: The governance of funding and liquidity risk management at the Bank level is overseen by the ALCO, which approves the liquidity risk management framework and liquidity risk appetite, and ensures its implementation throughout the organisation. The Treasury department and the Asset and Liability Management (ALM) unit are the first line of defence, responsible for managing the Bank's liquidity and funding positions, maintaining access to funding markets, and managing the liquidity buffer. The CFRM unit serves as the second line of defence and is responsible for developing and maintaining policies, standards, and guidelines for funding and liquidity risk management, and developing the risk appetite. Furthermore, the CFRM is responsible for conducting risk profile reviews and communicating results to the ALCO.

Risk appetite: The Bank has developed a set of risk appetite statements outlining its risk tolerance and defining its risk appetite in alignment with the principles of liquidity adequacy. The liquidity risk appetite statements are translated into a range of metrics approved by the Bank's Supervisory Board and reviewed at least annually, enabling the identification of potential deviations from the desired risk profile and triggering proactive risk management actions if these boundaries are breached.

Funding and liquidity management: Liquidity risk is managed through the ALCO-approved liquidity risk management framework, which models the ability of the Bank to meet its payment obligations under both normal and stress conditions. The framework is reviewed regularly to ensure its appropriateness given the Bank's current and planned activities, and encompasses a set of limits on various liquidity indicators, closely monitored by the ALCO. Additionally, the Bank has developed a liquidity contingency plan defining risk indicators for different scenarios and mitigation actions to identify emerging liquidity concerns at an early stage.

The Bank conducts a comprehensive assessment of funding risk associated with the balance sheet, encompassing both quantitative and qualitative analyses of the behavioural characteristics of its assets and liabilities, along with an examination of funding concentration. The concentration of funds by currency, maturity, commodity, and counterparty is monitored regularly and, where concentrations do exist, is managed as part of the planning process and limited by the internal funding and liquidity risk management framework, with analysis regularly provided to the ALCO.

Liquidity stress testing: The Bank's ILAAP includes liquidity stress-test/scenario analysis framework to assess the sufficiency of the Bank's liquidity buffers to withstand potential liquidity shocks. The framework includes idiosyncratic, systemic and combined scenarios to test the sensitivity of the Bank's liquidity position to each of them. Shocks are designed to include all key liquidity-related items and factors.

Monitoring and Reporting: The Bank monitors a range of market and internal early warning indicators on a daily basis for early signs of liquidity risk in the market or specific to the Bank. Furthermore, the Bank delivers bi-weekly forecasts and monthly updates on liquidity risk to Executive Management. The liquidity risk is integrated into the risk profile dashboard, subject to review by the Risk Committee, and is also topic of discussion during joint sessions of the Risk and Audit Committees. The reports included EY's view of the judgments made by management, compliance with international financial reporting standards and the external auditor's observations and assessment of effectiveness of internal controls over financial reporting.

Capital risk

Capital risk is the risk of failure to deliver on business objectives, or to meet regulatory requirements or market expectations, due to insufficient capital.

Mitigation

Governance: The ALM unit executes daily capital risk management decision making, while the CFRM establishes the capital risk management framework and challenges its effective implementation. The Bank's capital position and capital planning is continuously monitored by the Supervisory Board to ensure prudent management and timely actions when necessary.

Risk appetite: The Bank has capital risk appetite presented as different types of Bank-level limits and approved by the ALCO and the Supervisory Board.

The risk profile relative to risk appetite is monitored and reported monthly to the Bank's Executive Management (ALCO) and quarterly to the Supervisory Board.

Capital management: The Bank maintains an actively managed, robust capital base to cover the risks inherent to its business. Capital risk management is underpinned by a capital management policy outlining key principles of capital management, monitoring and control, defining roles and responsibilities of the three lines of defence, and defining capital mitigation plans in line with the risk appetite framework.

The Bank's ICAAP is approved by the Supervisory Board. Its main aim is to ensure the Bank maintains sufficient capital levels to cover material risks to capital from both a normative (supervisory) and economic (internal) perspective. The Bank conducts an internal assessment of material risks annually to evaluate the amount, type, and distribution of capital necessary to cover these risks.

The Bank actively monitors early-warning indicators as part of the regulatory recovery plan, designed to identify emerging capital concerns at an early stage so mitigating actions can be taken in a timely manner. The Bank sets internal capital management buffers above regulatory requirements, both at ALCO and Supervisory Board levels.

Capital stress testing: Capital stress testing plays a vital role in the Bank's risk management processes by allowing the examination of severe but plausible stress scenarios and their impact on the capital position. The results of capital stress test analyses are used to inform various aspects of the Bank's risk management and capital planning processes. Specifically, these outcomes are considered in the following areas:

- Capital planning: The findings from stress testing help determine the appropriate level of capital that needs to be maintained to withstand adverse events and meet regulatory requirements.
- Risk appetite statements: By incorporating the results of stress tests, the risk appetite statements ensure the Bank sets appropriate boundaries and limits for managing capital-related risks.
- Capital management buffer: Capital stress test analyses assist in defining the capital management buffer.

Planning and forecasting: The Bank updates capital forecasts twice a month, based on updated business expectations, portfolio quality forecasts, market conditions, the latest trends and anticipated changes in the Bank's medium-term strategy. The Bank's capital distribution plans are discussed with and approved by the ALCO and are continuously monitored and approved by the Supervisory Board. The ALM unit is responsible for initiating and coordinating capital distribution plans and operations on capital elements, such as attraction of capital instruments. It prepares various scenarios, assesses impact on planned capital and presents to the ALCO/ Supervisory Board.

Market risk

Market risk is the risk of financial loss due to fluctuations in fair value or future cash flows of financial instruments due to changes in market variables.

It arises from mismatches of maturity, currency or interest rates between assets and liabilities, all of which are exposed to market fluctuations.

Mitigation

Governance: The governance of market risk management at the Bank is overseen by the ALCO and the Supervisory Board, which approves the Bank-level market risk appetite and ensures its implementation throughout the organisation. The Bank's market risk governance follows a three-lines-of-defence structure to set a clear division of responsibilities and an independent risk control process. The responsibility for identifying, measuring, monitoring and controlling market risk lies with the Bank's respective business units. The CFRM unit serves as the second line of defence and is responsible for developing and maintaining policies, standards and guidelines for market risk management, and setting the risk appetite. Furthermore, the CFRM is responsible for conducting risk profile reviews and communicating results to the ALCO.

Risk appetite: The Bank has currency exchange and interest rate risk appetite presented as different types of limits approved by the ALCO and the Supervisory Board. In the process of limit setting, the following aspects are considered**:**

- exchange rate volatility dynamics;
- availability of currency instruments on the market;
- existing and expected levels of capital;
- historical volatility of interest rates;
- current interest rate risk profile and medium-term strategic plans that may affect the risk profile; and
- business strategy and enterprise-wide risk appetite.

The risk profile relative to risk appetite is monitored and reported monthly to the Bank's Executive Management and quarterly to the Supervisory Board.

Market risk management: The general principles of the Bank's market risk management policy are set by the ALCO. The ALCO sets limits on market risk exposures by currencies and closely monitors compliance with the Bank's risk appetite framework. Exposures and risk metrics are regularly tested for various plausible scenarios.

The Bank's currency risk is calculated as an aggregate of open positions and is controlled by daily monitoring of open currency positions and the value-at-risk (VAR) historical simulation method based on 400-business-day statistical data. In addition, open positions in all currencies except for Lari are limited to a maximum of 1% of the Bank's total regulatory capital as defined by the NBG. The open currency position is also limited by the ALCO to an annual VAR limit of GEL 50 million with a 98.0% tolerance threshold.

To minimise interest rate risk, the Bank monitors its interest rate (re-pricing) gap and maintains an interest rate margin (net interest income (NII) before impairment of interest-earning assets divided by average interest-earning assets) sufficient to cover operational expenses and risk premium.

Within limits approved by the Bank's Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. As per a regulatory requirement, the Bank assesses the impact of interest rate shock scenarios on economic value of equity (EVE) and NII. The Bank's EVE sensitivity with respect to Tier 1 capital remains comfortably below the maximum regulatory limit. At 31 December 2023, the Bank's EVE ratio stood at 7.6%, below the maximum limit of 15.0%. EVE and NII sensitivities are further limited by the Supervisory Board risk appetite. In addition, the ALCO sets limits on EVE and NII ratios by currency with respect to CET1 capital and monitors those monthly. NIM sensitivity is also analysed by currency and is limited by the Supervisory Board and ALCO levels. The Bank's interest rate risk measurement practices were reviewed by an independent consultant as part of the NBG initiated assessment of the banking sector and were rated as in line with international standards.

In the wake of upward trends in market interest rates, the Bank actively performs various stress tests and scenario analyses to assess the potential impacts of interest rate shocks on portfolio quality and profitability.

The Bank reviews prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product individually, applying the historical rates to the outstanding carrying amount of each loan product as of the reporting date, and then multiplying the product by its weighted average effective annual interest rate. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.

Regulatory and legal risk

Regulatory and legal risk is the risk of financial loss, regulatory censure, criminal or civil enforcement action or damage to the Bank's reputation as a result of failure to identify, assess, correctly interpret, comply with or manage regulatory and/or legal requirements.

Mitigation

Governance: The Compliance department serves as a second line of defence and reports directly to the CRO. It is responsible for establishing the compliance policy, methodologies and minimum standards for the entire Bank, and plays a critical role in instructing, advising, and challenging the first line of defence in managing compliance risks. It coordinates identification, assessment, documentation, reporting and mitigation of compliance risks associated with the Bank's processes and products. The department is focused on promoting a strong compliance risk culture through trainings and internal communication.

The Legal department reports directly to the Chief Legal Officer. Its principal aim is to ensure the Bank's activities conform to applicable legislation and that possible losses from the materialisation of legal risks are minimised. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, planning and implementing all necessary actions to mitigate identified legal risks.

Compliance risk management framework: The Bank maintains compliance policies and procedures enabling the integration of compliance risk management principles across operations in line with relevant regulations. These policies set the principles and standards for managing compliance risk across the Bank and define key roles and responsibilities of an independent compliance function. Our compliance risk management framework and policies are subject to review by the Internal Audit function. Adherence to the policies is mandatory for all employees and, to increase awareness, the Bank runs a mandatory compliance training programme.

Monitoring and reporting: The Bank places significant importance on measuring and managing compliance and legal risk. This is achieved through ongoing assessment and reporting to the Risk Committee and the Supervisory Board, enabling consistent monitoring and measurement of adherence to laws and regulations. Furthermore, compliance and legal risk management are integrated into the Bank's strategic planning cycle, ensuring a comprehensive approach to managing these risks across the organisation.

Regulatory change management: In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes during our formal risk identification and assessment processes.

Our legislative and regulatory change management system is designed such that changes in laws and regulations are proactively identified by the Legal and Compliance departments. In addition, we maintain a standardised process to design and implement appropriate changes by generating workflows, assignments, tasks, and automated follow-ups.

As part of the regulatory change management process, we engage in constructive dialogue with legislative and regulatory bodies where possible, and seek external advice on potential changes in legislation. We have a formal link and a coordinated communication process with the NBG. Significant regulatory and legal changes as well as material regulatory inspections are regularly discussed with the Bank's Audit Committee.

Related party transactions monitoring: The Bank ensures related party transactions are identified, assessed and monitored in line with the requirements of the NBG. The Supervisory Board receives reports on transactions annually, while results are communicated to the CRO on a monthly basis.

Conduct risk

Conduct risk is the risk that the conduct of the Bank and its employees towards customers will lead to poor or unfair customer outcomes or adversely affect market integrity, damaging the Bank's reputation and competitive position.

Mitigation

Governance: The Bank assigns various departments and divisions the responsibility for managing, mitigating and eliminating conduct risk throughout the Bank's interactions with clients and stakeholders. Collaboration between the Compliance, Human Capital Management, and Legal functions is essential in establishing a cohesive conduct risk management framework. These departments work together to support business lines and other departments in the following ways:

- Developing policies and procedures that promote responsible conduct and compliance with applicable laws and regulations.
- Fostering a strong culture of ethics and integrity within the organisation by conducting employee training and promoting a values-based culture that prioritises responsible behaviour towards clients and stakeholders.
- Establishing controls and processes to monitor and manage conduct-related risks, ensuring adequate measures are in place to prevent misconduct and enhance operational resilience.

Treating customers fairly: Our Code of Conduct and Ethics and the Customer Protection Standard cover all stages of the product and services lifecycle. They include requirements related to transparent product offerings and clear and accurate communications to enable customers to make informed decisions. The Customer Rights Protection unit serves as a second line of defence ensuring the Bank's processes are compliant with applicable laws and regulations and in line with internal policies and procedures.

We disclose all features and terms and conditions for our products and services so our customers can make informed decisions. The Legal function serves as a second line of defence and reviews the Bank's marketing communications as well as the compliance of products and services from a legal and regulatory perspective.

Customer claims management: We have a Customer Claims Management procedure to effectively handle customer complaints and concerns. The Customer Claims Management and Support Centre function reviews and manages all incoming claims. Claims related to the Code of Conduct and Ethics violations are reviewed by the Compliance Committee to ensure they are properly handled and remediation plans are in place. Furthermore, the Compliance department reviews all customer complaints. Recurring claims potentially indicating a systemic issue and reports received through the whistleblowing platform are investigated and reported quarterly to the Audit Committee.

Financial crime risk

Financial crime risk is the risk of knowingly or unknowingly facilitating illegal activity, including money laundering, fraud, bribery and corruption, tax evasion, sanctions evasion, the financing of terrorism and proliferation, through the Bank.

Mitigation

Governance: The responsibility for identifying, measuring, monitoring, and controlling financial crime risk lies with the respective business units within the Bank that may be exposed to the risk of financial crime, sanctions evasion, money laundering and financing of terrorism in the course of their business activities. The AML and Sanction Compliance department, under the CRO, serves as the second line of defence and is responsible for developing and maintaining policies, standards, guidelines and internal compliance systems – monitoring the risks of sanctions evasion, money laundering and financing of terrorism within the Bank and overseeing the processes of risk identification, assessment, and management. Additionally, an AML/Sanction Compliance Committee has been created for continuous control and oversight of money laundering, terrorism financing and sanction evasion risks.

The Tax Reporting and Tax Risks Management unit, under the CFO, focuses on effective assessment and management of tax risks and the Bank's relationship with the tax authorities, provides practical advice and ensures tax compliance across the Bank.

Monitoring and reporting: Continuous risk management and regular reporting to the Risk Committee and the Supervisory Board facilitate the recognition and communication of potential financial crime risks. The review and assessment of both quantitative and qualitative dashboards are conducted to gauge whether the level of financial crime risk is managed effectively. Financial crime risks are on the regular agenda of the Risk and Audit Committees joint sessions.

Anti-money laundering: We have an AML/counter-terrorist financing (CTF) framework that reflects a risk-based approach towards money laundering/financial terrorism (ML/FT) risks.. We have updated policies and procedures to make our ML/FT risk management activities more robust, and we have invested significant resources to improve our ML/FT risk management capabilities – including implementing best practice screening and filtering tools supported by advanced analytics and transaction monitoring solutions, as well as reinforcing the staff dedicated to the AML function.

Bribery and corruption: Bribery and corruption risks are integral components of our financial crime framework and are encompassed within the client and third-party due diligence processes as well as the monitoring measures. We are committed to preventing bribery and corruption by implementing appropriate policies, processes and effective controls. We expect all our employees to adhere to our Code of Conduct and Ethics. The Bank has zero tolerance towards non-compliance with anti-bribery and anti-corruption policies and procedures.

All employees receive annual mandatory training on anti-bribery and anti-corruption policies and procedures, including information on how to use the Bank's anonymous whistleblowing channel

Sanctions compliance: The Bank has a robust sanctions compliance policy. It requires strict adherence to the relevant prohibitions and restrictions provided in the US, UK, EU and other relevant sanctions programmes. Russia and Belarus were designated by the Bank as high-risk jurisdictions, meaning the Bank has limited risk appetite in relation to customers from and transactions related to these countries. In particular customers from Russia and Belarus are subject to enhanced due diligence measures, while transactions related to these jurisdictions are subjected to enhanced sanctions screening and transaction monitoring. We have also enhanced our cooperation with the regulator and other relevant government authorities and partner financial institutions in Georgia to monitor and mitigate sanctions-related risks at both sector and country levels.

Due diligence: The Bank continues to improve customer due diligence practices and transaction monitoring capabilities, including monitoring supported by risk-based scenarios, handling alerts and reporting suspicious activities where required. Our Know Your Customer (KYC) procedures for customer screening and transaction monitoring ensure compliance with international financial and economic sanctions regulations as well as procedures for verifying customer identity to protect the Bank from money laundering and terrorism financing. High-risk clients – including politically exposed persons and virtual asset service providers, those subject to adverse media coverage or performing unusual or crypto-currency-related transactions, or those living and working in countries or sectors with an inherently higher risk of financial crime – undergo additional enhanced due diligence. To manage risks associated with crypto-currency we have restricted international transactions related to virtual assets or involving virtual asset service providers. The Bank has zero tolerance towards Russian and Belarusian clients who are involved in crypto-currency-related activities.

Fraud risk: To mitigate fraud risk we have implemented the following measures:

- Know Your Employee procedures including screening requirements at recruitment, employment and

departure stages of employment, providing a clear understanding of an employee's background and actual or potential conflicts of interest.
- Mandatory training for all new employees to increase awareness regarding fraud risk.
- Communication channels to inform our customers about fraud risk.

Information security and data protection risks

Information security risk is the risk of loss of confidentiality, integrity, or availability of information, data, or information systems, and reflects the potential adverse impacts to operations.

Data protection risk is the risk presented by personal data processing – such as accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data stored or otherwise processed – which may result in financial loss, reputational damage, or other significant economic or social adverse impacts.

Mitigation

Governance: The Information Security department represents the first line of defence, following internal policies and procedures regarding information security, and performing routine risk assessments, vulnerability scans and penetration tests to identify potential vulnerabilities within our systems and infrastructure. In this manner, the Information Security department prevents unauthorised access attempts and maintains real-time monitoring to promptly detect and respond to any potential security incidents.

The Information Security Compliance and Risk Management unit serves as a second line of defence under CRO. It conducts regular risk assessments associated with third parties and conducts regular monitoring and reporting of identified risks to the relevant parties. The unit provides oversight, guidance, and support to the Bank's business units, ensuring information security risks are identified, assessed and managed effectively, and monitors compliance with internal policies and external regulations.

Risk appetite: Information security risk is measured against predefined risk appetite metrics and thresholds.

The risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Supervisory Board.

Monitoring and reporting:

We provide monthly reports on information security risks and incidents to Executive Management and quarterly to the Supervisory Board. These reports offer a comprehensive overview of the Bank's security, significant incidents, risk mitigation efforts and the effectiveness of controls.

The Bank's Internal Audit function, on a risk-based approach, provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems. Information security is on the Risk Committee's regular agenda, and we engage external auditors to conduct cybersecurity audits.

The following controls enable us to mitigate information security and data protection risks:

Zero-day attacks: We regularly monitor zero-day vulnerability announcements that may affect our systems. If such a vulnerability is detected, the designated team ensures it is attended to as soon as possible. Moreover, we employ a 'defence in depth' approach, meaning we have multiple complementary security layers. If one mechanism fails, another will be activated immediately to prevent an attack imposing damage.

Customer-targeted phishing: Malicious actors may carry out successful customer-targeted phishing attacks through fake websites, social networks, emails and other channels. We focus on improving our information security controls to detect unauthorised access to customers' accounts, and run awareness-raising campaigns to help customers and the wider public recognise phishing and respond appropriately.

Supply chain cyber-attack: Malicious actors may gain unauthorised access to our third-party service providers' systems. The Bank focuses on mitigating this risk by:

- Integrating information security and data protection due diligence in the selection process to determine the level of risk posed by a potential third-party service provider.
- Ensuring necessary contractual and technical controls are implemented to mitigate identified risks prior to engaging with third-party service providers.

- Monitoring existing third-party service providers at least annually to assess the fulfilment of agreed information security and data protection requirements. The termination of a relationship is subject to exit procedures to ensure the protection of the confidentiality, integrity and availability of the Bank's information.

Failure by employees to adhere to our policies, procedures and technical controls: Employee training is one of the key components of information security and data protection risk management across the Bank. We continuously focus on equipping our employees with relevant knowledge and the right tools to prevent, identify, mitigate and report incidents.

We initiate quarterly phishing campaigns to test our employees' ability to detect such attacks and respond appropriately. Periodically, we send awareness emails and share posts on current information security threats through internal communication channels. Although there have been phishing attempts against employees, there have been no major incidents.

Access management: We have role-based access control, contributing to the automation of employee onboarding and existing employee rotation processes and enabling the restriction of network access based on the roles of individual users – in line with the principle of least privilege, which the Bank follows. We also conduct a semi-annual privileged user evaluation process. We monitor and update access rights on an annual basis in each department.

The Bank does not allow the granting of privileged access rights to third parties without a valid and justified business need. Even in such cases third parties with privileged access rights are required to use multi-factor authentication, and the Bank manages and monitors their activities through a privileged access management solution.

Information security incident response: To successfully mitigate the above-mentioned key risks we have further aligned our incident response plan with the industry standard and accepted best practices as provided by the National Institute of Standards and Technology in its Computer Security Incident Handling Guide. We also conduct continuous breach and attack simulations, allowing us to see our network through the eyes of malicious actors, verify our defences and security configuration, and continuously monitor and improve our defences. We have enhanced our capabilities by implementing a vandal-protected backup storage. As a result, neither external nor malicious internal threat actors can harm the Bank's core database backup.

We are also in the process of refining our information security incident response plans. We use additional metrics – such as mean time to detect, mean time to respond and false positive ratio – to better track the performance of our Security Operations Centre. These metrics are tracked with respect to the entire Security Operations Centre and each of its team members.

Data protection policies: We maintain a comprehensive set of data privacy policies and standards to ensure we operate in compliance with applicable privacy regulations and state-of-the-art principles.

Governance: Effective implementation of the privacy strategy requires a strong organisational structure. We have the Data Protection Officer (DPO), whose responsibilities include but are not limited to:

- providing recommendations to the Bank's employees to ensure compliance with the requirements of applicable legislation;
- researching data processing procedures within the Bank and evaluating their compliance with applicable legislation;
- advising and assisting business units on privacy matters, particularly when implementing a new process or product;
- liaising with the supervisory authority regarding privacy matters; and
- drafting and maintaining internal policies and procedures as well as awareness programs on privacy matters.

Transparency: Transparency is a core element of our privacy programme. Customers are informed in simple language about our privacy practices, including how we collect, use, disclose, transfer and protect their personal information. Our privacy commitments are reflected in our Privacy Statement.

Reporting: The DPO reports to the Audit Committee at least twice a year on the status of the Bank's privacy strategy implementation. As a result, the Bank's Executive Management and the Supervisory Board remain up to date on privacy matters at all times.

Operational risk

Operational risk is the risk of financial and non-financial loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Mitigation

Governance: Responsibility for the management of operational risks is determined by the 'three-lines-of-defence' model. The first line of defence is represented by business units responsible for identification and assessment of operational risks and establishing appropriate controls to mitigate them. The Operational Risk department is a second line of defence responsible for oversight and risk guidance within the Bank. Third line of defence is internal audit, independently assessing operational risk and events in business processes throughout the Bank.

The Operational Risk Committee is the decision-making body overseeing operational risk profile and monitoring operational risk management programme activities. The Committee reviews key items for risk taking decisions and monitors the follow-ups of mitigation action plans.

Risk appetite: The Bank has established an operational risk appetite to effectively manage all operational risks. It defines the level and categories of operational risk the Bank is willing to accept in order to achieve its strategic objectives.

The risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Supervisory Board.

Operational risk framework: The Bank has implemented policies and procedures and has established an operational risk framework for anticipating, mitigating, controlling and communicating operational risks and the overall effectiveness of the internal control environment across the Bank. The Operational Risk department develops and maintains a framework and comprehensive set of policies and standards reviewed and approved by the relevant governance bodies to ensure they are aligned with recognised industry standards – such as Basel and the European Banking Authority (EBA) – and made available to all relevant employees through internal channels. The operational risk framework includes: the risk and control self-assessment (RCSA) programme; key risk indicators; operational risk event analysis; the scenario analysis programme; risk monitoring and reporting; business continuity management programme; risk awareness; and training programmes.

Monitoring and reporting: The Operational Risk department regularly reviews and monitors the assessments of operational risks. Reviews of risks affecting key business processes are conducted annually and findings are submitted in the form of reports.

The Management Board and the Operational Risk Committee regularly review and monitor the actual operational risk profile against the agreed levels of risk tolerance and risk appetite. The Operational Risk Management Committee monitors the risk profile to ensure appropriate actions are taken regarding breaches of risk appetite limits.

The department reports quarterly to the Risk Committee. The risk report includes information about the current risk profile, risk appetite limits and breaches, together with risk-taking activities and mitigation plans.

Business resilience and continuity: The Bank has established a business continuity programme appropriate for the nature, size and complexity of our operations. The programme considers different scenarios to which the Bank may be susceptible, including system and technology failures.

The Bank has established business continuity and disaster recovery plans for each critical business process, which is a combination of procedures and arrangements aimed at ensuring retention or prompt resumption of continuation of the Bank's critical business processes.

The Bank continuously performs impact analyses and testing of business continuity plans, training and awareness programmes, and communication and crisis management programmes.

Awareness programmes: We conduct awareness campaigns and mandatory training to help employees identify existing and potential risks. The Bank's fraud awareness programme remains a key component of its fraud control environment, and awareness of fraud risk is supported by mandatory training for all colleagues.

Human capital risk

Human capital risk is the risk of failure to deliver on the Bank's strategic objectives, operational disruption, financial loss and/or reputational damage as a result of ineffective human capital management.

Mitigation

Governance: Human capital risk is identified, assessed, and managed by the Bank's Human Capital Management function. It establishes policies, procedures, and frameworks to guide risk management efforts and ensures compliance with relevant laws and regulations. It also monitors and reports on human capital risks to Executive Management and the Supervisory Board.

Risk appetite: We have defined bank-level human capital risk appetite, which is presented in a form of different types of limits and is approved by the Supervisory Board. Our human capital risk appetite considers various factors, including business goals, culture, and workforce dynamics. The risk profile relative to risk appetite is monitored and reported monthly to the Executive Management and quarterly to the Supervisory Board.

Monitoring and reporting: We monitor human capital risk through a series of quantitative and qualitative indicators, including ongoing deep interviews with individual employees, Bank and team/division level eNPS, engagement scores, internal mobility, retention, employee turnover measures. We discuss and design action plans based on the results of different surveys and measures.

Key people risk metrics are reported quarterly to the Risk Committee and monthly to the Executive Management. Also, all violations of ethical principles and standards related to the Code of Conduct and Ethics and Standards of Professional Conduct for Commercial Banks are reported quarterly to the Audit Committee.

Mitigation: The Bank takes the following mitigating actions with respect to human capital risk:

- We attract young talent by participating in job fairs and running extensive internships and student development programmes. We actively partner with leading Georgian business schools and universities to recruit top talent in different fields. We have a student development programme, Leaderator, which gives talented undergraduates the opportunity to have a 360° view of the Bank in action, work on real projects, and receive coaching and support from the Bank's executives and middle managers. The programme also helps us to attract IT, digital and data science and analytics students as it guarantees high qualification and fast professional growth within one of the best tech teams in Georgia.
- We offer our employees learning and personal development opportunities to enhance their competencies and skills throughout their careers, and support their career progression. Internal mobility remains a priority in our talent strategy to ensure having the right person in the right position at any given time.
- We develop our leadership pool through various programmes and activities, including through Leadership Coaching for senior managers in individual and group format, New Managers' programme – a special introductory course for employees recently appointed to managerial positions and team leads. We also ensure sustain/constant professional and personal development of existing managers, conducting regular needs analysis and offering respectively designed leadership development programs. Our development programs are aligned with Performance Management Process - setting and monitoring KPIs/KBOs, contributing to developing a feedback culture. In 2023, employees from non-managerial pool participated in this process as well. We leverage our leadership development to mitigate risks associated with the departure or absence of well-qualified and experienced individuals. Our succession planning process ensures necessary support of our talent pipeline for now and in the future for key positions, including at the senior manager, executive and supervisory board level.
- We offer competitive remuneration and benefits packages and support work-life balance. We monitor

employee pay trends via labour market compensation surveys in the financial sector. Our remuneration structure is based on employee performance reviews, part of our continual feedback process. Introducing yearly performance management system via KPIs/KBOs at all levels, inclusive non-managerial ones, enabled further transparency of performance based employee annual bonus schemes, and setting and managing clearer and properly aligned expectations. We continue to fine-tune our job architecture and grading structures by further advancing the job levelling project to ensure our remuneration system and practices are fair, clear and transparent for employees, allowing them to fairly plan their career moves and progression. We have forums and communication channels enabling employee voices to be heard across the organisation, including a CEO vlog on Workplace – regular live sessions with employees on current developments,

- We ensure that HR policies and practices are developed and implemented to support our business activities and are in line with Georgian legislation and relevant international standards. We regularly review our policies and procedures to ensure that they reflect best practices, organisational changes, and legal requirements.
- We offer hybrid working arrangements, giving a majority of back-office employees the flexibility to combine working from home with working from the office.

Model risk

Model risk is the risk of potential adverse consequences arising from decisions based on model results that may be incorrect due to the use of inaccurate assumptions, inappropriate variables, weak algorithms and/or low-quality data.

Mitigation

Governance: The Bank's model risk and control structure is based on the 'three-lines-of-defence' approach. Model Risk Owners in the first line are responsible for model approval and ongoing performance monitoring. The Bank's independent Risk function, in the second line, is responsible for validating new models and monitoring their compliance with regulatory requirements by focusing on the soundness of the algorithms used, the model's predictive ability and complexity, sustainability, consistency with business objectives, assumptions, and data quality.

Monitoring and reporting: The Bank maintains a structured model development lifecycle including recalibration. All significant new models or material changes to existing significant models are validated by an independent risk function and authorised by the Chief Risk Officer. Significant model-related issues are reported to the Bank's Supervisory Board, and the Bank's Executive Management is aware of major model risks.

Further, to ensure effective model performance, the Bank has implemented automated processes for the ongoing monitoring of model performance. Based on the significance of model risk, automated notifications are generated on a model's performance for relevant stakeholders cyclically (monthly, quarterly and ad hoc). Model performance monitoring is carried out by model owners and supervised by model validators, enabling prompt action to be taken in addressing any issues related to inadequate model performance and identifying and rectifying control deficiencies or vulnerabilities.

Model risk mitigation: To manage this risk, the Bank employs the following strategies:

- Refining or redeveloping models: When necessary, models are refined or redeveloped to account for changes in market conditions, business assumptions, or processes. This ensures the models remain accurate and aligned with the evolving landscape.
- Adjustments to model outputs: Quantitative adjustments or those based on expert opinion may be applied to the outputs generated by the models. These help address any known limitations or biases and improve the accuracy of the results.
- Process enhancements: The Bank may introduce enhancements to the processes in which model outputs are used. By implementing additional controls, validation measures or complementary methodologies, the risk levels associated with model outputs can be further limited.

By employing these mitigation measures the Bank aims to minimise the impact of model risk and ensure the models used in its business activities provide reliable and accurate assessments and decisions.

Strategic risk

Strategic risk is the risk that the Bank will be unable to execute its business strategy and create value for its stakeholders as a result of poor decision-making, ineffective resource allocation, or a delayed or ineffective response to changes in the external environment.

Mitigation

Strategic planning: The Bank has a sound corporate governance framework and its strategy is approved by its Supervisory Board. Customer-centricity, people and culture, brand strength and data and AI-driven decision-making are key enablers of the Bank's sustainable value creation. The Bank assesses and monitors strategic risk implications in its day-to-day activities, ensuring they respond appropriately to internal and external factors.

The Bank conducts an annual strategic planning process to review its performance against targets, discuss the internal and external environment, and develop short- and medium-term strategic plans considering potential financial and non-financial risks. This process is supported by risk appetite statements, a capital plan and a recovery plan.

Monitoring: We conduct annual strategic review sessions involving executive and senior management. Throughout the year, the performance against key strategic objectives as measured by KPIs is monitored and assessed by the Executive Management quarterly. The Bank takes corrective measures to mitigate risks arising from significant variance. In addition, Executive Management holds monthly meetings to discuss the competitive landscape and the Bank's competitive positions, including any changes versus prior periods, and any actions if required. Key strategic areas and/or projects are periodically discussed in working groups comprising executive, senior and middle management.

Periodic strategic challenge reviews: Our strategic objectives and/or decisions are regularly discussed with and challenged by the Supervisory Board, including during the Supervisory Board's annual strategy sessions.

Reputational risk

Reputational risk is the risk of damage to stakeholder trust and our brand image due to negative consequences arising from internal actions or external events.

Mitigation

Risk appetite: We acknowledge that reputational risk is an inherent aspect of our operating environment, with public trust being a crucial consideration when determining the level of reputational risk the organisation is willing to accept. We have defined Bank-level reputational risk appetite through a quantitative measure.

The risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Supervisory Board.

Mitigation: To mitigate potential reputational risks, effective systems and controls are in place to ensure high levels of customer service and compliance. For each material risk identified at any level of the business, the risk is measured, mitigated and monitored in accordance with our policies and procedures.

To protect and maintain the strength of our brand the Bank's marketing team monitors media coverage daily. The Bank's legal team ensures marketing communications are fully compliant with internal policies, and reviews and confirms the compliance of products and services from a legal and regulatory perspective. The Bank regularly tracks and measures customer satisfaction using both internal and independent external surveys, and monitors its compliance with risk appetite limits, reporting to Executive Management monthly.

We also engage with our customers on information-security-related matters through multiple channels, including our website, digital platforms and text messages. We regularly create and share content including articles, interactive games and questionnaires through various media. We support and contribute to the development of information security in Georgia by regularly participating in collaborative efforts with our financial industry peers, law enforcement authorities, regulatory bodies and the Government, to share knowledge and prevent negative impacts.

To prevent inaccurate or misleading reporting that could damage the Bank's reputation by losing trust with stakeholders, we have a well-documented reporting process with strong controls for fairness and transparency. Oversight from internal and external audits, as well as the Supervisory Board, ensures our reporting is trustworthy.

Climate-related risk

Climate-related risk is the risk of financial loss and/or damage to the Bank's reputation as a result of the accelerating transition to a lower-carbon economy and/or the materialisation of actual physical damage as a result of acute or chronic weather events.

Among other things, transitional and physical risks may impact the performance and financial position of our customers and their ability to repay loans.

Mitigation

Governance: The Bank implements climate risk governance through the Environmental and Social Impact Committee comprising executive and senior management. The Committee is responsible for monitoring the Bank's climate, environmental and social risks and impacts arising primarily as a result of our lending activities. The Committee meets quarterly and reports to the Supervisory Board twice a year.

The Environmental and Climate Risk Management department is a risk function that is part of the Bank's second line of defence. It reports progress and performance in the area of environmental, social, and climate-related risk management to the Environmental and Social Impact Committee.

Climate-related risks mitigation: We have integrated climate-related risks into our risk management framework and business resilience assessments. We have focused on mitigating climate-related risks by:

- reassessing climate scenarios and deepening our knowledge of climate change and climate policy in Georgia;
- identifying and addressing sector- and location-specific climate risks for our business clients, as part of loan appraisal and origination process, as well as the environmental and social risk management process;
- collecting relevant data, including on output produced and energy consumed, and calculating Scope 3 financed emissions for some GHG-intensive corporate clients;
- calculating Scope 3 financed emissions through the Joint Impact Model in 2023 as a potential solution;
- identifying opportunities for greening Georgia's economy, to help the Bank understand where and how to offer green financing and to discuss transformational opportunities with clients and lenders;
- identifying and reporting on transactions aligned with the NBG's Green Taxonomy (from January 2023), including in climate-relevant sectors;
- raising climate finance awareness across the Bank by implementing training for bankers and risk managers from CB and MSME departments; and
- facilitating climate-related disclosure.

Overview of financial results[10]

Income statement highlights

GEL thousands	FY23	FY22	Change y-o-y
Net interest income	**1,586,000**	**1,174,611**	**35.0%**
Net fee and commission income	340,672	261,420	30.3%
Net foreign currency gain	370,847	463,202	-19.9%
Net other income	115,110	32,094	258.7%
Operating income	**2,412,629**	**1,931,327**	**24.9%**
Operating expenses	**(678,955)**	**(581,668)**	**16.7%**
Profit from associates	984	819	20.1%
Operating income before cost of risk	**1,734,658**	**1,350,478**	**28.4%**
Cost of risk	(141,971)	(167,664)	-15.3%
Net operating income before non-recurring items	**1,592,687**	**1,182,814**	**34.7%**
Net non-recurring items	-	(203)	-100.0%
Profit before income tax expense and one-off costs	**1,592,687**	**1,182,611**	**34.7%**
Income tax expense	(258,968)	(111,332)	132.6%
Profit adjusted for one-off costs	**1,333,719**	**1,071,279**	**24.5%**
One-offs	-	(79,275)	-100.0%
Profit	**1,333,719**	**992,004**	**34.4%**

Balance sheet highlights

GEL thousands	Dec-23	Dec-22	Change y-o-y
Liquid assets	9,676,305	10,256,783	-5.7%
Cash and cash equivalents	*3,042,832*	*3,495,728*	*-13.0%*
Amounts due from credit institutions	*1,752,658*	*2,417,306*	*-27.5%*
Investment securities	*4,880,815*	*4,343,749*	*12.4%*
Loans to customers and finance lease receivables[11]	20,248,067	16,841,603	20.2%
Property and equipment	404,303	363,606	11.2%
All remaining assets	1,065,435	905,066	17.7%
Total assets	**31,394,110**	**28,367,058**	**10.7%**
Client deposits and notes	20,776,816	18,274,061	13.7%
Amounts owed to credit institutions	5,133,029	5,191,494	-1.1%
Borrowings from DFIs	*2,124,264*	*1,867,454*	*13.8%*
Short-term loans from central banks	*2,101,653*	*1,715,257*	*22.5%*
Loans and deposits from commercial banks	*907,112*	*1,608,783*	*-43.6%*
Debt securities issued	421,359	646,137	-34.8%
All remaining liabilities	610,856	467,998	30.5%
Total liabilities	**26,942,060**	**24,579,690**	**9.6%**
Total equity	**4,452,050**	**3,787,368**	**17.5%**

[10] In this section, 2022 figures were adjusted for a one-off GEL 79.3 million tax expense due to an amendment to the corporate taxation model in Georgia. Comparisons given in text are with adjusted figures of respective periods.
[11] Throughout this section, gross loans to customers and respective allowance for impairment are presented net of expected credit loss (ECL) on contractually accrued interest income. These do not have an effect on the net loans to customers' balance. Management believes that netted-off balances provide the best representation of the loan portfolio position.

Key ratios

	FY23	FY22
ROAA	4.7%	4.2%
ROAE	32.9%	31.6%
Net interest margin	6.4%	5.4%
Loan yield	12.5%	11.5%
Liquid assets yield	4.7%	4.3%
Cost of funds	4.7%	4.9%
Cost of client deposits and notes	4.1%	3.6%
Cost of amounts owed to credit Institutions	8.0%	8.9%
Cost of debt securities issued	8.2%	7.1%
Cost:income ratio	28.1%	30.1%
NPLs to gross loans	2.3%	2.7%
NPL coverage ratio	69.3%	66.0%
NPL coverage ratio adjusted for the discounted value of collateral	118.1%	128.5%
Cost of credit risk ratio	0.7%	0.8%
NBG (Basel III) CET 1 capital adequacy ratio	n/a	14.7%
Minimum regulatory requirement	*n/a*	*11.6%*
NBG (Basel III) Tier I capital adequacy ratio	n/a	16.7%
Minimum regulatory requirement	*n/a*	*13.8%*
NBG (Basel III) Total capital adequacy ratio	n/a	19.8%
Minimum regulatory requirement	*n/a*	*17.2%*
IFRS based NBG (Basel III) CET 1 capital adequacy ratio	18.2%	n/a
Minimum regulatory requirement	*14.5%*	*n/a*
IFRS based NBG (Basel III) Tier I capital adequacy ratio	20.0%	n/a
Minimum regulatory requirement	*16.7%*	*n/a*
IFRS based NBG (Basel III) Total capital adequacy ratio	22.1%	n/a
Minimum regulatory requirement	*19.6%*	*n/a*

Net interest income

- Net interest income amounted to GEL 1,586.0 million, up 35.0% y-o-y, mainly driven by increased loan portfolio coupled with higher loan yield (up 100 bps y-o-y in FY23, on the back of increasing rates in foreign currency).
- Net interest margin stood at 6.4% (up 100 bps y-o-y).

Net non-interest income

- Net fee and commission income amounted to GEL 340.7 million, up 30.3% y-o-y, mainly due to settlement operations.
- Net foreign currency (FX) gain has broadly normalised, following last year's higher activity levels, and amounted to GEL 370.8 million (down 19.9% y-o-y).
- Net other income was GEL 115.1 million, up 258.7% y-o-y, driven by the significant net gains on the sale of repossessed assets booked in the second and the fourth quarters of 2023.

Operating income

- Overall, the Group generated operating income of GEL 2,412.6 million, up 24.9% y-o-y, driven by strong income generation across core revenue lines, partly offset by lower net foreign currency gains reflecting a normalising trend.

Operating expenses and efficiency

- Operating expenses amounted to GEL 679.0 million (up 16.7% y-o-y). The rise in operating expenses was primarily related to overall business growth and ongoing investments in strategic areas.
- For the full year of 2023, the Group delivered positive operating leverage, with the Cost:income ratio at 28.1% versus 30.1% for the full year of 2022.

Cost of risk

- The Group maintained a healthy loan portfolio, with the cost of credit risk ratio of 0.7% in FY23 (0.8% in FY22).

Profitability

- The Group's profit was GEL 1,333.7 million (up 24.5% y-o-y).
- ROAE was 32.9% (31.6% in FY22).

Loan book

- Net loans and finance lease receivables amounted to GEL 20,248.1 million at 31 December 2023, up 20.2% y-o-y in nominal terms. Growth on a constant-currency basis was 19.8% y-o-y.
- The NPLs to gross loans ratio reduced to 2.3% as at 31 December 2023 (down 40 bps y-o-y).

Deposits

- Client deposits and notes amounted to GEL 20,776.8 million as at 31 December 2023 (up 13.7% y-o-y). On a constant currency basis, deposits increased by 13.6% y-o-y. The y-o-y growth was driven by both current/demand and time deposits.

Liquidity position

- Bank of Georgia continues to operate with comfortable levels of liquidity. At 31 December 2023, the Bank's IFRS-based liquidity coverage ratio (LCR) stood at 125.2% (132.4% at 31 December 2022), above the minimum requirement of 100%. The net stable funding ratio (NSFR) also stood at a high level of 130.4% at 31 December 2023 (131.9% at 31 December 2022).

Capital position

- The Bank continues to operate with robust capital adequacy levels. At 31 December 2023, the Bank's Basel III CET1, Tier 1 and Total capital ratios stood at 18.2%, 20.0%, and 22.1%, respectively, all comfortably above the minimum requirements of 14.5%, 16.7% and 19.6%, respectively.

Corporate governance framework

The Bank

The Bank's corporate bodies are the General Meeting of Shareholders (GMS), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with applicable Georgian laws and the Bank's Charter (the 'Charter'). The GMS is the highest internal governing body of the Bank. It appoints members of the Supervisory Board, which is responsible for overall corporate governance and supervising the Management Board. The Supervisory Board appoints members of the Management Board, the executive body of the Bank responsible for day-to-day operations. The Bank's ultimate parent company, BOGG PLC, determines the strategy of the Group, including that of the Bank. Under the Corporate Governance Code for Commercial Banks (Order # 215/04 of the President of the NBG, dated 26 September 2018) (the 'Corporate Governance Code') (as amended), commercial banks in Georgia are required to have audit and risk committees, elected within and reporting to the supervisory board, and, in addition, systemically important banks are required to have corporate governance, nomination, and remuneration committees within their supervisory boards. As described in detail below, the Bank's Supervisory Board is assisted by five different committees, composed of members of the Supervisory Board: Audit Committee, Risk Committee, Nomination and Corporate Governance Committee, Remuneration Committee, and Special Committee. The Committee members are elected by and within the Supervisory Board.

Bank of Georgia Group PLC

On the Bank of Georgia Group PLC level, the BOGG PLC Board of Directors (which consists of members of the Bank's Supervisory Board serving as Non-executive Directors, the Bank's General Director serving as the Chief Executive Officer of the Group and Executive Director on the Board, and the Bank's Supervisory Board Chairman serving as the Chairman) (together 'the BOGG Board'), with its Audit, Risk, Nomination, and Remuneration Committees, is ultimately responsible for Bank of Georgia Group PLC's strategy, risk management and internal controls. The BOGG has adopted a mirror board structure, where the same members sit on the Board of Directors of Bank of Georgia Group PLC and the Supervisory Board of JSC Bank of Georgia, having the same roles in the mirror committees. This has proven to be the best structure for the governance of Bank of Georgia Group PLC and its subsidiaries as a whole.

Shareholder engagement and functions of GMS

Regulation of shareholder engagement based on the Charter

According to the Charter, the annual GMS is convened at least once a year, not later than three months after the completion of the annual balance audit.

According to the Charter, if the convention of the GMS is necessary, then the time, place and agenda of the GMS is published on the Bank's webpage and its public registry portal at least 21 days prior to the date of the GMS. The annual GMS discusses and adopts decisions on issues such as annual report and annual accounts, proposal(s) of the Management Board and the Supervisory Board regarding the distribution of dividends, the Bank's reserves and dividend and capital distribution policy and other subjects presented for discussion by the Management Board or the Supervisory Board as well as any items put forward by the shareholders in accordance with the Georgian law and the Charter.

The GMS quorum is satisfied if it is attended by the holders of at least half of the voting shares or their representatives. If there is no quorum, a new GMS shall be convened with the same agenda and within the period determined by the Supervisory Board in accordance with the procedures set by the law and the Charter. The new GMS quorum is satisfied if holders of at least 25.0% of the voting shares are present. If there is no quorum at this new GMS, another GMS shall be convened and such further GMS will be quorate irrespective of the number of attending and voting shareholders or their representatives.

An extraordinary GMS (EGMS) is convened whenever the Management Board, the Supervisory Board or a shareholder/group of shareholders holding at least 5.0% of the issued shares deems such a meeting necessary. Pursuant to the law, shareholders who individually or together hold at least 5.0% of the total issued share capital may, stating the subjects to be discussed, not earlier than one month from the latest GMS, request that the Management Board convene an EGMS. The Management Board shall publish the decision to convene such meeting within 10 days after the receipt of the request from the shareholder(s).

Under the Georgian law and the Charter, the matters reserved to the shareholders' authority are:

- Approval and amendment of the Charter;
- Reorganisation of the Bank;
- Winding-up of the Bank, the appointment of a liquidator, the approval of interim and final liquidation balance sheets;
- Authorisation of redemption of shares by the Bank;
- Any changes to the subscribed capital;
- Determining the composition of the Supervisory Board, the number of members, their election, recall, the amount of remuneration and the structure;
- Approval of the Bank's audit report and selection of a person performing the audit inspection;
- Approval of the financial report and distribution of dividends;
- Determining the procedure for holding a GMS, and electing a vote counting commission;
- Making decisions on participation in court proceedings against the members of the management body/managers and members of the Supervisory Board, including the appointment of a representative in such proceedings;
- Making decisions on the acquisition, alienation, exchange (interrelated transactions) or otherwise encumbrance of the assets of the Bank, the value of which is more than half the book value of the assets of the joint-stock company, except for transactions that fall within the ordinary business activities.

According to the Charter, decisions on all other issues are made by the Supervisory Board and the Management Board within their respective authorities.

Shareholder meetings held and resolutions reached during 2023

- On 1 May 2023, the resolution was passed on the approval of the final financial statements of the Bank and dividend distribution for 2022;
- On 19 September 2023, interim consolidated financial statements of the Bank were approved as well as interim distribution of profit for 2023; Charter of the Bank has been amended and approved by the resolution.

Regulation of holders of commercial bank shares based on the NBG regulations

Pursuant to the Banking Law, a person who has been convicted of a serious or extremely serious offence, terrorism financing and/or legalisation of illicit income, or other economic crime, may not hold a significant shareholding (defined as more than 10.0% of either the authorised share capital or of the fully paid-up issued share capital held directly or indirectly) in a commercial bank. The NBG is authorised to establish additional compliance criteria for holders of a significant shareholding with a normative act.

Pursuant to the Banking Law, a person who intends to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10.0%, 25.0% or 50.0% of the share capital of the bank, must submit a declaration to and obtain prior approval from the NBG. Generally, the NBG should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory, the NBG may extend this term by up to three months.

In the absence of a submission of a declaration to the NBG or in the case of the NBG's denial of consent, a transaction by which a person acquires, directly or indirectly, more than 10.0% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, is deemed null and void.

The NBG may request a bank to submit a declaration about direct/indirect or beneficial holders of more than 10.0% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, the NBG is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his shareholding to 10.0%. The NBG is entitled to deny approval if the transaction may endanger the stability of Georgia's financial sector, result in a breach of the requirements established by international organisations or by Georgia's international agreements or if the person wishing to acquire shares in a commercial bank fails to provide the necessary information on the origin of funds used to purchase such shares. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

Furthermore, according to the Banking Law, a person, or a group of shareholders acting in concert, who intend to sell shares in a Georgian bank and, if as a result of such sale, their holding may fall below 10.0%, 25.0% or 50.0%, are required to notify the NBG prior to such sale and provide detailed information regarding the transaction.

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Order No 94/04 of the President of the NBG, commercial banks are required to disclose information on direct holders of more than 1.0% of their share capital and on beneficial owners who own more than 5% of the bank's share capital indirectly quarterly. Such information must be prepared based on the information available to a commercial bank, which must also note whether or not it confirms the accuracy thereof. In addition, any person that directly or indirectly beneficially owns more than 10.0% of shares of a commercial bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholdings as of 31 December of the preceding calendar year.

The Supervisory Board and its Committees

The Supervisory Board is responsible collectively for the long-term success of the Bank and for the creation and delivery to shareholders of sustainable value through the management of the Bank's business. The Supervisory Board establishes the Bank's core values and leads by example, sets and oversees the execution of the Bank's strategy within a framework of strong and effective risk management and internal controls, and encourages a culture of corporate governance in line with best practice, amongst its many other responsibilities.

The Supervisory Board is responsible for setting the Bank's risk appetite and for the effectiveness of the overall risk management and internal controls framework. It approves the Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems, and approves certain decisions that fall outside the scope of the respective authorities of the Credit Committees (including the approval of single borrower lending exposures exceeding US$ 35.0 million). The Management Board presents a comprehensive risk report, including information on credit risk and market risk, to the Risk Committee of the Supervisory Board, quarterly.

The Bank is mindful of its wider obligations and considers the impact its decisions will have on the Bank's various stakeholders, including employees, customers, the environment and the communities where the Bank operates. The Supervisory Bord ensures that ESG issues are properly reflected in the Bank's strategy and monitors their effective implementation through various reports and updates on ESG-related matters received throughout the year.

In order to ensure that the Bank meets its responsibilities, specific key decisions have been reserved for approval by the Supervisory Board. In addition, the Supervisory Board will receive reports and recommendations from time to time on any matter which it considers significant to the Bank.

Responsibilities of the Bank's Supervisory Board include:

- Supervising the activities of each director;

- Appointing and discharging the CEO and other Deputy CEOs, concluding and terminating service contracts with them;
- Approval and amendment of any policies, codes of conduct and other regulatory documents related to the Bank and its activities;
- Requesting reports on the Bank's activities from the Management Board and reviewing the information provided by internal audit or external inspections;
- Convening an extraordinary General Meeting of Shareholders, if necessary, for the Bank's benefit;
- Review the annual reports of the Management Board and the profit-sharing proposal and provide such information to the General Meeting. In the notice the Board shall indicate by how and to what extent it has audited the management of the company during the past financial year, which part of the annual report and activity report it has inspected, and whether these audits have resulted in material changes in the final results.

The following are the matters reserved for the Supervisory Board's resolution only, according to the Charter:

- Establishment and liquidation of branches of the Bank;
- Starting a new type of banking activity or suspending or terminating an existing type of activity;
- Making decision on the issuance of public bonds and other public securities;
- Determining the remuneration and/or additional benefits of the Bank's management (CEO and other members of the Management Board);
- Approval of the minimum and maximum interest rates to be used by the Bank on credit resources and deposits;
- Redemption of shares issued by the Bank in cases provided by law (which, without any limitation, includes the "treasury shares" provided for in the paragraph 3.11);
- Approval and amendment of any policies, codes of conduct and other regulatory documents related to the Bank the approval of which by the Supervisory Board may be required by the applicable law, including determining and approval of internal policies and procedures for the management of credit, investment, foreign exchange, asset and liability, asset valuation, their classification and the creation of adequate reserves for possible losses;
- Acquisition and disposal of a stake and shares in other companies if the amount of such stake/share exceeds 50% (fifty percent) of the total equity of such company or the transaction value exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;
- Acquisition, transfer and encumbrance of real estate and property ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;
- Investments, the partial or total amount of which exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;
- Borrowing funds in excess of 2.5% of the Bank's equity value as at the end of the previous calendar month;
- Securing loans and credits if they fall outside the scope of routine economic activity;
- Determination of general principles of business strategy and the business plan of the Bank and approval of the annual budget;
  Approval of the agreement(s) or contract(s) pursuant to which a non-recurring expense or several-tranche expenditure of the Bank is to be made which exceeds 1% (one percent) of the Bank's equity values as at the end of the previous calendar month.

The Supervisory Board meets at least quarterly, three times in-person in Georgia and once via a teleconference. The Supervisory Board may be convened on an ad-hoc basis and the decisions made by either a teleconference of by email correspondence.

At each scheduled meeting, the Supervisory Board receives reports from the Chairman, the General Director and the Chief Financial Officer on the performance and results of the Bank. The General Directors of the principal subsidiaries and the Deputy General Directors of the Bank regularly update the Supervisory Board on the performance, strategic developments and initiatives in their respective segments throughout the year. The Chief Risk Officer and General Counsel/Chief Legal Officer regularly report to the Supervisory Board. The Supervisory Board receives updates from the Bank's operating functions on internal control and risk management, compliance, internal audit, human resources and corporate responsibility matters, among others.

A regular quarterly in-person meeting will include discussion on the following topics:

- Updates from Committee Chairmen on matters discussed at the respective Committee meetings held the day before;
- The macroeconomic environment;
- Financial performance;
- Business segment performance and developments;
- A deeper dive into strategy and performance at one or more business units;
- New strategic initiatives and progress against strategy;
- Regulatory, legislative and other corporate governance updates;
- Developments in relation to principal risks and risk management.
- A comprehensive assessment of the risk management framework and system of internal controls is performed at once a year through the Risk and Audit Committees, or the Supervisory Board.

Supervisory Board meetings are, however, flexible to ensure that pressing matters, when they arise, are addressed as quickly as possible.

The Chairman meets with the General Director after each meeting to agree the follow-up actions and to discuss how effective the meeting was.

The Chairman and General Director maintain frequent contact with each other and with other Supervisory Board members throughout the year outside of formal meetings. The Deputy Chairperson supports the Chairman in his role, acts as an intermediary for other Members where necessary and liaises with the Members outside of the Supervisory Board and Committee meetings.

Committees

The Bank's Supervisory Board has delegated authority to respective Board Committees to carry out certain tasks on their behalf, to operate efficiently and give the right level of attention and consideration to relevant matters, and to ensure there is independent oversight of financial, audit, internal control and risk issues, review of remuneration, while reserving the authority to approve certain key matters to the Supervisory Board, as documented in the Bank's Charter, which is reviewed annually by the Supervisory Board.

The Bank's Supervisory Board has the following Committees:

- the Audit Committee;
- the Risk Committee;
- the Nomination and Corporate Governance Committee
- the Remuneration Committee and;
- the Special Committee.

Each Committee has agreed terms of reference, which are reviewed annually by each Committee and any changes are approved by the Supervisory Board.

All Supervisory Board members have a standing invitation to attend Committee meetings.

Supervisory Board and Committee meeting attendance

Members	Board	Audit Committee	Nomination and Corporate Governance Committee	Remuneration Committee	Risk Committee	Special Committee
Mel Gerard Carvill	4 of 4 scheduled	N/A	4/4	4/4	N/A	N/A
Alasdair Breach	4 of 4 scheduled	N/A	4/4	4/4	4/4	N/A
Tamaz Georgadze	4 of 4 scheduled	N/A	4/4	4/4	4/4	N/A
Hanna Loikkanen	4 of 4 scheduled	4/4	4/4	4/4	N/A	N/A
Véronique McCarroll	4 of 4 scheduled	N/A	4/4	N/A	4/4	4/4
Jonathan Muir	4 of 4 scheduled	4/4	4/4	N/A	N/A	4/4
Cecil Quillen	4 of 4 scheduled	4/4	4/4	4/4	N/A	4/4
Mariam Megvinetkhutsesi	4 of 4 scheduled	N/A	4/4	N/A	4/4	N/A

Audit Committee

The Audit Committee assists the Supervisory Board in relation to the oversight of the Bank's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Supervisory Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among others, operational risks, compliance, IT and information security (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework. The Audit Committee oversees and challenges management on its internal control and risk management systems in relation to the financial reporting process.

The rights and obligations of the Audit Committee are to:

- set the accounting and reporting rules for the Bank, supervise the compliance with such rules and inspect the Bank's books and journals through the Bank's Internal and External Audit;
- supervise the compliance of the Bank with the applicable laws;
- approve the regulations governing the Bank's Internal Audit and monitor the functioning of the Internal Audit of the Bank;
- ensure the independence of the Internal Audit from the Supervisory Board and the Management Board;
- approve the operation plan of the Internal Audit for the following fiscal year;
- review the quarterly reports of the Internal Audit, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- supervise the activities of the Internal Audit, ensure its compliance with quarterly and annual operation plans;
- assess the activities carried out by the director of the Internal Audit and individual auditors;
- approve the annual operations plan by quarters prepared by the Internal Audit and supervise its fulfilment;
- assess the activities of each of the employees of the internal audit service in consideration of their professional skills and their ability to work independently and make appropriate decisions;
- together with the Supervisory Board and the Management Board, ensure the cooperation of the Internal

Audit with other structural units of the Bank;

- make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of the Bank's Internal Audit, as well as on their remuneration;
- make recommendations (subject to the agreement of the head of the Internal Audit) to the Management Board on the employment/dismissal of the other staff of Internal Audit, as well as on remuneration of such staff;
- facilitate the activities of the external auditors; and
- submit periodic reports about its activities to the Supervisory Board.

Meetings of the Audit Committee shall be held at least once a quarter. In extraordinary cases, a meeting may be convened upon the request of the Supervisory Board. The Audit Committee passes resolutions by a simple majority of votes. The attending members do not have the right to abstain from voting.

Hanna Loikkanen, Jonathan Muir and Cecil Quillen are members of the Audit Committee of the Bank. The composition of the Audit Committee was last approved on 1 January 2022. Jonathan Muir serves as a chairman of the Audit Committee.

Risk Committee

The main role of the Risk Committee is in relation to the oversight of risk. It reviews the Bank's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, reviews the Bank's risk policies on a regular basis, cooperates and monitors the activities of the Chief Risk Officer, provides recommendations to the Supervisory Board regarding the risk strategies and effectiveness of the policies and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework. The Risk Committee oversees the risk exposures of the Bank and advises the Supervisory Board on risk strategy. The Risk Committee regularly reviews and approves the parameters and methodology used by the Bank to assess risk and reviews the Bank's capability to identify and manage new risk types. The Risk Committee also sets standards for accurate and timely monitoring of large exposures and certain risk types of critical importance, including, but not limited to, credit risk, market risk and operational risk.

Alasdair Breach, Tamaz Georgadze, Mariam Megvinetukhutsesi and Véronique McCarroll are members of the Risk Committee, the composition being last approved on 1 January 2022. Veronique McCarroll took over as Chair of the Risk Committee on 1 January 2022.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee (recommended for systemically important banks) provides recommendations to the Supervisory Board on all new appointments of both directors and Supervisory Board members, ensures that the Supervisory Board is not dominated by any one individual or small group of individuals. The Nomination and Corporate Governance Committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Supervisory Board. The committee is required to give consideration to succession planning for directors and other senior executives; and make recommendations to the Supervisory Board on new appointments of executive and non-executive directors and memberships in Supervisory Board committees. The committee also oversees the annual review of the Supervisory Board effectiveness.

Each member of the Supervisory Board also sits on the Nomination and Corporate Governance Committee.

Remuneration Committee

The Remuneration Committee reviews and recommends to the Supervisory Board the Remuneration Policy for the General Director, Deputy General Directors and executive management to ensure that remuneration packages are designed to promote the long-term success of the Bank and to see that management is appropriately rewarded for its contribution to the Bank's performance in the context of wider market conditions and shareholder views. The Committee determines the remuneration packages for the above-listed positions along with their terms of employment and assesses the performance of executive management against KPIs. The functions of the Remuneration Committee include determining the terms and conditions of employment of the members of the Management Board and other top executives and from time to time assessing their performance. The Remuneration Committee reviews the recommendation of the General Director in respect of the total bonus pool for the Bank's employees as well as the individual bonuses for the Management Board and certain executive officers.

The members of the Bank Remuneration Committee are: Mel Carvill, Alasdair Breach Hanna Loikkanen, Tamaz Georgadze and Cecil Quillen. The composition was last approved on 1 January 2022. Cecil Quillen serves as Chairman of the Committee.

Special Committee

The Special Committee was established on 7 January 2019 in the interests of the best practices of corporate governance and provides oversight and additional scrutiny throughout the post-demerger process within the Bank. The functions of the Special Committee include general oversight of post-demerger processes, including review and approval of certain transactions between the Bank and former BGEO Group plc group companies.

Jonathan Muir, Cecil Quillen and Véronique McCarroll are members of the Special Committee, the composition being last approved on 1 January 2022 and Cecil Quillen serves as Chairman.

Terms of Reference and reporting to the Supervisory Board

Each Committee has agreed terms of reference, which are reviewed annually by each Committee and any changes are approved by the Supervisory Board.

Supervisory Board composition, diversity and independence

As at 31 December 2023, the Supervisory Board consisted of eight members. The Supervisory Board members are appointed for three-year terms, and their reappointment and term prolongation are not restricted. The Supervisory Board members are required to act in the best interests of all shareholders of the Bank and its business when performing their duties. As at the date of this Report, the Supervisory Board consists of seven members as Alasdair Breach stepped down, each elected by the GMS. You can read more about each member here: https://bankofgeorgia.ge/en/about/management#supervisoryBoard.

The Bank considers that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is important to effectively govern the business. The Supervisory Board and its Nomination Committee work to ensure that the Bank's Supervisory Board continues to have the right balance of skills, experience, knowledge and independence necessary to discharge its responsibilities.

On 26 September 2018, the NBG adopted the Corporate Governance Code. The Corporate Governance Code implements internationally recognised practices, including the BCBS's guidelines on Corporate Governance Principles for Banks, OECD Principles of Corporate Governance, requirements of EU directives (CRD IV – CRR), and recommendations of the EBA. The Corporate Governance Code sets forth requirements in respect of composition of supervisory boards, which includes providing requirements on gender diversity in the board and a minimum number of independent board members. Namely, the supervisory board should be comprised of a sufficient number of members commensurate with the size and complexity of the bank. At least 40% of the supervisory board must consist of representatives of the opposite sex (minority).

In addition, pursuant to the Corporate Governance Code as referenced above, at least one third but not less than 2 members of the Supervisory Board shall be independent members. The term "independence" is defined as an objective and independent capacity of making decisions without the influence/potential influence of a bank or other external parties. The NBG sets an extensive list of factors that need to be taken into account while deciding the matter of independence of a candidate for membership of a commercial bank.

Following the appointment of Mariam Megvinetukhutsesi in May 2021, the Supervisory Board considers that the overall size and composition is appropriate, considering the independence of character and integrity of all members. Each of the Supervisory Board members occupies, and/or has previously occupied, senior positions in a broad range of relevant associated sectors, bringing valuable insights to the Board's deliberations and contributing significantly to decision-making. No individual, or group of individuals, can dominate the decision-making process and no undue reliance is placed on any individual.

The Bank values diversity in all forms. At 31 December 2023, six different nationalities were represented on the Bank's Supervisory Board of eight members. The Bank is committed to sustaining and developing gender balance. At 31 December 2023, female representation on the Supervisory Board was 37.5%.

The independence of each member of the Supervisory Board is assessed and the Bank is of the opinion that each of them acts in an independent and objective manner and therefore, under the Banking Law in Georgia (including the Corporate Governance Code), is independent and free from any relationship that could affect their judgment. Each Supervisory Board member has an ongoing obligation to inform the Supervisory Board of any circumstances which could impair their independence.

Succession planning and Supervisory Board appointment procedures

Members of the Supervisory Board may be appointed and dismissed at a GMS. Banking regulations contain certain limitations as to who may become a member of the Supervisory Board; for example, a person who has been convicted of money laundering, terrorist financing or economic crime cannot be elected to the Supervisory Board of a bank. The Supervisory Board as well as each holder of voting shares is entitled to make a recommendation on one or more candidates for each vacant seat of the Supervisory Board.

Furthermore, shareholders have the right to nominate, subject to the existence of a vacancy on the Supervisory Board, their representative to the Supervisory Board. The members of the Supervisory Board are elected by cumulative voting. A member of the Supervisory Board may not serve as a member of the Management Board at the same time. According to the Bank's Charter, the Supervisory Board elects the Chairman and the Deputy Chairperson from its members.

The Chairman of the Supervisory Board (or in case of his/her absence, the Deputy Chairperson) convenes the Supervisory Board meetings and determines the agenda. Any member may add items to the agenda or request a meeting of the Supervisory Board. Meetings of the Supervisory Board shall be held at least once per quarter. A written notification with the respective agenda shall be sent at least eight days prior to the anticipated date of the meeting. The Bank believes that effective succession planning mitigates the risks associated with the departure or absence of qualified and experienced individuals. The Bank's aim is to ensure that the Supervisory Board and Management Board are always well-resourced with the right people in terms of skills and experience, to effectively and successfully deliver on the Bank's strategy. The Bank also recognises that continued tenure brings a depth of Bank-specific knowledge that is important to retain.

The focus during 2023 was on the NBG independence rules, tenure and potential future retirements, and the impact on the Supervisory Board and its Committees. The Nomination Committee remains committed to ensuring we have a well-balanced Supervisory Board with the appropriate skills, knowledge, experience and diversity to support the continued growth of the Group. During 2023 the Committee considered the size, structure, tenure and diversity of the Board, as well as the skills and experience of each Member. Following this review, and taking into consideration the NBG and the UK Code independence requirements in place at the time, it was agreed the Board would undertake a search of external candidates with the appropriate skills, knowledge and experience, retaining a focus on diversity, to support the Group and ensure a robust pipeline of potential candidates. At the end of 2023, the NBG updated the independence requirement increasing this from seven to nine years. The Committee will take this into consideration when reviewing succession planning during 2024. All changes to the Board and its Committees are overseen by the Committee and strong succession planning remains a key focus.

To ensure compliance with the requirements of the NBG and the UK Code, Hanna Loikkanen stepped down as Chair of the Remuneration Committee and was replaced by Cecil Quillen with effect from 1 January 2023. Cecil Quillen has been a member of the Remuneration Committee since 24 February 2018 and the Committee believes he brings relevant and necessary skills to the position, gained through his prior experiences and roles. The Committee received the resignation of Alasdair Breach on 15 March 2024.

Supervisory Board induction, ongoing training and professional development

On appointment, Supervisory Board members participate in an induction programme, during which they meet members of Management Board/Team and receive information about the role of the Supervisory Board and individual members, each Supervisory Board Committee and their respective powers. They are also advised of their legal and regulatory obligations. Induction sessions are designed to be interactive and are tailored to each individual based on his or her previous experience and knowledge.

The Bank is committed to ensuring the continuous development of the Supervisory Board members so that they build on their expertise and develop an ever more detailed understanding of the business, and of the markets and the regulatory environment in which the Bank operates.

All members of the Supervisory Board participated in an ongoing training and professional development throughout 2023, which included briefings, development sessions and presentations by members of the Management Board/Team and the Bank's professional advisors. During the year, the Bank's Chief Legal Officer provided updates on any regulatory and legislative changes. The Supervisory Board members also received updates on changes to the NBG rules regarding conflicts of interest, persons closely associated and ESG guidelines as well as changes to Georgian data protection requirements.

The Bank also ensures that all members of the Supervisory Board have access to the advice of the Supervisory Board Secretary as well as independent professional advice, at the Bank's expense, on any matters relating to their responsibilities.

Evaluation of the Supervisory Board's performance

The Bank's Supervisory Board continually strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal. The Supervisory Board also recognised the areas for further improvement and set objectives for 2023 to address those recommendations arising from the evaluation. Based on the evaluation, the Supervisory Board's objectives for 2023 were:

- Managing the agenda and materials (the Supervisory Board would benefit from additional time for discussion, supported by more focused papers and timely receipt of papers): During the year the Supervisory Board papers have become more focused and the quality has improved. In addition, there has been a focus on ensuring the timely delivery of meeting papers to allow more time for review. The presenters have also been briefed to focus on material items of reports and allow more time for questions and discussions.
  Additional time for strategic discussions (the Supervisory Board felt it would benefit from a strategy day to ensure appropriate time to deep-dive on specific items and receive updates from other speakers. In addition, the Board thought it would be beneficial to receive updates on the evolving economies in Georgia and the region): A two-day in-person strategy meeting was held during 2023. The Board received updates on the evolving economies in Georgia and the region during the year.

Management Board and the Executive Management Team of the Bank

As at the date of this report, the Bank's Management Board consisted of the members listed below. The business address for all of the Management Board members is 29a Gagarini Street, Tbilisi 0160, Georgia.

Name	Current position
Archil Gachechiladze	General Director
Sulkhan Gvalia	Deputy General Director, Chief Financial Officer
David Chkonia	Deputy General Director, Chief Risk Officer
Nutsiko Gogilashvili	Deputy General Director, Retail Banking
Davit Davitashvili	Deputy General Director, Data and Information Technology
Mikheil Gomarteli	Deputy General Director, Strategic Projects Direction
Eteri Iremadze	Deputy General Director, Premium Banking
Zurab Kokosadze	Deputy General Director, Corporate Banking

In addition to the Management Board, the persons listed below comprise the Bank's Executive Management team:

Name	Current position
Tornike Kuprashvili	Head of SME Banking
Levan Gomshiashvili	Chief Marketing and Digital Officer
Ana Kostava	Chief Legal Officer
Elene Okromchedlishvili	Head of Human Capital Management
Vakhtang Bobokhidze	Co-head of International Business

The professional backgrounds of the Bank’s Management Board and Executive Management Team are presented on the Bank website at https://bankofgeorgia.ge/en/about/management.

Responsibilities of the Management Board

The Management Board and the Executive Management Team of the Bank represent an executive body responsible for day-to-day management (except for the functions reserved to the GMS and the Supervisory Board) and, according to the Charter, shall consist of the General Director and not less than three Deputy General Directors. The Management Board of the Bank is accountable to the shareholders and the Supervisory Board, and its members are appointed and dismissed by the Supervisory Board. Any member of the Management Board shall have the right to request from any Supervisory Board member that a meeting of the Supervisory Board be called and he/she may address such meeting.

The Supervisory Board of the Bank approves the remuneration and other conditions of employment for each member of the Management Board of the Bank. Certain resolutions of the Management Board of the Bank are subject to prior approval of the Supervisory Board of the Bank.

The responsibilities of the Management Board include:

- Running the Bank's day-to-day activities
- Reviewing the agenda items for the GMS and for the Supervisory Board meetings, obtaining the necessary information, preparing proposals and drafting resolutions
- Drafting and presenting to the Supervisory Board for approval the business plan for the following year (such business plan to include the budget, profit and loss forecast and the Bank's investments plan)
- Reviewing issues in relation to lending, settlement, financing, cash services, security, accounting and reporting of cash and valuables of the Bank and internal controls
- Making decisions regarding the operation of the Bank's branches and service centres, ensuring that the branch managers and heads of service centres fulfil their tasks and functions
- Reviewing the information provided by internal audit or external inspections, and the reports submitted by the branch managers and heads of service centres, and making appropriate decisions
- Ensuring the fulfilment of resolutions passed at the GMS and by the Supervisory Board
- Developing policies, by-laws and other regulatory documents, which are approved by the Supervisory Board, and ensuring compliance with such policies, by-laws and regulatory documents
- Deciding on the appointment, dismissal, training, and remuneration of employees
- Convening an extraordinary general meeting, if necessary
- Any other issues which may be assigned to the Management Board by the Supervisory Board and/or the GMS
- Fulfilling the responsibilities set forth by the Bank's charter and the applicable laws

The following activities fall within the authority of Supervisory Board and may be carried out only with the approval of the Supervisory Board:

- Acquisition and disposal of a stake in other companies if the amount of such stake/shares exceeds 50.0% of the total equity of such company or the volume of the transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month
- Acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month
- Establishment and liquidation of branches
- Investments, the partial or total amount of which exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month
- Borrowing funds in excess of 2.5% of the Bank's equity value as of the end of the previous calendar month
- Securing debt financing, if such financing falls outside the scope of routine economic activity
- Launching a new type of banking activity or terminating or suspending the existing type of banking activity;
- Adopting general principles of business strategy and the business plan of the Bank and the development and approval of the annual budget and long-term liabilities
- Determination of the remuneration and/or additional benefits for the Bank's top management (General Director, other members of the Management Board and any other top managers so selected by the Supervisory Board)
- Approval of an agreement or contract pursuant to which the expenditures of the Bank (payable by single or several tranches) exceeds 1.0% of the Bank's equity value as of the end of the previous calendar month
- Determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, asset valuation, their classification and adequate provisioning
- Determination and approval of the minimal and maximal interest rates to be used on credits and deposits;
- Redemption of the Bank's shares in cases envisaged by the applicable laws, including the redemption of treasury shares
- Other activities that may be prescribed by applicable laws

The Management Board is led by the General Director who is responsible for:

- Acting independently on behalf of the Bank (subject to any required consents from the Supervisory Board)

- Chairing meetings of the Management Board
- Supervising the implementation of the decisions of the Management Board, Supervisory Board and the GMS
- Assigning tasks to the Management Board members with the consent of the Supervisory Board and to other managers of the Bank and issuing relevant orders, instructions and other directives for these purposes
- Submitting for approval to the Supervisory Board, recommendations on the remuneration and bonuses of the Bank's employees
- Appointing and dismissing employees in accordance with the employee recruitment plan approved by the Management Board;
- Carrying out any other activity required for attaining the goals of the Bank (except for those that fall within the competence of the GMS or Supervisory Board).

The General Director is entitled to delegate his direct tasks to other Management Board members or the heads of relevant departments of the Bank as deemed appropriate.

Share buybacks

During the year neither the Bank, nor the Group has acquired the shares of JSC Bank of Georgia.

Sanne Fiduciary Services Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). The Group makes contributions to the Trustee in respect of the awards granted within EECP. JSC BGEO Group has the legal obligation to settle the awards. In granting the awards, the Bank acts as the agent of the parent and the ultimate parent.

In 2019, the Group set up Employee Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Employees' Equity Compensation Plan ("EECP").

In 2023, the Group contributed GEL 109.7 million (2022: GEL 71.9 million; 2021: GEL 80.4 million) as intra-group recharge under share-based compensation schemes described above.

Financial reporting procedures and risk management

Financial reporting procedures of the Group and the Bank are centralised and are managed and monitored by the Finance Direction of the Bank and Group Budgeting and Reporting. Each subsidiary has a designated financial reporting team. Their function and performance are coordinated and controlled by the Group Reporting team. The overall monitoring of the process is led by the Bank's CFO. The Bank's and the Group's financial reporting procedures are aimed at producing annual full set and interim condensed separate and consolidated financial statements in accordance with IFRS and EU IFRSs. In 2007, the Group issued financial reporting procedures manual, which is a set of instructions and templates prescribing the key components, key rules, procedures and deadlines for preparing financial statements. The manual is regularly updated based on the changes in the Group or in reporting standards. The process of financial reporting starts at subsidiary level. Finance departments of each subsidiary prepare respective full package financial reports, which are then reviewed and finally approved by subsidiary CFOs. Financial reports and information packages of the subsidiaries are further submitted to the Group Budgeting and Reporting team, which reviews the reports and consolidates them into the Group's and the Bank's financial Statements. Consolidated full package report is reviewed and approved by the Bank's CFO.

Following the CFO approval, financial statements are reviewed by the Management Board, the Audit Committee and the Risk Committee, the Supervisory Board and external auditors. The Bank's and the Group's financial statements are authorised for issuance by the Management Board, Audit Committee and the Supervisory Board.

Internal Audit Department of the Bank and the Group regularly reviews financial reports and financial statements of the Bank and the Group and provides Finance Direction and Group Reporting and Budgeting team with review points and suggestions for improvement.

Management Board statement

The Management Board is responsible for preparing the Management Report and the Consolidated Financial Statements in accordance with applicable law and regulations. We consider that the Management Report and the Consolidated Financial Statements taken as a whole, are fair, balanced and understandable and gives shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Supervisory Board and Management Board:

Archil Gachechiladze
General Director
14 May 2024

Mel Carvill
Chairperson
14 May 2024

Share buybacks

During the year neither the Bank, nor the Group has acquired the shares of JSC Bank of Georgia.

Sanne Fiduciary Services Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). The Group makes contributions to the Trustee in respect of the awards granted within EECP. JSC BGEO Group has the legal obligation to settle the awards. In granting the awards, the Bank acts as the agent of the parent and the ultimate parent.

In 2019, the Group set up Employee Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Employees' Equity Compensation Plan ("EECP").

In 2023, the Group contributed GEL 109.7 million (2022: GEL 71.9 million; 2021: GEL 80.4 million) as intra-group recharge under share-based compensation schemes described above.

Financial reporting procedures and risk management

Financial reporting procedures of the Group and the Bank are centralised and are managed and monitored by the Finance Direction of the Bank and Group Budgeting and Reporting. Each subsidiary has a designated financial reporting team. Their function and performance are coordinated and controlled by the Group Reporting team. The overall monitoring of the process is led by the Bank's CFO. The Bank's and the Group's financial reporting procedures are aimed at producing annual full set and interim condensed separate and consolidated financial statements in accordance with IFRS and EU IFRSs. In 2007, the Group issued financial reporting procedures manual, which is a set of instructions and templates prescribing the key components, key rules, procedures and deadlines for preparing financial statements. The manual is regularly updated based on the changes in the Group or in reporting standards. The process of financial reporting starts at subsidiary level. Finance departments of each subsidiary prepare respective full package financial reports, which are then reviewed and finally approved by subsidiary CFOs. Financial reports and information packages of the subsidiaries are further submitted to the Group Budgeting and Reporting team, which reviews the reports and consolidates them into the Group's and the Bank's financial Statements. Consolidated full package report is reviewed and approved by the Bank's CFO.

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By order of the Supervisory Board and Management Board:

Archil Gachechiladze	Mel Carvill
General Director	Chairperson
14 May 2024	14 May 2024

Glossary

Alternative performance measures (APMs) In this announcement the management uses various APMs, which they believe provide additional useful information for understanding the financial performance of the Group. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. We believe that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate the Group's operating performance and make day-to-day operating decisions;

Strategic terms

Active merchant At least one transaction executed within the past month;

Monthly active user – retail or business (MAU) Number of customers who satisfied predefined activity criteria within the past month;

Monthly active digital user (Digital MAU) A user with at least one login within past month in BOG APP/iBank/sCoolApp;

Digital daily active user (Digital DAU) Average daily number of retail customers who logged into our BOG APP/iBank/ sCoolApp at least once within the past month;

Payment MAU Number of Bank's retail customers who made at least one payment with a BOG card within the past month;

Ratio definitions

Basic earnings per share Profit for the year attributable to shareholders of the Group divided by the weighted average number of outstanding ordinary shares over the same year;

Book value per share Total equity attributable to shareholders of the Group divided by ordinary shares outstanding at year end; net ordinary shares outstanding equals total number of ordinary shares outstanding at year end less number of treasury shares at year end;

Constant currency basis Changes assuming constant exchange rate. To calculate the y-o-y growth without the currency exchange rate effect, we used the exchange rates of relevant currencies to GEL as of 31 December 2022;

Cost of deposits Interest expense on client deposits and notes of the period divided by monthly average client deposits and notes;

Cost of funds Interest expense of the year divided by monthly average interest-bearing liabilities;

Cost of credit risk Expected loss/impairment charge for loans to customers and finance lease receivables for the year divided by monthly average gross loans to customers and finance lease receivables over the same year;

Cost:income ratio Operating expenses divided by operating income;

Gross loans to customers Throughout this Annual Report are presented net of ECL on contractually accrued interest income;

Interest-bearing liabilities Amounts owed to credit institutions, client deposits and notes, and debt securities issued;

Interest earning assets (excluding cash) Amounts due from credit institutions, investment securities (but excluding corporate shares) and net loans to customers and finance lease receivables**;**

Leverage (times) Total liabilities divided by total equity;

Liquid assets Cash and cash equivalents, amounts due from credit institutions and investment securities;

Liquidity coverage ratio (LCR) High-quality liquid assets (as defined by NBG) divided by net cash outflow over the next 30 days (as defined by NBG). Calculations are made for Bank of Georgia standalone, based on IFRS;

Loan yield Interest income from loans to customers and finance lease receivables divided by monthly average gross loans to customers and finance lease receivables;

NBG (Basel III) Common Equity Tier 1 (CET1) capital adequacy ratio Common Equity Tier 1 capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia. Calculations are made for Bank of Georgia standalone, based on IFRS;

NBG (Basel III) Tier 1 capital adequacy ratio Tier 1 capital divided by total riskweighted assets, both calculated in accordance with the requirements of the National Bank of Georgia. Calculations are made for Bank of Georgia standalone, based on IFRS;

NBG (Basel III) Total capital adequacy ratio Total regulatory capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia. Calculations are made for Bank of Georgia standalone, based on IFRS;

Net interest margin (NIM) Net interest income for the year divided by monthly average interest earning assets excluding cash and cash equivalents and corporate shares for the same year;

Net stable funding ratio (NSFR) Available amount of stable funding (as defined by NBG) divided by the required amount of stable funding (as defined by NBG). Calculations are made for Bank of Georgia standalone, based on IFRS;

Net loans In all sections of the Annual Report, except for the consolidated audited financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for expected credit loss;

Non-performing loans (NPLs) The principal and/or interest payments on loans overdue for more than 90 days; or the exposures experiencing substantial deterioration of their creditworthiness and the debtors assessed as unlikely to pay their credit obligation(s) in full without realisation of collateral;

NPL coverage ratio Allowance for expected credit loss of loans to customers and finance lease receivables divided by NPLs;

NPL coverage ratio adjusted for discounted value of collateral Allowance for expected credit loss of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for expected credit loss);

One-off items Significant items that do not arise during ordinary course of business;

Operating leverage Percentage change in operating income less percentage change in operating expenses;

Return on average total assets (ROAA) Profit for the year divided by monthly average total assets for the same year;

Return on average total equity (ROAE) Profit for the year attributable to shareholders of BOGG divided by monthly average equity attributable to shareholders of BOGG for the same year;

Weighted average number of ordinary shares Average of daily outstanding number of shares less daily outstanding number of treasury shares;

Weighted average diluted number of ordinary shares Weighted average number of ordinary shares plus weighted average dilutive number of shares known to management during the same year;

NMF Not meaningful.

Executive management functions

CEO Chief Executive Officer

CFO Chief Financial Officer

CLO Chief Legal Officer

CMO Chief Marketing Officer

CRO Chief Risk Officer

References

The Bank	JSC Bank of Georgia
BOGG PLC	Bank of Georgia Group PLC
The Board of Directors	The Board of Directors of BOGG PLC
The Directors	Members of the BOGG PLC Board of Directors
The Group	JSC Bank of Georgia and its subsidiaries
The Report	Management Report of the Group
The Charter	The charter of JSC Bank of Georgia
GMS	General Meeting of Shareholders
NBG Code	The Code of Corporate Governance for the Commercial Banks, adopted by the Decree of President of the National Bank of Georgia, #215/04 of 26 September 2018, as amended.
IFRS	International Financial Reporting Standards
Supervisory Board (or "the Board)	Supervisory Board of the Bank
Management Board	Management Board of the Bank (General Director also referred to as CEO and Deputy General Directors also referred to as Deputy CEOs)

Executive Management team	Refers to Management Team of the Bank as presented on the Bank's website at https://bankofgeorgia.ge/en/about/management
We/Our/Us	References to "we", "our" or "us" are primary references to the Group throughout this Report. However, the Group comprises and operates through its subsidiaries which are legal entities with their own relevant management and governance structure (as set out in relevant parts of this Report). In that regard, when using "we", "our" or "us" in the context of banking business in Georgia, we refer to JSC Bank of Georgia, unless otherwise specifically indicated in this Management Report.

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Report in accordance with the requirements of Article 7, paragraph 10 of the Georgian Law on Accounting, Reporting and Auditing

To the Shareholders and Supervisory Board of JSC Bank of Georgia

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 1 April 2024. The audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date our report on the audited consolidated financial statements. The effect of events described in the Management Report that occurred after the date of our auditor's report on the audited consolidated financial statements were not audited by us.

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

- The information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the consolidated financial statements; and
- The Management Report includes the information required by Article 7 of the Georgian Law on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Ruslan Khoroshvili (SARAS-A-615243)

On behalf of EY LLC (SARAS-F-855308)

14 May 2024

Tbilisi, Georgia

JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2023
Together with Independent Auditor's Report

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NOTES TO CONSOLIDATED COMPANY FINANCIAL STATEMENTS

შპს იუაი
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Independent auditor's report

To the Shareholders and the Supervisory Board of JSC Bank of Georgia

Opinion

We have audited the consolidated financial statements of JSC Bank of Georgia and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements.
The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed it
Allowance for expected credit loss and application of IFRS 9 'Financial instruments'	
The ECL provision is calculated using a combination of a collective provisioning model and specific loan provisions based on discounted cash flow analyses and regression-based forward-looking estimates. The allowance for expected credit loss is highly judgemental and changes in assumptions could have a material impact on reported profits. Both collective and specific provisioning depend on a number of assumptions and judgements including: ► allocation of loans to stage 1, 2, 3 or Purchased and Originated Credit-Impaired ('POCI') using criteria set in accordance with IFRS 9 'Financial Instruments'; ► accounting interpretations and modelling assumptions used to build and run the models for calculating the expected credit loss ('ECL'); ► inputs and assumptions used to estimate the impact of multiple economic scenarios, including weightings applied; ► estimation of probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'), including the valuation of collateral; and ► measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral. There are also risks related to: ► the accuracy and completeness of underlying loan data used in the ECL model; and ► the accuracy and adequacy of financial statement disclosures.	► We obtained an understanding, performed walkthroughs and evaluated the design and operating effectiveness of key controls across the processes relevant to the ECL. This includes controls over data accuracy and completeness, credit monitoring, allocation of borrowers into their respective impairment stages, individual provisioning and production of journal entries and disclosures. ► Using our IFRS 9 specialists, we assessed and challenged the Group's IFRS 9 provisioning methodology to determine whether the accounting standard had been complied with consistently and any changes made to the methodology were appropriate. ► Using our modelling specialists, we tested the assumptions, inputs and formulae used in the ECL model to confirm that the model was consistent with the stated methodology. This included assessing the appropriateness of the model design and formulae used, and recalculating the PD, LGD and EAD, on a sample basis. ► We engaged specialists to perform a detailed review and testing of the changes made in the models. We performed a recalculation of the ECL on a sample basis, including procedures over staging and underlying risk parameters. ► We assessed the appropriateness of the macroeconomic scenarios used by management and tested whether they had been properly applied in the ECL calculations. ► We tested the completeness and accuracy of key data inputs used in the ECL model by reconciling loans and advances between the underlying source systems and the ECL model.

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Key audit matter	How our audit addressed it
As a consequence of the judgement involved in establishing the allowance, there is a greater risk of misstatement in ECL charges, either by fraud or error, including through the potential override of controls by management. The level of risk remains consistent with the prior year. Information on the impairment of loans to customers is included in Note 9, *Loans to Customers* and Note 27, *Risk Management*, to the consolidated financial statements.	▸ We challenged the criteria used to allocate assets to stage 1, 2, 3 or POCI in accordance with IFRS 9, to determine SICR and staging. For a sample of loans, we independently assessed whether they had been allocated to the appropriate stage, considering potential indicators of significant increase in credit risk or default and challenged management as to the rationale for movements between stages. ▸ We performed procedures to address the existence and valuation of collateral for loans where expected cash flows from the realization of collateral were impacting the estimation of loan losses. Involving our valuation specialists, we assessed the reasonableness of valuation methodology of collateral. ▸ We evaluated the adequacy and appropriateness of disclosures related to ECL for compliance with the requirements of IFRS.
Valuation of investment properties	
The Group applies the fair value model for its investment property. The Group engaged a professional valuer to determine the fair value for a selection of its investment properties. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate properties are located primarily in Georgia, where the secondary market is relatively illiquid, which increases the judgement involved in determining these valuations. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of investment properties is included to Note 3, Summary *of Significant Accounting Policies*, Note 11, *Investment Properties*, Note 28, *Fair Value*	We engaged our Real Estate specialists to evaluate a sample of the Group's real estate valuations. The specialists' assessment included evaluation of the competence and objectivity of the external valuers engaged by the Group, analysis of the methods and assumptions used and testing of the data provided by the valuers. In respect of properties, which were not subject to individual valuation by the external valuer, we assessed management's assumptions regarding changes in the prices of such properties for the reporting period. We corroborated these by reviewing the market overview reports prepared by external valuers, and by reference to our understanding of the Group's real estate portfolio and observable market information.

Key audit matter	How our audit addressed it
Measurements, to the consolidated financial statements.	We reviewed the presentation and disclosure of investment properties in the financial statements are in accordance with relevant accounting standards.

Other information included in Group's 2023 Management Report

Other information consists of the information included in the Group's 2023 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2023 Management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon in our report on the audit of the consolidated financial statements.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit Committee is responsible for overseeing the Group's financial reporting process.

EY

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Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.

Ruslan Khoroshvili (SARAS-A-615243)

On behalf of EY LLC (SARAS-F-855308)

1 April 2024

Tbilisi, Georgia

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(Thousands of Georgian Lari)

	Notes	2023	2022	2021
Assets				
Cash and cash equivalents	6	3,042,832	3,495,728	1,494,452
Amounts due from credit institutions	7	1,752,658	2,417,306	1,917,939
Investment securities	8	4,880,815	4,343,749	2,563,961
Loans to customers and finance lease receivables	9	20,248,067	16,841,603	15,998,166
Accounts receivable and other loans		3,530	3,398	23,432
Prepayments		32,032	47,176	58,160
Foreclosed assets*	12	271,712	119,924	3,216
Right-of-use assets	10	134,422	115,404	77,676
Investment properties	11	127,924	170,629	231,707
Property and equipment	10	404,303	363,606	343,025
Goodwill	13	33,453	33,453	33,453
Intangible assets	10	144,357	130,307	124,775
Income tax assets	14	464	864	292
Other assets*	15	290,152	254,345	244,227
Assets held for sale		27,389	29,566	46,731
Total assets		**31,394,110**	**28,367,058**	**23,161,212**
Liabilities				
Client deposits and notes	16	20,776,816	18,274,061	14,081,438
Amounts owed to credit institutions	17	5,133,029	5,191,494	4,118,462
Debt securities issued	18	421,359	646,137	1,460,479
Lease liability	10	137,554	112,624	85,098
Accruals and deferred income		124,397	102,250	76,600
Income tax liabilities	14	199,058	99,533	110,868
Other liabilities	15	149,847	153,591	177,044
Total liabilities		**26,942,060**	**24,579,690**	**20,109,989**
Equity	20			
Share capital		27,994	27,994	27,994
Additional paid-in capital		151,336	190,033	180,969
Treasury shares		(11)	(10)	(10)
Other reserves		2,087	(4,304)	(24,070)
Retained earnings		4,270,644	3,573,655	2,866,340
Total equity attributable to shareholders of the Group		**4,452,050**	**3,787,368**	**3,051,223**
Total equity		**4,452,050**	**3,787,368**	**3,051,223**
Total liabilities and equity		**31,394,110**	**28,367,058**	**23,161,212**

Signed and authorised for release on behalf of the Management Board and the Supervisory Board:

Archil Gachechiladze — Chief Executive Officer

Sulkhan Gvalia — Chief Financial Officer

Mel Carvill — Supervisory Board Chairman

1 April 2024

**To improve the quality and understandability of its consolidated statement of financial position, the Group has revisited the presentation of foreclosed assets, inventories and other assets. Further details are disclosed in Note 3.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(Thousands of Georgian Lari)

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Total equity		**4,452,050**	**3,787,368**	**3,051,223**
Total liabilities and equity		**31,394,110**	**28,367,058**	**23,161,212**

Signed and authorised for release on behalf of the Management Board and the Supervisory Board:

Archil Gachechiladze — Chief Executive Officer

Sulkhan Gvalia — Chief Financial Officer

Mel Carvill — Supervisory Board Chairman

1 April 2024

* *To improve the quality and understandability of its consolidated statement of financial position, the Group has revisited the presentation of foreclosed assets, inventories and other assets. Further details are disclosed in Note 3.*

The accompanying Notes on pages 6 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

(Thousands of Georgian Lari)

	Notes	2023	2022	2021
Interest income calculated using EIR method		2,715,232	2,223,455	1,796,788
Other interest income		14,053	20,573	28,737
Interest income		**2,729,285**	**2,244,028**	**1,825,525**
Interest expense		(1,123,038)	(1,051,700)	(870,013)
Deposit insurance fees		(20,247)	(17,717)	(14,629)
Net interest income	21	**1,586,000**	**1,174,611**	**940,883**
Fee and commission income		669,536	548,782	382,630
Fee and commission expense		(328,864)	(287,362)	(194,294)
Net fee and commission income	22	**340,672**	**261,420**	**188,336**
Net foreign currency gain		370,847	463,202	107,801
Net gains/(losses) on extinguishment of debt		564	(8,462)	(2,892)
Net other gains	25	114,546	40,556	70,403
Operating income		**2,412,629**	**1,931,327**	**1,304,531**
Salaries and other employee benefits	23	(379,716)	(330,376)	(254,153)
Administrative expenses	23	(184,857)	(151,712)	(119,558)
Depreciation, amortisation and impairment	10	(110,740)	(95,977)	(83,682)
Other operating expenses		(3,642)	(3,603)	(3,822)
Operating expenses		**(678,955)**	**(581,668)**	**(461,215)**
Profit from associates		984	819	(3,781)
Operating income before cost of risk		**1,734,658**	**1,350,478**	**839,535**
Expected credit loss on loans to customers	24	(124,009)	(129,704)	(4,113)
Expected credit loss on finance lease receivables	24	(2,762)	(3,208)	(4,950)
Other expected credit recovery / (loss)	24	3,117	(16,745)	9,252
Impairment charge on other assets and provisions		(18,317)	(18,007)	(20,488)
Cost of risk		**(141,971)**	**(167,664)**	**(20,299)**
Net operating income before non-recurring items		**1,592,687**	**1,182,814**	**819,236**
Net non-recurring items		-	(203)	(610)
Profit before income tax expense		**1,592,687**	**1,182,611**	**818,626**
Income tax expense	14	(258,968)	(190,607)	(74,815)
Profit for the year		**1,333,719**	**992,004**	**743,811**
Basic and diluted earnings per share	20	47.6609	35.4492	26.5800

The accompanying Notes on pages 6 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

(Thousands of Georgian Lari)

	2023	*2022*	*2021*
Profit for the year	**1,333,719**	**992,004**	**743,811**
Other comprehensive (loss)/income			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent years:			
– Net change in fair value on investments in debt instruments measured at fair value through other comprehensive income (FVOCI)	26,381	29,683	(39,431)
– Realised loss on financial assets measured at FVOCI	(14,322)	(7,528)	(30,044)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement	1,041	7,379	(880)
– Loss from currency translation differences	(37,259)	(18,110)	(7,381)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent years	**(24,159)**	**11,424**	**(77,736)**
Other comprehensive gain/(loss) not to be reclassified to profit or loss in subsequent years:			
– Revaluation of property and equipment reclassified to investment property	-	-	2,359
– Net gain/(loss) on investments in equity instruments designated at FVOCI	1,775	(1,369)	884
Net other comprehensive gain/(loss) not to be reclassified to profit or loss in subsequent years	**1,775**	**(1,369)**	**3,243**
Other comprehensive (loss)/income for the year, net of tax	**(22,384)**	**10,055**	**(74,493)**
Total comprehensive income for the year	**1,311,335**	**1,002,059**	**669,318**

The accompanying Notes on pages 6 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

(Thousands of Georgian Lari)

	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Retained earnings	Total equity
31 December 2020	**27,994**	**216,974**	**(10)**	**47,997**	**2,195,345**	**2,488,300**
Profit for the year	-	-	-	-	743,811	743,811
Other comprehensive income for the year	-	-	-	(72,067)	(2,426)	(74,493)
Total comprehensive income for the year	**-**	**-**	**-**	**(72,067)**	**741,385**	**669,318**
Increase in equity arising from share-based payments	-	44,444	-	-	-	44,444
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(70,390)	(70,390)
Contributions under share-based payment plan (Note 26)	-	(80,449)	-	-	-	(80,449)
31 December 2021	**27,994**	**180,969**	**(10)**	**(24,070)**	**2,866,340**	**3,051,223**
Profit for the year	-	-	-	-	992,004	992,004
Other comprehensive income for the year	-	-	-	19,766	(9,711)	10,055
Total comprehensive income for the year	**-**	**-**	**-**	**19,766**	**982,293**	**1,002,059**
Increase in equity arising from share-based payments	-	80,955	-	-	-	80,955
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(274,978)	(274,978)
Contributions under share-based payment plan (Note 26)	-	(71,891)	-	-	-	(71,891)
31 December 2022	**27,994**	**190,033**	**(10)**	**(4,304)**	**3,573,655**	**3,787,368**
Profit for the year	-	-	-	-	1,333,719	1,333,719
Other comprehensive income for the year	-	-	-	6,391	(28,775)	(22,384)
Total comprehensive income for the year	**-**	**-**	**-**	**6,391**	**1,304,944**	**1,311,335**
Increase in equity arising from share-based payments	-	70,970	-	-	-	70,970
Purchase of treasury shares	-	-	(1)	-	-	(1)
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(607,955)	(607,955)
Contributions under share-based payment plan (Note 26)	-	(109,667)	-	-	-	(109,667)
31 December 2023	**27,994**	**151,336**	**(11)**	**2,087**	**4,270,644**	**4,452,050**

The accompanying Notes on pages 6 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

(Thousands of Georgian Lari)

	Notes	2023	2022	2021
Cash flows from operating activities				
Interest received		2,692,111	2,286,511	1,826,656
Interest paid		(1,074,119)	(1,012,989)	(885,881)
Fees and commissions received		575,226	511,899	372,057
Fees and commissions paid		(291,356)	(287,362)	(194,294)
Net realised gain from foreign currencies		355,436	453,871	134,819
Recoveries of loans to customers previously written off	9	47,029	84,542	81,329
Cash paid for derivatives		-	-	(235)
Other income received		14,006	16,933	33,687
Salaries and other employee benefits paid		(308,746)	(249,421)	(209,709)
General and administrative and operating expenses paid		(186,357)	(157,350)	(128,496)
Cash flows from operating activities before changes in operating assets and liabilities		**1,823,230**	**1,646,634**	**1,029,933**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		608,407	(899,984)	89,925
Loans to customers and finance lease receivables		(3,697,647)	(2,477,673)	(2,172,141)
Prepayments and other assets*		14,692	(51,870)	(55,536)
Foreclosed assets*		159,204	11,700	5,907
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		(51,309)	1,143,916	991,565
Debt securities issued		(45,673)	(15,142)	(36,225)
Client deposits and notes		2,455,281	5,478,689	33,553
Other liabilities		(44,500)	46,441	31,100
Net cash flows from operating activities before income tax		**1,221,685**	**4,882,711**	**(81,919)**
Income tax paid		(159,043)	(202,514)	(4,640)
Net cash flows from operating activities		**1,062,642**	**4,680,197**	**(86,559)**
Cash flows (used in) from investing activities				
Net (purchases) sales of investment securities		(497,814)	(1,832,499)	(86,195)
Proceeds from sale of investment properties and assets held for sale		47,950	92,860	124,805
Proceeds from sale of property and equipment and intangible assets		195	3,157	870
Purchase of property and equipment and intangible assets		(139,623)	(108,052)	(86,703)
Dividends received		696	-	401
Net cash flows (used in) from investing activities		**(588,596)**	**(1,844,534)**	**(46,822)**
Cash flows (used in) from financing activities				
Repurchase of debt securities issued	18	(20,980)	(617,194)	(28,825)
Repayment of the principal portion of the debt securities issued	18	(230,995)	(31,581)	(46,706)
Proceeds from Tier 2 notes issued	18	78,921	-	-
Proceeds from Additional Tier 1	17	-	148,120	-
Cash payments for the principal portion of the lease liability	18	(31,606)	(25,020)	(28,672)
Dividends paid		(606,779)	(274,345)	(70,222)
Contributions under share-based payment plan	26	(109,667)	(71,891)	(80,449)
Purchase of treasury shares		(1)	-	-
Net cash (used in) from financing activities		**(921,107)**	**(871,911)**	**(254,874)**
Effect of exchange rates changes on cash and cash equivalents		(5,653)	37,858	(100,529)
Effect of expected credit losses on cash and cash equivalents		(182)	(334)	48
Net (decrease) increase in cash and cash equivalents		**(452,896)**	**2,001,276**	**(488,736)**
Cash and cash equivalents, beginning of the year	6	**3,495,728**	**1,494,452**	**1,983,188**
Cash and cash equivalents, end of the year	6	**3,042,832**	**3,495,728**	**1,494,452**

* *To improve the quality and understandability of its consolidated statement of cash flows, the Group has revisited the presentation of foreclosed assets, inventories and other assets. Further details are disclosed in Note 3.*

The accompanying Notes on pages 6 to 105 are an integral part of these consolidated financial statements.

1. Principal activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking licence issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally, and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2023, the Bank has 189 operating outlets in all major cities of Georgia (31 December 2022: 211, 31 December 2021: 211). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia. The Bank's identification number is 204378869.

As at 31 December 2023 Bank of Georgia Group PLC ("BOGG") represented the ultimate parent company of the Bank. In 2023 the ultimate parent of the Group undertook internal reorganization process intended to optimise its subsidiaries holding structure. As a result, 99.56% shareholding of the Group was consolidated under JSC BGEO. There was no change in the Group's ultimate parent as a result of the reorganization.

The Bank and its remaining subsidiaries make up a group of companies (the "Group") mainly incorporated in Georgia and Belarus. Primary business activities include providing banking services to corporate and individual customers. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

As at 31 December 2023, 31 December 2022 and 31 December 2021, JSC BGEO was the principal shareholder of the Bank:

Shareholder	*31 December 2023*	*31 December 2022*	*31 December 2021*
JSC BGEO Group	99.56%	79.78%	79.78%
Bank of Georgia Group PLC	0.00%	19.78%	19.78%
Others*	0.44%	0.44%	0.44%
Total	**100.00%**	**100.00%**	**100.00%**

* *Shares listed on the Georgian Stock Exchange.*

2. Basis of preparation

General

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2023 reporting.

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, while the Bank's subsidiaries established outside of Georgia are in their respective local currencies. These financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities and investment properties;
- the measurement of inventories and foreclosed assets at lower of cost and net realisable value; and
- the measurement of non-current assets classified as held for sale at lower of cost and fair value less costs to sell.

The financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

Going concern

In adopting the going concern basis for preparing the consolidated financial statements, the Management Board has considered the Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance. The Management Board has performed a robust assessment of the Group's financial forecasts across a range of scenarios over 12 months from the date the financial statements are authorised for issue, by carrying out stress testing, incorporating extreme downside scenario and reverse stress testing, which involved examining the level of disruption that may cause the Group to fail. Based on this, the Management Board confirms that they have a reasonable expectation that the Bank and the Group, as a whole, have adequate resources to continue in operational existence for the 12-month from the date the financial statements are authorised for issue. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Impact of climate-related risks on the Group's financial position and performance

As described in Note 27 to the financial statements, the Group has identified Climate Risk as an emerging risk. However, qualitative analysis of the impact of climate change and low-carbon transitions on traditional banking risk and on the sectors in which our clients are active lead us to believe that there is currently no material short (less than 2 years) to medium (2 to 5 years) term impact of climate change expected. The Group continues to refine its assessment of such risks and will re-assess whether the impact of climate-related risks on its financial position and performance need to be considered in future reporting periods.

Subsidiaries, associates and corporate shares with shareholdings above 10%

The consolidated financial statements as at 31 December 2023, 31 December 2022 and 31 December 2021 include the following subsidiaries, associates and corporate shares with shareholdings above 10%:

Subsidiaries	*Proportion of voting rights and ordinary share capital held*			*Investments*			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition	Legal form / Status
	31 December 2023	31 December 2022	31 December 2021	31 December 2023	31 December 2022	31 December 2021						
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	-	-	-	United Kingdom	42 Brook Street, London, W1K 5DB	Information Sharing and Market Research	17/8/2010	–	Limited Liability Company
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	100.00%	-	-	-	Georgia	3 Pushkin Street, Tbilisi 0105	Charitable activities	25/8/2008	–	Non-profit Organization
Bank of Georgia Representative Office Hungary (a)	100.00%	100.00%	100.00%	7,314	7,235	6,886	Hungary	1054 Budapest, Szabadság tér 7; Bank Center	Representative Office	18/6/2012	–	Representative Office
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	-	-	-	Turkey	Süleyman Seba Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 Istanbul	Representative Office	25/12/2013	–	Representative Office
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	3,577	3,577	3,577	Israel	7 Menahem Begin, Ramat Gan 52681, Israel	Information Sharing and Market Research	9/2/2009	–	Limited Liability Company
Benderlock Investments Limited	100.00%	100.00%	100.00%	58,745	58,745	58,745	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009	Limited Liability Company
Þ JSC Belarusky Narodny Bank (b)	99.98%	99.98%	99.98%	102,828	102,998	109,173	Belarus	Nezavisimosty Ave. 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008	Joint Stock Company
Þ BNB Leasing, LLC	99.90%	99.90%	99.90%	6	8	11	Belarus	Nezavisimosty Ave. 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008	Limited Liability Company
Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	22,414	22,414	22,414	Georgia	3-5 Kazbegi Str.,Tbilisi	Leasing	29/10/2001	31/12/2004	Limited Liability Company
Þ Prime Leasing	100.00%	100.00%	100.00%	2	2	2	Georgia	Didube-Chughureti district, №114, Ak. Tsereteli Ave., Tbilisi	Leasing	27/1/2012	21/1/2015	Limited Liability Company

Associates	*Proportion of voting rights and*			*Investments*			*Country of incorporation*	*Address*	*Industry*	*Date of incorporation*	*Date of acquisition*	*Legal form / Status*
	31 December 2023	*31 December 2022*	*31 December 2021*	*31 December 2023*	*31 December 2022*	*31 December 2021*						
JSC Credit info (c)	21.08%	21.08%	21.08%	9,538	9,249	8,918	Georgia	2 Tarkhnishvili St., Tbilisi, Georgia	Financial intermediation	14/2/2005	14/2/2005	Joint Stock Company
JSC Tbilisi Stock Exchange	24.04%	24.04%	24.04%				Georgia	72 Vazha-Pshavela Avenue, Tbilisi, Georgia	Financial intermediation	8/5/2015	23/12/2016	

Investment securities, corporate shares	*Proportion of voting rights and*			*Investments*			*Country of incorporation*	*Address*	*Industry*	*Date of incorporation*	*Date of acquisition*	*Legal form / Status*
	31 December 2023	*31 December 2022*	*31 December 2021*	*31 December 2023*	*31 December 2022*	*31 December 2021*						
JSC United Clearing Center	16.67%	16.67%	16.67%	108	108	108	Georgia	5/1 Sulkhan-Saba St., Tbilisi, Georgia	Electronic payment services	22/07/2008	15/09/2008	Joint Stock Company

(a) The investment has been fully impaired in standalone financial statements as at 31 December 2023 and 31 December 2022.

(b) The presented amount is the total of investments made directly by JSC Bank of Georgia and Benderlock Investments Limited, at GEL 66,575 and GEL 36,253, respectively.

(c) JSC Credit info initial investment amounted to GEL 95, which has been increased to GEL 5,320 as a result of investment re-measurement to fair value, when an equity investment became an associate in 2019. The share of the investment's profits or losses has also been recognized in the consolidated income statement.

3. Summary of significant accounting policies

Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2023. The Group consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Business combinations and goodwill

For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence over, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market 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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities

Classification and measurement for financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- fair value through profit or loss (FVPL);
- fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments;
- FVOCI without recycling to profit or loss for equity instruments; and
- amortised cost.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL if they are held for trading.

Embedded derivatives are not separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.
All derivative instruments are measured at FVPL.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at FVTPL, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Subsequent measurement of financial instruments

Financial instruments measured at amortised cost

The Group measures amounts-due from credit institutions, loans to customers and other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

3. Summary of significant accounting policies (continued)

Subsequent measurement of financial instruments (continued)

Business model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on the following observable factors:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- How financial assets held within particular business model are evaluated and reported to key management personnel.

The expected frequency, value and timing of sales are also important aspects of the assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

There are three business models available under IFRS 9:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

Solely Payments of Principal and Interest (SPPI)

If a financial asset is held in either to a 'hold to collect', or a 'hold to collect and sell' business model, then the Group assesses whether contractual cash flows are SPPI on the principal amount outstanding at initial recognition to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows that represent SPPI on the principal amount outstanding are consistent with basic lending arrangements. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Group considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

Debt instruments at FVOCI

The Group measures debt investment securities at FVOCI when both of the following categories are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows, selling financial assets and holding such financial instruments for liquidity management purposes.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt investment securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

3. Summary of significant accounting policies (continued)

Subsequent measurement of financial instruments (continued)

Equity instruments at FVOCI – option

Upon initial recognition, the Group may elect to classify irrevocably its equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument by instrument basis.

The Group does not recycle gains and losses on these equity instruments to profit or loss nor does it make impairment assessment for these instruments. Dividends received are recognised in profit or loss

Financial assets at FVTPL

Groups of financial assets for which the business model is other than 'hold to collect' and 'hold to collect and sell' are measured at FVTPL.

Derivatives recorded at FVTPL

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, Forwards and other similar instruments. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Net changes in the fair value of derivatives are included in net other gains/(losses), excluding gain/loss on foreign exchange derivatives which are presented in net foreign currency gain. From the beginning of 2019, the Group enters into certain cross-currency swap agreements to match its funding costs in certain currencies with the income generated from lending activities in these currencies. As a result, the Group economically hedges the interest rate risk, however no hedge accounting under IFRS 9 is applied. Net changes in the fair value of such derivative financial instruments, which are presented in net foreign currency gain, excludes unwinding of the locked-in interest differential which is presented as part of interest expense to reflect risk management objective of the Group.

Financial guarantees, letter of credits and other financial commitments

The Group enters into the financial guarantee contracts whereby it's required to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Financial guarantees, letter of credits and other financial commitments are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised, less cumulative amortisation recognised in the consolidated income statement and an expected credit loss ('ECL') provision.

Non-financial guarantees

The Group enters into non-financial guarantee contracts whereby it's required to compensate to the holder in case another party fails to meet its contractual obligations. Non-financial guarantees are initially recognised in the financial statements at fair value, being the premium received, amortized on a straight line basis over the life of the contract. Subsequent to initial recognition the Group's liability under non-financial guarantee is measured at the amount that represents the best estimate of the expenditure required to settle the present obligation. The estimate takes into account the probability of another party defaulting on its obligations as well as available collateral under the guarantee contracts and is recognised in the consolidated income statement as part of other expected credit loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within 90 days of the date of origination, and are free from contractual encumbrances and readily convertible to known amounts of cash. The Group also holds cash in nominal ownership on behalf of its clients. The Group does not control this cash nor does it have the potential to produce economic benefits to the Group, therefore asset recognition criteria is not met in such cases. Respectively, the Group does not recognise these amounts in its consolidated statement of financial position.

3. Summary of significant accounting policies (continued)

Borrowings

The Group classifies issued financial instruments or their components as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). The Group initially recognises these liabilities at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost, using the effective interest rate (EIR) method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Issued Additional Tier 1 instruments with perpetual maturity and discretionary interest payments are classified as financial liabilities when the instruments are not convertible into equity and the Group does not have an unconditional right to avoid delivering cash upon a predetermined trigger event that is beyond the control of both the issuer and the holder of the instrument. Such instruments are measured at amortised cost with respective interest presented as part of interest expense in the consolidated income statement.

If the Group purchases its own debt, it is removed from the Statement of Financial Position and the difference between the carrying amount of the liability and the consideration paid is recognised in the Consolidated Income Statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

Leases

The Group as a lessee

The Group's main leasing activities include the leases of service centres, ATM spaces and warehouses. A non-cancellable lease period is up to ten years. Lease payments are fixed in most cases. The contacts don't generally carry extension or termination options for the lease term and do not impose any covenants.

Recognition of right-of-use asset and lease liability

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date at an initial amount of the lease liability adjusted for lease payments made at or before the commencement date. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The lease liability is initially measured at the present value of the future lease payments excluding payments for VAT, discounted using the Group's incremental borrowing rate (IBR). The lease liability is subsequently measured at amortised cost using the IBR.

Recognition exemptions

The Group applies the recognition exemptions on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group recognises the lease payments associated with these leases as an occupancy and rent expense on a straight-line basis over the lease term and present them as part of general and administrative expenses.

Modifications of lease contracts

If the lease contract is modified by either changing the scope of the lease, or the consideration for a lease that was not part of the original terms and conditions of the lease, the Group determines whether the modification results in:

- a separate lease; or
- a change in the accounting for the existing lease.

For the lease modifications that are not accounted as separate leases, the Group re-measures the lease liability either by recognising gain or loss relating to the partial or full termination of the lease or through adjusting respective right-of-use asset.

3. Summary of significant accounting policies (continued)

The Group as a lessor

At the inception of the lease, the Group classifies each of its leases as either an operating lease or a finance lease.

Finance lease

The Group classifies leases that transfer substantially all the risks and benefits incidental to ownership of the lease item to the lessee as finance leases. All other leases are classified as operating leases. The Group recognises finance lease receivables in the Consolidated Statement of Financial Position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments, the Group uses the interest rate implicit in the lease as a discount factor. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

Operating lease

The Group presents assets subject to operating leases in the Consolidated Statement of Financial Position according to the nature of the asset. Lease income from operating leases is recognised in the Consolidated Income Statement on a straight-line basis over the lease term as Net Other Income.

Impairment of financial assets

Overview of the ECL principles

The Group records an allowance for (ECL) for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial assets'.

The allowance is based on the ECL associated with a probability of default (PD) in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset (lifetime ECL). If the financial asset meets the definition of purchased or originated credit-impaired (POCI), the allowance is based on the change in the lifetime ECL.

The Group applies the simplified approach for trade, lease and other receivables and contract assets and records lifetime ECLs on them.

In order to calculate ECL, the Group first evaluates whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Staged approach to the determination of ECLs

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial asset'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 Group groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: The Group recognises a credit loss allowance at an amount equal to 12-month ECL. This represents the portion of lifetime ECL from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.
- Stage 2: The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those financial instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the PD occurring over the remaining lifetime of the financial instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared with 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.
- Stage 3: If the financial instrument is credit-impaired, it is then moved to Stage 3. The Group recognises a loss allowance at an amount equal to lifetime ECL, reflecting a PD of 100% for those financial instruments that are credit-impaired.

3. Summary of significant accounting policies (continued)

Staged approach to the determination of ECLs (continued)

Unless POCI, newly originated assets are classified as Stage 1 and remain in that stage unless there is considered to have been a significant increase in credit risk since initial recognition, at which point the asset is reclassified to Stage 2.

POCI assets are financial instruments that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR (CAEIR). CAEIR takes into account all contractual terms of the financial asset and ECLs. ECLs are only recognised or released to the extent that there is a subsequent change in the ECLs where ECLs are calculated based on lifetime ECL. Once the financial asset is recognised as POCI, it retains this status until derecognised.

Key judgements and estimates used in ECL calculation are disclosed in Note 4.

Derecognition of financial assets and liabilities

Derecognition of financial assets

The Group derecognises a financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) where:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group 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.

Derecognition and modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms, based on qualitative and quantitative criteria. The Group 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, except in cases when renegotiation of contractual terms happens due to financial difficulties of the borrower. Once the financial asset is derecognised, the difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

Derecognition and modification of financial assets (continued)

The Group applies derecognition of the financial asset if any of the following criteria are met:

- Change in currency of the loan.
- Change in interest rate type.
- Introduction of an equity feature.
- Change in counterparty.

If the terms are not substantially different, or the renegotiation is due to the financial difficulties of the borrower, such renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in interest income. The new gross carrying amount is calculated by discounting the modified cash flows at the original EIR.

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Forbearance and modified loans

The Group sometimes makes concessions or modifications to the original terms of the loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Once the asset has been identified as forborne, the assets are classified in Stage 3. The decision as to how long the asset remains in the forborne category is determined on a case-by-case basis for commercial and SME loans, when a minimum six consecutive payments are required for the rest of the loans to exit from the forbearance category and transfer to Stage 2. Once the loan is transferred to Stage 2, the Group continues to re-assess whether there has been a significant increase in credit risk, however, such assets remain in Stage 2 for a minimum 12-month probation period before being transferred to Stage 1.

Derecognition of financial assets and liabilities

Derecognition of financial liabilities

The Group derecognises a financial liability when the obligation under the liability is discharged, 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 Income Statement.

Foreclosed Assets

All repossessed land and buildings were previously classified as investment properties at initial recognition given these assets were managed with a view of capital appreciation or earning a rental income. Commencing from 2022, the Group updated its property management strategy and decided to move majority of the realizations of such properties at a quicker pace. Respectively, all repossessed collaterals, including land and buildings, are now classified either as investment properties or foreclosed assets depending the Group's intention in respect of recovery of these assets.

Foreclosed assets are valued at the lower of cost and net realisable value.

Majority of the Group's foreclosed assets consists of the real estate assets repossessed during recovery of defaulted loans. Such assets are specific and not ordinarily interchangeable, respectively the Group applies specific identification of their individual costs. Realisation gain/loss from above assets are included under Net other gains/(losses) in the Group's consolidated income statement.

Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

Taxation

The Group calculates the current income tax expense in accordance with the regulations in force in the respective territories in which the Group and its subsidiaries operate.

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.

3. Summary of significant accounting policies (continued)

Taxation (continued)

The Group recognises a deferred tax asset 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 that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia and Belarus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Uncertain tax positions

The Group reassesses uncertain tax positions at the end of each reporting period. The assessment is based on the interpretation of the tax laws that have been enacted or substantively enacted by the end of reporting period and any known court or other rulings on such issues. Liabilities are recorded for income tax positions that are determined as more likely than not to result in additional tax levied if the positions were to be challenged by the tax authorities. Liabilities for penalties, interest and taxes other than on income are recognised based on the best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Investment properties

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

Gains and losses resulting from changes in the fair value of investment property as well as earned rental income are recorded in the income statement within net other income.

Property and equipment

The Group records property and equipment at cost less accumulated depreciation and any accumulated impairment in value.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings and service centres	Up to 100
Furniture and fixtures	3-20
Computers and equipment	5-10
Motor vehicles	2-7

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

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to their respective group of property and equipment.

Leasehold improvements are depreciated over the shorter life of the related leased asset and the expected lease term.

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

3. Summary of significant accounting policies (continued)

Goodwill impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Intangible assets

The Group's intangible assets include computer software and licences.

Intangible assets acquired separately are initially measured at cost and subsequently at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over four to 15 years on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets.

Provisions

The Group recognises a provisions when 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.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby they render services and receive equity instruments of BOGG ('equity-settled transactions') as consideration for the services provided.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The awards of shares in monetary terms are measured by reference to the monetary value (as awarded) adjusted for the time value of money where necessary.

The cost of equity-settled transactions is recognised together with the corresponding increase in equity as part of additional paid-in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The subsequent holding period does not imply any employment service provision from the share recipient side, therefore it does not affect the expense recognition period. The consolidated Income Statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, the Group recognises the minimum expense as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where a new equity-settled award is designated as a replacement of a cancelled equity-settled award, the replacement of equity instruments are accounted for as a modification.

3. Summary of significant accounting policies (continued)

Share-based payment transactions (continued)

Where the Group cancels an equity-settled award, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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.

Additional paid-in capital

Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital. Further, the effects of share-based payments are also recognised as part of the additional paid-in capital.

Treasury shares

Where the Group purchase its own shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

The Group recognises dividends as liabilities and deducts them from equity at the reporting date only if they are declared before or on the reporting date and do not require further approval. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the Consolidated Financial Statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Contingencies

Contingent liabilities are not recognised in the Consolidated 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 Consolidated Statement of Financial Position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest-bearing securities, interest income or expense is recorded at the EIR.

For financial instruments in Stage 1 and Stage 2, the Group calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For financial instruments classified as POCI only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these POCI assets. The Group presents interest revenue calculated using the EIR method separately in the income statement.

3. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income are recognised when the Group satisfies a performance obligation. Fee income can be divided into the following categories:

Fee income earned from services that are provided over a certain period of time

The Group recognises fees income for the provision of services over a period of time over that period. These fees include commission incomes and asset management, custody, package services on bundled products and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn-down and other credit-related fees are deferred (together with any incremental costs), and recognised as an adjustment to the EIR on the loan.

Customer loyalty program

Customer loyalty programme points accumulated in the business are treated as deferred revenue and recognised in revenues gradually as they are earned. The Group recognises gross revenue earned from customer loyalty programmes when the performance obligation is satisfied, i.e. when the customer redeems the points or the points expire.

Performance obligations satisfied at a point in time

Fees and commissions earned from providing transaction-type services such as settlement, brokerage, cash and currency conversion operations are recognised when the service has been completed, provided such fees and commissions are not subject to refund or another contingency beyond the control of the Group. Fees from currency conversion operations represent additional commission (other than currency dealing revenue recognised in net foreign currency gain) charged on currency conversion service provided to customers on cards used abroad.

Dividend income

Dividend revenue is recognised when the Group's right to receive the payment is established.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by, or originated from, an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future, and thus should not be taken into account when making projections of future results.

Functional, reporting currencies and foreign currency translation

The Consolidated Financial Statements are presented in Georgian Lari, which is the Group's presentation currency. BOGG's and the Bank's functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional 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 into functional currency 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 Consolidated Income Statement 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 at 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. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in the income statement.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Functional, reporting currencies and foreign currency translation (continued)

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2023, 31 December 2022 and 31 December 2021 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYN*
31 December 2023	3.4228	2.6894	2.9753	0.8162
31 December 2022	3.2581	2.7020	2.8844	1.0730
31 December 2021	4.1737	3.0976	3.5040	1.2101

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and translated at the rate at the reporting date.

Adoption of new or revised standards and interpretations

Amendments effective from 1 January 2023

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17, Insurance Contracts, which sets out the accounting requirements for contractual rights and obligations that arise from insurance contracts issued and reinsurance contracts held. The Group evaluated whether its contracts contain insurance risk, focusing on performance guarantees and concluded that there are no material contracts in scope of IFRS 17 considering practical expedients available.

The amendment had no material impact on the Group’s consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021 the Board issued Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendment had no material impact on the Group’s consolidated financial statements

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendment had no material impact on the Group’s consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8, In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of “accounting estimates”. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

The amendment had no material impact on the Group's consolidated financial statements

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12 The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The amendments had no impact on the Group's consolidated financial statements.

Interest Rate Benchmark Reform

The UK's Financial Conduct Authority ('FCA') announced on 5 March 2021 that publication of main Libor currency interest rate benchmark settings including EUR LIBOR would cease at the end of 2021, while the publication of the most widely used US dollar Libor settings would be extended until 30 June 2023. As a result, the Bank initiated the transition programme for those contracts that reference Ibors to alternative rate products. As at 31 December 2023, the transitioning to alternative benchmark rates for all material contracts was substantially completed.

The below table provides a summary of financial contracts disaggregated by significant interest rate benchmark at the reporting date that are yet to transition to an alternative benchmark rate:

	Currency	*Balance at 31 December 2023*	*Balance at 31 December 2022*
Financial assets			
Loans to customers and finance lease receivables	USD	70	631,180
Financial liabilities			
Amounts owed to credit institutions	USD	373,769	515,129
Debt securities issued	USD	267,113	267,702

Reclassifications

To improve the quality and understandability of its consolidated statement of financial position and consolidated statement of cash flows, the Group has revisited the presentation of foreclosed assets, inventories and other assets. The Group considered it more appropriate to present foreclosed assets separately from other assets and present inventories within other assets. Comparative amounts were reclassified in line with the updated presentation.

The following reclassifications were made to year ended 31 December 2022 and 31 December 2021 consolidated statement of financial position and consolidated statement of cash flows to conform to the year ended 31 December 2023 presentation requirements:

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Reclassifications (continued)

Consolidated statement of financial position for the year ended 31 December 2022	*As previously reported*	*Reclassification*	*As reclassified*
Foreclosed Assets	-	119,924	119,924
Inventory	11,441	(11,441)	-
Other assets	362,828	(108,483)	254,345

Consolidated statement of cash flows for the year ended 31 December 2022	*As previously reported*	*Reclassification*	*As reclassified*
Net (increase) decrease in operating assets			
Prepayments and other assets	(40,170)	(11,700)	(51,870)
Foreclosed assets	-	11,700	11,700

Consolidated statement of financial position for the year ended 31 December 2021	*As previously reported*	*Reclassification*	*As reclassified*
Foreclosed Assets	-	3,216	3,216
Inventory	6,243	(6,243)	-
Other assets	241,200	3,027	244,227

Consolidated statement of cash flows for the year ended 31 December 2021	*As previously reported*	*Reclassification*	*As reclassified*
Net (increase) decrease in operating assets			
Prepayments and other assets	(49,629)	(5,907)	(55,536)
Foreclosed assets	-	5,907	5,907

Standards issued but not yet effective

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

IAS 1 Presentation of Financial Statements

In January 2020 and July 2020, the IASB issued amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current". They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The amendments also clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments will be effective for annual periods beginning on or after January 1, 2024 with early adoption permitted.

The Group is assessing the potential effect of the amendment on its consolidated financial statements.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The Group is assessing the potential effect of the amendment on its consolidated financial statements.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed.

The Group is assessing the potential effect of the amendment on its consolidated financial statements.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Lack of Exchangeability - Amendments to IAS 21

IASB has published "Lack of Exchangeability" (Amendments to IAS 21) that contains guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. The amendments are applicable for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted.

The amendments are not expected to have a material impact on the Group's financial statements.

N*on-current Liabilities with Covenants - Amendments to IAS 1*

On October 31, 2022, the IASB published Non-current Liabilities with Covenants (Amendments to IAS 1) to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments are effective for reporting periods beginning on or after January 1, 2024. The amendments are applied retrospectively in accordance with IAS 8 and earlier application is permitted.

The amendments are not expected to have a material impact on the Group's financial statements.

4. Significant accounting judgements and estimates

Estimates involved in measurement of investment properties, assets held for sale and foreclosed assets

Fair values of investment properties, assets held for sale and foreclosed assets is determined by independent, professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties, assets held for sale and foreclosed assets with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value and respective measurement principles at the end of the reporting period.

The last valuation was performed in 2022. Results of this valuation are presented in Note 11, while valuation inputs and techniques are presented in Note 28. The Group's properties are spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Allowance for financial assets

IFRS 9 requires management to make a number of judgements, assumptions and estimates based on management's knowledge and historical experience that affect the allowance for ECL. A summary of the key judgements made by management is set out below.

Definition of default, credit-impaired and cure (Note 27)

The Group's definition of default is based on quantitative and qualitative criteria. The definition may differ across products. The definition is consistent with the definition used for internal credit risk management purposes and it corresponds with internal financial instrument risk classification rules. A counterparty is classified as defaulted at the latest when payments of interest, principal or fees are overdue for more than 90 days or when bankruptcy, fraud, insolvency proceedings of enforced liquidation have commenced, or there is other evidence that the payment obligations will not be fully met. The determination of whether a financial instrument is credit-impaired focuses on default risk, without taking into consideration the effects of credit risk mitigations such as collateral or guarantees.

An instrument is classified as credit-impaired if the counterparty is defaulted and/or the instrument is POCI.

4. Significant accounting judgements and estimates (continued)

Once the financial asset is classified as credit-impaired (except for POCIs) it remains as such unless all past due amounts have been rectified or there is general evidence of credit recovery. A minimum period of six consecutive months' payment is applied as exit criteria to financial assets restructured due to credit risk other than corporate loan portfolio and debt instruments measured at FVOCI, where exit criteria are determined as exit from bankruptcy or insolvency status, disappearance of liquidity problems or existence of other general evidence of credit recovery assessed on individual basis. For other credit-impaired financial instruments, exit criteria is determined as repayment of the entire overdue amount other than through refinancing or foreclosure.

Once a credit-impaired financial asset meets default exit criteria, it remains in Stage 2 at least for the next 12 consecutive months. In case no default status is assigned during the 12 consecutive months, it is transferred to Stage 1 if its credit risk is not significantly higher than at origination date.

Significant increase in credit risk (SICR)

SICR is not a defined term per IFRS 9, and is determined by management, based on their experience and judgement. In assessing whether the credit risk has significantly increased, the Group has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. These criteria are:

- A significant increase in credit risk, expressed in the relative and/or absolute increase in the risk of default since initial recognition. SICR is determined based on comparison between credit risk ratings (internal or external) as of the origination date and credit risk ratings as of the reporting date for each financial asset individually. Thresholds are determined separately for corporate, retail and SME and other financial instrument portfolios, depending on initial grade assigned at origination. The threshold applied depends on the original credit quality of the borrowers. Higher threshold is set for those instruments with a low PD at origination.
- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.

Below table summarises SICR thresholds (the actual thresholds are applied on a more granular level):

Loan Portfolio Type	**Rating type**	**Initial rating**	**SICR threshold (notches)**
Commercial loans	Internal	2-4+	5-12
Commercial loans	Internal	5-7+	1-5
Micro and SME loans	External	A-C	5-8
Mortgage loans	External	A-C	6-8
Consumer loans	External	A-C	4-10
Gold – pawn loans	External	A-C	6-10
Micro and SME loans, Mortgage, Consumer, Gold – pawn loans	External	D-E	1-5

- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- Modification of the contractual terms due to financial problems of the borrower other than default
- The days past due on individual contract level breached the threshold of 30 days.
- Other qualitative indicators, such as external market indicators of credit risk or general economic conditions, which indicate that the level of risk has been increased significantly since origination.

The above noted SICR indicators are identified at financial instrument level in order to track changes in credit risk since initial recognition date.

4. Significant accounting judgements and estimates (continued)

Measurement of ECLs

ECL reflects an unbiased, probability-weighted estimate based on a combination of the following principal factors: PD, loss given default (LGD), and exposure at default (EAD), which are further explained below:

PD estimation: The Group estimates PD based on a combination of rating model calibration results and a migration matrices approach which is further adjusted for macroeconomic expectations for a minimum three years onwards for all portfolios, to represent the forward-looking estimators of the PD parameters. The migration matrix is built in a way to reflect the weighted average yearly migration over the historical data period. The risk groups are determined in a way to ensure intra-group homogeneity and differentiation of expected PD levels. For loan portfolios other than corporate loans, PD is further adjusted considering time since financial instrument origination. The models incorporate both qualitative and quantitative information and, where practical, build on information from top rating agencies, Credit Bureau or internal credit rating systems. Since Stage 3 financial instruments are defaulted, the PD in this case is equal to 100%.

EAD: The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR. To calculate EAD for a Stage 1 financial instrument, the Group assesses the possible default events within 12 months for the calculation of the 12 months ECL. For Stage 2 and POCI financial instruments, the EAD is considered for events over the lifetime of the instruments. The Group determines EAD differently for products with repayment schedules and those without repayment schedules. For financial instruments with repayment schedules, the Group estimates forward-looking EAD using the contractual cash flow approach with further corrections for expected prepayments and overdue days. For products without the repayment schedules such as credit cards, credit lines and financial guarantees, the Group estimates the forward-looking EAD using the limit utilisation approach. Under the above approach EAD is calculated using the expected utilization rate based on historical data of actual draw-down amounts.

LGD: LGD is defined as the likely loss in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements, or expected payouts from bankruptcy proceedings for unsecured claims and where applicable time to realisation of collateral and the seniority of claims. The Group segments its financial instruments into 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). Based on this information, the Group estimates the recovery rate (other than through collateral), cure rate and probability of re-default. Recovery through collateral is further considered in LGD calculations individually for each financial instrument.

Assets considered in the ECL calculations

IFRS 9 requires cash flows expected from collateral and other credit enhancements to be reflected in the ECL calculation. The treatment and reflection of collateral for IFRS 9 purposes is in line with general risk management principles, policies and processes of the Group. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. The fair value of collateral affects the calculation of ECLs. It is generally assessed at inception and reassessed on an annual basis for all material exposures.

Management Overlays and improvements to the ECL methodology

In prior periods the Group applied number of management overlays to the existing ECL methodology due to the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it. Such overlays related to staging of COVID-19 restructured loans as well as cure and recovery rates. Given a reasonable time has passed for the statistics to properly reflect effects of COVID-19, the Group decided to remove respective management overlays which positively affected overall ECL of the Group. In addition, management re-estimated collateral realisation period for LGD calculations resulting in increase of ECL. This together with removal of management overlays and other minor improvements to the methodology resulted in decrease of ECL by GEL 21.4 million for the Group in 2022.

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates (continued)

Forward-looking information

Under IFRS 9, the allowance for expected credit losses is based on reasonable and supportable forward-looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into the Group's allowance for expected credit losses, the Group uses the macroeconomic forecasts provided by the NBG for Group companies operating in Georgia, while data used by Belarusky Narodny Bank ("BNB") is provided by a non-governmental research centre operating in Belarus. Macroeconomic variables covered by these forecasts and which the Group incorporated in its ECL assessment model include GDP growth, foreign exchange rate and inflation rate. These forward-looking macroeconomic variables are generally updated on a semi-annual basis for Georgian companies and on a quarterly basis for BNB.

The determination of the probability-weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Group uses three different economic scenarios in the ECL calculation: an upside (weight 0.25), a base case (weight 0.50) and a downside (weight 0.25) scenario relevant for each respective portfolio. A weight is calculated for each scenario by using a probabilistic economic model that considers recent information as well as historical data provided by the NBG.

The Group considers these forecasts to represent its best estimate of the possible outcomes, based on reliable available information.

Forward-looking variable assumptions

The most significant period end assumptions used for ECL estimate as at 31 December 2023 per geographical segments are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Georgia

Key drivers	ECL scenario	Assigned weight	As at 31 December 2023			Assigned weight	As at 31 December 2022			Assigned weight	As at 31 December 2021		
			2024	2025	2026		2023	2024	2025		2022	2023	2024
GDP growth in %													
	Upside	25%	6.50%	5.50%	5.00%	25%	6.00%	5.00%	5.00%	25%	6.00%	5.00%	4.50%
	Base case	50%	5.00%	4.50%	5.00%	50%	4.00%	5.50%	5.00%	50%	5.00%	4.00%	4.50%
	Downside	25%	3.00%	4.00%	5.00%	25%	2.00%	4.00%	5.00%	25%	2.00%	4.00%	5.00%
GEL/USD exchange rate													
	Upside	25%	3.00%	2.00%	0.00%	25%	2.00%	0.00%	0.00%	25%	4.00%	2.00%	2.00%
	Base case	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%
	Downside	25%	-15.00%	0.00%	5.00%	25%	-15.00%	5.00%	5.00%	25%	-10.00%	2.00%	3.00%
CPI inflation rate in %													
	Upside	25%	3.25%	3.00%	3.00%	25%	5.00%	3.00%	3.00%	25%	5.50%	3.00%	3.00%
	Base case	50%	3.60%	3.10%	3.00%	50%	5.30%	3.10%	3.00%	50%	7.00%	2.50%	3.00%
	Downside	25%	5.00%	4.00%	3.00%	25%	9.00%	6.00%	3.00%	25%	8.00%	4.00%	3.00%

Belarus

Key drivers	ECL scenario	Assigned weight	As at 31 December 2023		Assigned weight	As at 31 December 2022		Assigned weight	As at 31 December	
			2024	2025		2023	2024		2022	2023
GDP growth in %										
	Upside	25.00%	3.77%	3.13%	10%	2.66%	4.26%	25%	2.92%	5.01%
	Base case	50.00%	1.95%	0.49%	50%	0.31%	0.50%	50%	0.56%	1.24%
	Downside	25.00%	0.14%	-2.15%	40%	-2.05%	-3.26%	25%	-1.80%	-2.52%
BYN/USD exchange rate %										
	Upside	25.00%	0.66%	0.62%	10%	0.71%	0.65%	25%	0.56%	0.52%
	Base case	50.00%	1.00%	1.23%	50%	2.53%	1.65%	50%	2.44%	1.37%
	Downside	25.00%	1.31%	1.77%	40%	4.09%	2.41%	25%	4.05%	1.98%
CPI inflation rate in %										
	Upside	25.00%	-0.09%	-0.52%	10%	0.38%	-0.58%	25%	-0.07%	-0.85%
	Base case	50.00%	1.94%	1.82%	50%	2.20%	1.66%	50%	1.83%	1.38%
	Downside	25.00%	3.86%	4.01%	40%	3.93%	3.76%	25%	3.63%	3.46%

All other parameters held constant, increase in GDP growth and decrease in foreign exchange rate and inflation would result in decrease in ECL, with opposite changes resulting in ECL increase. GDP growth input has the most significant impact on ECL, followed by foreign exchange rate and inflation. Retail portfolio ECL is less affected by foreign exchange rate inputs due to larger share of GEL-denominated exposures. However, retail portfolio ECL is affected by inflation, which does not have a significant impact on corporate ECL.

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates (continued)

Forward-looking variable assumptions (continued)

The table below shows the sensitivity of the recognised ECL amounts to the forward-looking assumptions used in the model. For these purposes, 100% weight is assigned to each macroeconomic scenario separately and respective ECL is recalculated.

Sensitivity of ECL to forward looking assumptions

	As at 31 December 2023				
	Reported	***Reported***	***ECL coverage by scenarios***		
Key drivers	***ECL***	***ECL coverage***	***Upside***	***Base case***	***Downside***
Commercial loans	98,379	1.40%	1.37%	1.40%	1.44%
Residential mortgage loans	22,748	0.50%	0.49%	0.50%	0.51%
Micro and SME loans	71,661	1.76%	1.74%	1.76%	1.78%
Consumer loans	131,633	2.80%	2.75%	2.79%	2.86%
Gold – pawn loans	1,389	0.92%	0.92%	0.92%	0.93%

	As at 31 December 2022				
	Reported	***Reported***	***ECL coverage by scenarios***		
Key drivers	***ECL***	***ECL coverage***	***Upside***	***Base case***	***Downside***
Commercial loans	89,608	1.69%	1.55%	1.67%	1.78%
Residential mortgage loans	30,053	0.72%	0.71%	0.71%	0.73%
Micro and SME loans	63,502	1.66%	1.61%	1.65%	1.70%
Consumer loans	135,450	3.76%	3.70%	3.74%	3.84%
Gold – pawn loans	5,440	3.31%	3.30%	3.30%	3.31%

	As at 31 December 2021				
	Reported	***Reported***	***ECL coverage by scenarios***		
Key drivers	***ECL***	***ECL coverage***	***Upside***	***Base case***	***Downside***
Commercial loans	156,237	2.90%	2.89%	2.90%	2.93%
Residential mortgage loans	33,036	0.82%	0.80%	0.81%	0.85%
Micro and SME loans	74,441	1.99%	1.93%	1.96%	2.13%
Consumer loans	136,035	4.56%	4.46%	4.54%	4.70%
Gold – pawn loans	2,074	1.25%	1.25%	1.25%	1.26%

Aggregation of financial instruments for collective assessment

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools as follows: corporate loan portfolio is grouped on the basis of loan repayment source type; and retail loan portfolio is grouped on the basis of credit risk characteristics such as an asset type, collateralisation level, repayment source type and other relevant factors. As for SME and Micro loan portfolios, financial instruments are grouped based on asset type, overdue buckets, collateralisation level and other relevant factors.

Determination of expected life for revolving facilities

For revolving products, the expected life of financial instruments is determined either with reference to the next renewal date or with reference to the behavioural expected life of the financial instrument estimated based on the empirical observation of the lifetime.

Write-offs

The Group writes off financial assets when there is no reasonable expectation of recovery. The need for write-off of corporate loans is assessed individually, for mortgages and other loans secured by real estate, the number of overdue days after which the balances are considered to be irrecoverable and are to be written off comprised 1,460 days, while other non-secured portfolio is written-off after 150 days overdue. If the amount to be written off is greater than the accumulated loan loss allowance, the difference is first treated as an ECL expense. Any subsequent recoveries are credited to ECL expense.

4. Significant accounting judgements and estimates (continued)

Forward-looking variable assumptions (continued)

Backtesting of ECL calculation model

In order to monitor the quality and reliability of the Group's ECL calculation model, the Group periodically performs backtesting and benchmarking procedures, whereby model outcomes are compared with actual results, based on internal experience as well as externally observed results. For PD, the Group uses statistical modelling to derive a predicted distribution of the number of defaults. The observed number of defaults is then compared with this distribution, allowing the Group to derive a statistical level of confidence in the model. For LGD, the backtesting compares observed losses with predicted LGDs. If any statistically significant deviations or shortcomings in parameterisations are observed, the relevant models are redefined and recalibrated. Any changes in the model as a result of backtesting procedures are accounted as changes in accounting estimates with prospective application.

Impact of climate-related risks on accounting judgements and estimates

Climate, and the impact of climate on the Group's balance sheet is considered as an area of accounting estimate and judgment through the uncertainty of future events and the impact of that uncertainty on the Group's assets and liabilities. While the effects of climate change are a source of uncertainty, as at 31 December 2023 management does not consider climate to have a quantitatively material impact on its financial statements. The Group has assessed the impact of climate risk on its financial statements as disclosed below.

The estimated areas of impact, limited to a qualitative assessment, were expected credit loss and the impact on lending portfolios including physical risk on the mortgage lending portfolio and forward looking cash flows that impact the recoverability of certain assets. Transition risk is managed through reviews of clients by the Group's Risk function which includes ongoing process of identifying clients susceptible to climate transition risks.

The Group Climate Risk team have performed a top-down qualitative assessment of the impact of climate risk on the IFRS 9 ECL provision. This assessment has mostly been focused across corporate and mortgage portfolios. The portfolios identified as most susceptible to climate risks were identified as mining and quarrying, heavy metals and construction, concentration of which is not significant for overall Group's loan exposure. The assessment of the portfolios is undertaken by considering the maturity profile of the exposures which is relatively shorter term compared to long term climate impact. The above assessment did not result in any material effect on the Group's consolidated financial statements.

While some indicators that are more influenced by climate change (e.g., energy prices) are factored into the current PD models where they have demonstrated statistical relevance, the Group currently does not use a specific climate risk related scenario in addition to the existing economic scenarios applied to derive the weighted-average ECL. The reason for this is lack of sufficient historical data and limitations in the risk assessments. Where climate factors have impacted the economy in the recent past or present, these impacts are implicitly embedded in the Group's IFRS9 ECL models through the projected macroeconomic indicators (e.g. inflation rates) and individual analysis of corporate loan related cash flows.

It should also be noted that the Group is currently working on a corporate plan in respect of its response to climate risks, with the commitment to transition away or limit certain high carbon sector financing while introducing more green finance products.

Based on the best information available at the time these consolidated annual financial statements were prepared, the Group sees no additional climate change risk having a substantial impact on its equity, financial situation and results in 2024. However, as the matter is constantly changing, the Group is working on developing methodologies to better measure potential loan loss in line with the new management needs, best practice and regulators' requirements.

5. Segment information

The Group disaggregated revenue from contracts with customers by products and services for each of the segments, as the Group believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

RB - Retail Banking (excluding Retail Banking of BNB) - principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling of customers' deposits for both individuals and legal entities. The Retail Banking business targets the mass retail, mass affluent and high-net-worth client segments.

SME - SME Banking (excluding SME Banking of BNB) - principally provides SME loans, micro loans, consumer and mortgage loans, funds transfers and settlement services, and handling of customers' deposits for legal entities. The SME Banking business targets small and medium-sized enterprises and micro businesses.

CIB - Corporate Investment Banking - comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides private banking services to high net worth clients.

BNB - Comprising JSC Belarusky Narodny Bank mainly, principally providing retail and corporate banking services in Belarus.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated income statement.

Transactions between operating segments are on an arm's length basis in a similar manner to transactions with third parties.

The Group's operations are primarily concentrated in Georgia, except for BNB, which operates in Belarus.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's operating income in 2023, 2022 or 2021.

In the first quarter of 2023 the SME Banking segment was split from Retail Banking and the majority of the Micro portfolio, where customers had business-related needs, was transferred to SME Banking. The remaining Micro portfolio has been transferred to Mass Retail. The SME segment has grown significantly over the past few years. In addition, the value proposition for business clients has been different from the value proposition for retail customers, leading to our decision to change the segmentation. The comparative figures have been restated accordingly to reflect this change. 2021 amounts have not been restated due to the unavailability of necessary data and impracticability of restatement.

(Thousands of Georgian Lari)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2023:

	Retail Banking	*SME*	*Corporate Investment Banking*	*BNB*	*Eliminations*	*Group Total*
Net interest income	788,734	256,014	492,691	48,486	75	1,586,000
Net fee and commission income	244,118	40,574	48,601	7,379	-	340,672
Net foreign currency gain	197,596	38,357	93,288	41,606	-	370,847
Net gains/(losses) on extinguishment of debt	184	52	107	221	-	564
Net other gains/(losses)	14,357	6,931	91,553	1,788	(83)	114,546
Operating income	**1,244,989**	**341,928**	**726,240**	**99,480**	**(8)**	**2,412,629**
Operating expenses	(408,588)	(97,731)	(107,130)	(65,514)	8	(678,955)
Profit from associates	919	65	-	-	-	984
Operating income before cost of risk	**837,320**	**244,262**	**619,110**	**33,966**	**-**	**1,734,658**
Cost of risk	(83,840)	(32,316)	(28,463)	2,648	-	(141,971)
Net operating income before non-recurring items	**753,480**	**211,946**	**590,647**	**36,614**	**-**	**1,592,687**
Net non-recurring expense/loss	-	-	-	-	-	-
Profit before income tax	**753,480**	**211,946**	**590,647**	**36,614**	**-**	**1,592,687**
Income tax expense	(121,120)	(34,094)	(95,277)	(8,477)	-	(258,968)
Profit for the year	**632,360**	**177,852**	**495,370**	**28,137**	**-**	**1,333,719**
Assets and liabilities						
Total assets	14,090,429	5,969,054	10,078,157	1,280,167	(23,697)	31,394,110
Total liabilities	12,460,818	5,137,241	8,236,256	1,131,442	(23,697)	26,942,060
Other segment information						
Property and equipment	75,602	8,392	2,542	5,273	-	91,809
Intangible assets	32,577	5,919	2,399	7,031	-	47,926
Capital expenditure	**108,179**	**14,311**	**4,941**	**12,304**	**-**	**139,735**
Depreciation, amortisation and impairment	(84,383)	(12,206)	(4,891)	(9,260)	-	(110,740)

(Thousands of Georgian Lari)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2022:

	Retail Banking	*SME*	*Corporate Investment banking*	*BNB*	*Eliminations*	*Group Total*
Net interest income	563,853	202,004	371,159	37,510	85	1,174,611
Net fee and commission income	171,715	34,790	43,415	11,500	-	261,420
Net foreign currency gain	234,615	43,177	120,917	64,493	-	463,202
Net gains/(losses) on extinguishment of debt	(1,886)	(708)	(5,564)	(304)	-	(8,462)
Net other gains/(losses)	17,673	3,235	18,171	1,477	-	40,556
Operating income	**985,970**	**282,498**	**548,098**	**114,676**	**85**	**1,931,327**
Operating expenses	(337,502)	(92,835)	(95,899)	(55,347)	(85)	(581,668)
Profit from associates	765	54	-	-	-	819
Operating income before cost of risk	**649,233**	**189,717**	**452,199**	**59,329**	**-**	**1,350,478**
Cost of risk	(164,820)	(8,606)	31,591	(25,829)	-	(167,664)
Net operating income before non-recurring items	**484,413**	**181,111**	**483,790**	**33,500**	**-**	**1,182,814**
Net non-recurring expense/loss	1	-	-	(204)	-	(203)
Profit before income tax	**484,414**	**181,111**	**483,790**	**33,296**	**-**	**1,182,611**
Income tax expense	(76,928)	(28,824)	(77,171)	(7,684)	-	(190,607)
Profit for the year	**407,486**	**152,287**	**406,619**	**25,612**	**-**	**992,004**
Assets and liabilities						
Total assets	13,129,291	5,435,568	8,504,530	1,381,366	(83,697)	28,367,058
Total liabilities	11,669,114	4,691,613	7,072,733	1,229,928	(83,698)	24,579,690
Other segment information						
Property and equipment	60,250	6,133	2,112	2,241	-	70,736
Intangible assets	21,883	5,567	1,788	4,886	-	34,124
Capital expenditure	**82,133**	**11,700**	**3,900**	**7,127**	**-**	**104,860**
Depreciation, amortisation and impairment	(72,113)	(13,173)	(4,633)	(6,058)	-	(95,977)

(Thousands of Georgian Lari)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2021:

	Retail Banking	*Corporate Investment banking*	*BNB*	*Eliminations*	*Group Total*
Net interest income	581,594	319,587	39,675	27	940,883
Net fee and commission income	141,623	41,237	5,476	-	188,336
Net foreign currency gain	57,904	36,556	13,341	-	107,801
Net gains/(losses) on extinguishment of debt	(459)	(1,330)	(1,103)	-	(2,892)
Net other gains/(losses)	23,902	44,152	2,348	1	70,403
Operating income	**804,564**	**440,202**	**59,737**	**28**	**1,304,531**
Operating expenses	(350,094)	(71,418)	(39,675)	(28)	(461,215)
Profit from associates	(3,781)	-	-	-	(3,781)
Operating income (expense) before cost of risk	**450,689**	**368,784**	**20,062**	**-**	**839,535**
Cost of risk	(71,100)	52,526	(1,725)	-	(20,299)
Net operating income (loss) before non-recurring items	**379,589**	**421,310**	**18,337**	**-**	**819,236**
Net non-recurring expense/loss	1	(78)	(533)	-	(610)
Profit (loss) before income tax	**379,590**	**421,232**	**17,804**	**-**	**818,626**
Income tax expense	(33,692)	(37,729)	(3,394)	-	(74,815)
Profit (loss) for the year	**345,898**	**383,503**	**14,410**	**-**	**743,811**
Assets and liabilities					
Total assets	14,799,515	7,383,371	980,920	(2,594)	23,161,212
Total liabilities	13,056,931	6,209,389	846,263	(2,594)	20,109,989
Other segment information					
Property and equipment	44,524	2,948	2,031	-	49,503
Intangible assets	29,439	2,578	4,992	-	37,009
Capital expenditure	**73,963**	**5,526**	**7,023**	**-**	**86,512**
Depreciation, amortisation and impairment	(70,673)	(8,069)	(4,940)	-	(83,682)

(Thousands of Georgian Lari)

6. Cash and cash equivalents

	2023	*2022*	*2021*
Cash on hand	966,670	1,000,596	774,253
Current accounts with credit institutions	650,630	927,388	364,912
Current accounts with central banks, excluding obligatory reserves	713,212	805,503	126,627
Time deposits with credit institutions with maturities of up to 90 days	712,786	762,592	228,685
Cash and cash equivalents, gross	**3,043,298**	**3,496,079**	**1,494,477**
Less – Allowance for expected credit loss	(466)	(351)	(25)
Cash and cash equivalents, net	**3,042,832**	**3,495,728**	**1,494,452**

As at 31 December 2023, GEL 974,224 (2022: GEL 1,453,123, 2021: GEL 417,228) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned between 0.00%-10.35% interest per annum on these deposits (2022: up to 11.10%, 2021: up to 0.07%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

7. Amounts due from credit institutions

	2023	*2022*	*2021*
Obligatory reserves with central banks	1,746,289	2,354,470	1,898,052
Time deposits with maturities of more than 90 days	-	-	15,488
Restricted cash	7,263	68,154	4,730
Amounts due from credit institutions, gross	**1,753,552**	**2,422,624**	**1,918,270**
Less – Allowance for expected credit loss	(894)	(5,318)	(331)
Amounts due from credit institutions, net	**1,752,658**	**2,417,306**	**1,917,939**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposits (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by regulation. The Group earned up to 0.00% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2023 (2022: 0.00%, 2021: 0.00%).

8. Investment securities

	2023	*2022*	*2021*
Investment securities measured at FVOCI - debt instruments	4,349,609	3,960,300	2,558,542
Investment securities designated as at FVOCI - equity investments	7,098	4,912	5,419
Investment securities measured at FVOCI	**4,356,707**	**3,965,212**	**2,563,961**

	2023	*2022*	*2021*
Investment securities measured at amortized cost	524,433	381,735	-
Less: allowance for credit losses	(325)	(3,198)	-
Investment securities measured at amortized cost, net	**524,108**	**378,537**	**-**

(Thousands of Georgian Lari)

8. Investment securities (continued)

	2023	*2022*	*2021*
Ministry of Finance of Georgia treasury bonds	1,891,684	1,470,473	1,312,001
Ministry of Finance of Georgia treasury bills	155,955	176,483	82,196
Foreign treasury bills	1,621,219	1,062,095	-
Foreign treasury bonds	54,151	92,816	79,156
Certificates of deposit of central banks	10,855	17,675	39,410
Other debt instruments	615,745	1,140,758	1,045,779
Investment securities measured at FVOCI - debt instruments	**4,349,609**	**3,960,300**	**2,558,542**

	2023	*2022*	*2022*
Ministry of Finance of Georgia treasury bonds	-	119,918	
Certificates of deposit of central banks			
Other debt instruments	524,433	261,817	-
Investment securities measured at amortized cost - debt instruments, gross	**524,433**	**381,735**	**-**
Less: allowance for credit losses	(325)	(3,198)	-
Investment securities measured at amortized cost, net	**524,108**	**378,537**	**-**

Pledged Treasury bonds	*2023*	*2022*	*2021*
For short-term loans from the NBG	1,375,687	709,597	490,592
For repo-operations with commercial banks	-	380,065	-
For deposits of Ministry of Finance of Georgia	-	97,109	220,480
For cash kept by the NBG at the Group's premises under cash custodian services	-	-	14,720
Total	**1,375,687**	**1,186,771**	**725,792**

Pledged Treasury bills	*2023*	*2022*	*2021*
For cash kept by the NBG at the Group's premises under cash custodian services	-	24,180	-
Total	**-**	**24,180**	**-**

Pledged Corporate Bonds	*2023*	*2022*	*2021*
For short-term loans from the NBG	127,685	121,592	-
For deposits of Ministry of Finance of Georgia	-	205,079	109,109
Total	**127,685**	**326,671**	**109,109**

Other debt instruments measured at FVOCI – debt instruments as at 31 December 2023 mainly comprises bonds issued by the European Bank for Reconstruction and Development of GEL 326,916 (2022: GEL 531,351, 2021: GEL 521,394), GEL-denominated bonds issued by International Finance Corporation of GEL 203,617 (2022: GEL 56,523, 2021: GEL 203,351), GEL-denominated bonds issued by The Netherlands Development Finance Company of GEL Nil (2022: GEL 131,126, 2021: GEL 163,593), GEL-denominated bonds issued by Black Sea Trade and Development Bank of GEL Nil (2022: GEL 200,913, 2021: GEL 65,407) and GEL-denominated bonds issued by Asian Development Bank of GEL 30,594 (2022: GEL 107,835, 2021: GEL 61,609).

Foreign treasury bills and bonds measured at FVOCI – debt instruments comprise of US Treasury Notes in amount of GEL 1,621,219 (2022: GEL 1,062,095, 2021: GEL Nil), Ministry of Finance of the Republic of Lithuania treasury bonds in amount of GEL Nil (2022: GEL Nil, 2021: GEL 15,992), United Kingdom treasury bonds in the amount of GEL Nil (2022: GEL 32,516, 2021: GEL Nil) and Ministry of Finance of the Republic of Belarus treasury bonds in amount of GEL 54,151 (2022: GEL 60,300, 2021: GEL 63,164).

For the period ended 31 December 2023 net gains on derecognition of investment securities comprised GEL 18,512 (2022: GEL 7,528, 2021: GEL 30,044) which is included in net other income.

As at 31 December 2023, allowance for expected credit loss on investment securities measured at FVOCI comprised GEL 7,673 (2022: GEL 7,068, 2021: GEL 3,156).

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables

	2023	2022	2021
Commercial loans	7,030,961	5,293,611	5,380,396
Consumer loans	4,699,969	3,602,054	2,981,305
Residential mortgage loans	4,557,525	4,193,204	4,022,058
Micro and SME loans	4,073,022	3,825,663	3,731,756
Gold – pawn loans	150,228	164,554	165,417
Loans to customers at amortised cost, gross	**20,511,705**	**17,079,086**	**16,280,932**
Less – Allowance for expected credit loss	(325,810)	(324,053)	(401,823)
Loans to customers at amortised cost, net	**20,185,895**	**16,755,033**	**15,879,109**
Finance lease receivables, gross	**73,487**	**95,348**	**124,952**
Less – Allowance for expected credit loss	(11,315)	(8,778)	(5,895)
Finance lease receivables, net	**62,172**	**86,570**	**119,057**
Total loans to customers and finance lease receivables	**20,248,067**	**16,841,603**	**15,998,166**

As at 31 December 2023, loans to customers carried at GEL 954,695 (2022: GEL 1,092,475, 2021: GEL 1,125,955) were pledged for short-term loans from the NBG.

Expected credit loss

Movements of the gross loans and respective allowance for expected credit loss / impairment of loans to customers by class are provided in the table below, within which the new financial asset originated or purchased and the assets repaid during the year include the effects from revolving loans and increase of exposure to clients, where existing loans have been repaid with new contracts issued during the year. All new financial assets are originated either in Stage 1 or POCI category. Utilisation of additional tranches on existing financial assets are reflected in Stage 2 or Stage 3 if the credit risk of the borrower has deteriorated since initiation. Currency translation differences relate to loans issued by the subsidiaries of the Group whose functional currency is different from the presentation currency of the Group, while foreign exchange movement relates to foreign currency denominated loans issued by the Group. Net other changes in gross loan balances includes the effects of changes in accrued interest. Net other measurement of ECL includes the effect of changes in ECL due to post-model adjustments, changes in PDs and other inputs, as well as the effect from ECL attributable to changes in accrued interest.

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2022	**4,493,371**	**611,307**	**172,983**	**15,950**	**5,293,611**
New financial asset originated or purchased	6,382,411	62,180	8	15,820	6,460,419
Transfer to Stage 1	218,262	(218,262)	-	-	-
Transfer to Stage 2	(408,616)	413,869	(5,253)	-	-
Transfer to Stage 3	(9,314)	(35,720)	45,034	-	-
Assets derecognised due to pass-through arrangement	(165,947)	(418)	(164)	-	(166,529)
Assets repaid	(4,244,904)	(318,744)	(96,967)	(10,324)	(4,670,939)
Resegmentation	76,352	(56)	2,959	-	79,255
Impact of modifications	(755)	733	(143)	9	(156)
Write-offs	-	-	(11,502)	-	(11,502)
Recoveries of amounts previously written off	-	-	8,723	957	9,680
Unwind of discount	-	-	(2,224)	416	(1,808)
Currency translation differences	(113,669)	(3,701)	(4,516)	-	(121,886)
Foreign exchange movement	105,029	4,490	(365)	83	109,237
Net other changes	61,656	111	(10,852)	664	51,579
Balance at 31 December 2023	**6,393,876**	**515,789**	**97,721**	**23,575**	**7,030,961**
Individually assessed	-	-	89,158	21,497	110,655
Collectively assessed	6,393,876	515,789	8,563	2,078	6,920,306
Balance at 31 December 2023	**6,393,876**	**515,789**	**97,721**	**23,575**	**7,030,961**

Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2022	**19,219**	**23,530**	**42,292**	**4,567**	**89,608**
New financial asset originated or purchased	31,952	697	1	-	32,650
Transfer to Stage 1	3,811	(3,811)	-	-	-
Transfer to Stage 2	(5,004)	6,393	(1,389)	-	-
Transfer to Stage 3	(994)	(1,406)	2,400	-	-
Impact on ECL of exposures transferred between stages during the year	(1,777)	4,522	17,549	-	20,294
Assets derecognised due to pass-through arrangement	(529)	(9)	-	-	(538)
Assets repaid	(13,364)	(12,030)	(29,709)	(1,325)	(56,428)
Resegmentation	1,102	(1,224)	870	-	748
Impact of modifications	(1)	17	(149)	3	(130)
Foreign exchange movement	(14)	103	(641)	127	(425)
Net other measurement of ECL	(20,005)	16,327	16,960	4,195	17,477
Income statement (releases)/charges	(4,823)	9,579	5,892	3,000	13,648
Write-offs	-	-	(11,502)	-	(11,502)
Recoveries of amounts previously written off	-	-	8,723	957	9,680
Unwind of discount	-	-	(2,224)	416	(1,808)
Currency translation differences	(278)	84	(1,054)	1	(1,247)
Balance at 31 December 2023	**14,118**	**33,193**	**42,127**	**8,941**	**98,379**
Individually assessed	-	-	37,559	8,936	46,495
Collectively assessed	14,118	33,193	4,568	5	51,884
Balance at 31 December 2023	**14,118**	**33,193**	**42,127**	**8,941**	**98,379**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2022	**3,925,906**	**169,566**	**69,657**	**28,075**	**4,193,204**
New financial asset originated or purchased	1,527,164	32	-	14,796	1,541,992
Transfer to Stage 1	268,798	(268,798)	-	-	-
Transfer to Stage 2	(320,140)	352,400	(32,260)	-	-
Transfer to Stage 3	(17,355)	(33,670)	51,025	-	-
Assets repaid	(1,081,098)	(45,148)	(37,682)	(11,487)	(1,175,415)
Impact of modifications	530	137	(83)	(185)	399
Write-offs	-	-	(2,534)	(263)	(2,797)
Recoveries of amounts previously written off	-	-	1,385	543	1,928
Unwind of discount	-	-	215	94	309
Currency translation differences	(6,950)	(170)	(85)	-	(7,205)
Foreign exchange movement	11,210	(150)	(263)	165	10,962
Net other changes	(7,727)	(147)	1,571	451	(5,852)
Balance at 31 December 2023	**4,300,338**	**174,052**	**50,946**	**32,189**	**4,557,525**
Individually assessed	-	-	168	2,092	2,260
Collectively assessed	4,300,338	174,052	50,778	30,097	4,555,265
Balance at 31 December 2023	**4,300,338**	**174,052**	**50,946**	**32,189**	**4,557,525**

Residential mortgage loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2022	**8,860**	**2,601**	**14,085**	**4,507**	**30,053**
New financial asset originated or purchased	8,396	-	-	-	8,396
Transfer to Stage 1	4,415	(4,415)	-	-	-
Transfer to Stage 2	(2,766)	9,962	(7,196)	-	-
Transfer to Stage 3	(3,612)	(1,152)	4,764	-	-
Impact on ECL of exposures transferred between stages during the year	(1,133)	(5,845)	5,016	-	(1,962)
Assets repaid	(1,516)	(747)	(8,701)	(3,395)	(14,359)
Impact of modifications	19	5	1,049	43	1,116
Foreign exchange movement	(1)	(3)	(46)	28	(22)
Net other measurement of ECL	(8,690)	1,632	3,842	3,318	102
Income statement (releases)/charges	(4,888)	(563)	(1,272)	(6)	(6,729)
Write-offs	-	-	(2,534)	(263)	(2,797)
Recoveries of amounts previously written off	-	-	1,385	543	1,928
Unwind of discount	-	-	215	94	309
Currency translation differences	(2)	(2)	(12)	-	(16)
Balance at 31 December 2023	**3,970**	**2,036**	**11,867**	**4,875**	**22,748**
Individually assessed	-	-	50	271	321
Collectively assessed	3,970	2,036	11,817	4,604	22,427
Balance at 31 December 2023	**3,970**	**2,036**	**11,867**	**4,875**	**22,748**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2022	**3,475,839**	**200,463**	**146,517**	**2,844**	**3,825,663**
New financial asset originated or purchased	2,729,133	606	1,502	1,685	2,732,926
Transfer to Stage 1	147,013	(147,013)	-	-	-
Transfer to Stage 2	(308,580)	333,045	(24,465)	-	-
Transfer to Stage 3	(20,855)	(115,231)	136,086	-	-
Assets repaid	(2,273,519)	(81,401)	(65,161)	(1,572)	(2,421,653)
Resegmentation	(75,858)	88	(3,141)	-	(78,911)
Impact of modifications	(86)	616	(2,971)	(7)	(2,448)
Write-offs	-	-	(36,568)	(70)	(36,638)
Recoveries of amounts previously written off	-	-	7,998	124	8,122
Unwind of discount	-	-	2,316	56	2,372
Currency translation differences	(15,785)	(1,998)	(2,369)	-	(20,152)
Foreign exchange movement	27,031	1,678	2,494	7	31,210
Net other changes	25,537	677	6,187	130	32,531
Balance at 31 December 2023	**3,709,870**	**191,530**	**168,425**	**3,197**	**4,073,022**
Individually assessed	-	-	29,131	-	29,131
Collectively assessed	3,709,870	191,530	139,294	3,197	4,043,891
Balance at 31 December 2023	**3,709,870**	**191,530**	**168,425**	**3,197**	**4,073,022**

Micro and SME loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2022	**20,078**	**5,448**	**37,317**	**659**	**63,502**
New financial asset originated or purchased	16,897	-	128	-	17,025
Transfer to Stage 1	4,627	(4,627)	-	-	-
Transfer to Stage 2	(5,665)	11,372	(5,707)	-	-
Transfer to Stage 3	(2,902)	(6,647)	9,549	-	-
Impact on ECL of exposures transferred between stages during the year	(754)	(4,692)	29,591	-	24,145
Assets repaid	(7,515)	(3,001)	(18,747)	(524)	(29,787)
Resegmentation	(1,093)	1,226	(868)	-	(735)
Impact of modifications	2	19	(1,241)	(7)	(1,227)
Foreign exchange movement	129	149	1,179	(1)	1,456
Net other measurement of ECL	(12,661)	6,463	30,543	596	24,941
Income statement (releases)/charges	(8,935)	262	44,427	64	35,818
Write-offs	-	-	(36,568)	(70)	(36,638)
Recoveries of amounts previously written off	-	-	7,998	124	8,122
Unwind of discount	-	-	2,316	56	2,372
Currency translation differences	(139)	(172)	(1,204)	-	(1,515)
Balance at 31 December 2023	**11,004**	**5,538**	**54,286**	**833**	**71,661**
Individually assessed	-	-	14,564	-	14,564
Collectively assessed	11,004	5,538	39,722	833	57,097
Balance at 31 December 2023	**11,004**	**5,538**	**54,286**	**833**	**71,661**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2022	**3,243,192**	**213,875**	**121,992**	**22,995**	**3,602,054**
New financial asset originated or purchased	4,547,920	5,818	833	17,964	4,572,535
Transfer to Stage 1	289,459	(289,423)	(36)	-	-
Transfer to Stage 2	(473,300)	524,075	(50,775)	-	-
Transfer to Stage 3	(72,199)	(110,688)	182,887	-	-
Assets repaid	(3,179,954)	(107,858)	(69,753)	(12,030)	(3,369,595)
Resegmentation	(494)	(32)	517	-	(9)
Impact of modifications	699	(11)	(12,180)	(600)	(12,092)
Write-offs	-	-	(113,820)	(2,408)	(116,228)
Recoveries of amounts previously written off	-	-	25,870	1,376	27,246
Unwind of discount	-	-	4,199	530	4,729
Currency translation differences	(34,164)	(259)	(355)	-	(34,778)
Foreign exchange movement	5,109	65	524	89	5,787
Net other changes	(508)	(1,333)	21,566	595	20,320
Balance at 31 December 2023	**4,325,760**	**234,229**	**111,469**	**28,511**	**4,699,969**
Individually assessed	-	-	2,464	-	2,464
Collectively assessed	4,325,760	234,229	109,005	28,511	4,697,505
Balance at 31 December 2023	**4,325,760**	**234,229**	**111,469**	**28,511**	**4,699,969**

Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2022	**40,598**	**19,309**	**67,956**	**7,587**	**135,450**
New financial asset originated or purchased	128,968	702	380	-	130,050
Transfer to Stage 1	19,103	(19,094)	(9)	-	-
Transfer to Stage 2	(23,869)	54,205	(30,336)	-	-
Transfer to Stage 3	(49,393)	(21,319)	70,712	-	-
Impact on ECL of exposures transferred between stages during the year	(2,120)	(24,929)	26,592	-	(457)
Assets repaid	(41,913)	(8,393)	(41,821)	(4,886)	(97,013)
Resegmentation	(9)	(2)	(2)	-	(13)
Impact of modifications	13	(7)	(5,235)	(122)	(5,351)
Foreign exchange movement	13	4	34	(4)	47
Net other measurement of ECL	(29,175)	17,623	59,529	5,681	53,658
Income statement (releases)/charges	1,618	(1,210)	79,844	669	80,921
Write-offs	-	-	(113,820)	(2,408)	(116,228)
Recoveries of amounts previously written off	-	-	25,870	1,376	27,246
Unwind of discount	-	-	4,199	530	4,729
Currency translation differences	(269)	(55)	(161)	-	(485)
Balance at 31 December 2023	**41,947**	**18,044**	**63,888**	**7,754**	**131,633**
Individually assessed	-	-	1,062	-	1,062
Collectively assessed	41,947	18,044	62,826	7,754	130,571
Balance at 31 December 2023	**41,947**	**18,044**	**63,888**	**7,754**	**131,633**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2022	**147,525**	**8,613**	**8,416**	**-**	**164,554**
New financial asset originated or purchased	103,553	-	401	-	103,954
Transfer to Stage 1	11,660	(11,660)	-	-	-
Transfer to Stage 2	(16,775)	18,268	(1,493)	-	-
Transfer to Stage 3	(2,147)	(2,800)	4,947	-	-
Assets repaid	(106,379)	(3,676)	(2,124)	-	(112,179)
Resegmentation	-	-	(335)	-	(335)
Write-offs	-	-	(5,438)	-	(5,438)
Recoveries of amounts previously written off	-	-	(13)	-	(13)
Unwind of discount	-	-	549	-	549
Foreign exchange movement	(2)	(1)	(48)	-	(51)
Net other changes	(19)	(48)	(746)	-	(813)
Balance at 31 December 2023	**137,416**	**8,696**	**4,116**	**-**	**150,228**
Collectively assessed	137,416	8,696	4,116	-	150,228
Balance at 31 December 2023	**137,416**	**8,696**	**4,116**	**-**	**150,228**

Gold – pawn loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2022	**69**	**32**	**5,339**	**-**	**5,440**
Transfer to Stage 1	32	(32)	-	-	-
Transfer to Stage 2	(19)	184	(165)	-	-
Transfer to Stage 3	(2)	(8)	10	-	-
Impact on ECL of exposures transferred between stages during the year	-	(1)	-	-	(1)
Assets repaid	(24)	(8)	1,007	-	975
Net other measurement of ECL	(13)	(143)	33	-	(123)
Income statement (releases)/charges	(26)	(8)	885	-	851
Write-offs	-	-	(5,438)	-	(5,438)
Recoveries of amounts previously written off	-	-	(13)	-	(13)
Unwind of discount	-	-	549	-	549
Balance at 31 December 2023	**43**	**24**	**1,322**	**-**	**1,389**
Collectively assessed	43	24	1,322	-	1,389
Balance at 31 December 2023	**43**	**24**	**1,322**	**-**	**1,389**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**4,764,048**	**374,933**	**223,401**	**18,014**	**5,380,396**
New financial asset originated or purchased	4,574,787	34,779	693	6,969	4,617,228
Transfer to Stage 1	202,422	(202,422)	-	-	-
Transfer to Stage 2	(773,437)	803,734	(30,297)	-	-
Transfer to Stage 3	(5,553)	(98,586)	104,139	-	-
Assets derecognised due to pass-through arrangement	(23,721)	(20)	(83)	-	(23,824)
Assets repaid	(3,950,533)	(217,064)	(83,154)	(9,763)	(4,260,514)
Resegmentation	194,578	2,622	(6,567)	-	190,633
Impact of modifications	1,330	1,983	184	2	3,499
Write-offs	-	-	(55,962)	-	(55,962)
Recoveries of amounts previously written off	-	-	42,501	2,865	45,366
Unwind of discount	-	-	(1,921)	359	(1,562)
Currency translation differences	(36,086)	(1,051)	(1,888)	-	(39,025)
Foreign exchange movement	(505,333)	(89,055)	(24,019)	(1,843)	(620,250)
Net other changes	50,869	1,454	5,956	(653)	57,626
Balance at 31 December 2022	**4,493,371**	**611,307**	**172,983**	**15,950**	**5,293,611**
Individually assessed	-	-	155,882	13,603	169,485
Collectively assessed	4,493,371	611,307	17,101	2,347	5,124,126
Balance at 31 December 2022	**4,493,371**	**611,307**	**172,983**	**15,950**	**5,293,611**

Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**12,992**	**6,893**	**133,426**	**2,926**	**156,237**
New financial asset originated or purchased	23,237	166	230	2,997	26,630
Transfer to Stage 1	4,323	(4,323)	-	-	-
Transfer to Stage 2	(6,172)	12,308	(6,136)	-	-
Transfer to Stage 3	(485)	(1,503)	1,988	-	-
Impact on ECL of exposures transferred between stages during the year	(2,382)	(3,448)	28,233	-	22,403
Assets derecognised due to pass-through arrangement	(62)	-	(34)	-	(96)
Assets repaid	(9,473)	(4,325)	(59,872)	(3,151)	(76,821)
Resegmentation	5,404	(27)	(997)	-	4,380
Impact of modifications	30	104	1	2	137
Foreign exchange movement	(871)	(1,696)	(10,614)	(883)	(14,064)
Net other measurement of ECL	(6,532)	20,460	(25,611)	(547)	(12,230)
Income statement (releases)/charges	7,017	17,716	(72,812)	(1,582)	(49,661)
Write-offs	-	-	(55,962)	-	(55,962)
Recoveries of amounts previously written off	-	-	42,501	2,865	45,366
Unwind of discount	-	-	(1,921)	359	(1,562)
Currency translation differences	(790)	(1,079)	(2,940)	(1)	(4,810)
Balance at 31 December 2022	**19,219**	**23,530**	**42,292**	**4,567**	**89,608**
Individually assessed	-	-	35,537	4,496	40,033
Collectively assessed	19,219	23,530	6,755	71	49,575
Balance at 31 December 2022	**19,219**	**23,530**	**42,292**	**4,567**	**89,608**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**3,629,369**	**259,970**	**104,514**	**28,205**	**4,022,058**
New financial asset originated or purchased	1,466,957	14	-	13,524	1,480,495
Transfer to Stage 1	403,540	(403,398)	(142)	-	-
Transfer to Stage 2	(375,932)	443,567	(67,635)	-	-
Transfer to Stage 3	(45,171)	(49,817)	94,988	-	-
Assets repaid	(901,792)	(57,945)	(49,096)	(10,849)	(1,019,682)
Resegmentation	(603)	-	-	-	(603)
Impact of modifications	179	37	(2,949)	(169)	(2,902)
Write-offs	-	-	(4,445)	(730)	(5,175)
Recoveries of amounts previously written off	-	-	3,937	357	4,294
Unwind of discount	-	-	182	109	291
Currency translation differences	(4,670)	(98)	(23)	-	(4,791)
Foreign exchange movement	(254,899)	(20,553)	(10,022)	(2,527)	(288,001)
Net other changes	8,928	(2,211)	348	155	7,220
Balance at 31 December 2022	**3,925,906**	**169,566**	**69,657**	**28,075**	**4,193,204**
Individually assessed	-	-	2,940	-	2,940
Collectively assessed	3,925,906	169,566	66,717	28,075	4,190,264
Balance at 31 December 2022	**3,925,906**	**169,566**	**69,657**	**28,075**	**4,193,204**

Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**9,701**	**3,803**	**17,039**	**2,493**	**33,036**
New financial asset originated or purchased	14,452	-	-	2,403	16,855
Transfer to Stage 1	5,673	(5,608)	(65)	-	-
Transfer to Stage 2	(3,236)	15,977	(12,741)	-	-
Transfer to Stage 3	(7,463)	(1,484)	8,947	-	-
Impact on ECL of exposures transferred between stages during the year	(1,807)	(10,903)	6,767	-	(5,943)
Assets repaid	(1,731)	(961)	(11,220)	(2,103)	(16,015)
Impact of modifications	4	1	937	64	1,006
Foreign exchange movement	(244)	(122)	(1,652)	(498)	(2,516)
Net other measurement of ECL	(6,487)	1,898	6,399	2,412	4,222
Income statement (releases)/charges	(839)	(1,202)	(2,628)	2,278	(2,391)
Write-offs	-	-	(4,445)	(730)	(5,175)
Recoveries of amounts previously written off	-	-	3,937	357	4,294
Unwind of discount	-	-	182	109	291
Currency translation differences	(2)	-	-	-	(2)
Balance at 31 December 2022	**8,860**	**2,601**	**14,085**	**4,507**	**30,053**
Individually assessed	-	-	576	-	576
Collectively assessed	8,860	2,601	13,509	4,507	29,477
Balance at 31 December 2022	**8,860**	**2,601**	**14,085**	**4,507**	**30,053**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**3,280,149**	**293,473**	**151,499**	**6,635**	**3,731,756**
New financial asset originated or purchased	2,953,940	7,854	1,859	2,435	2,966,088
Transfer to Stage 1	337,049	(337,049)	-	-	-
Transfer to Stage 2	(442,020)	501,877	(59,857)	-	-
Transfer to Stage 3	(50,683)	(106,474)	157,157	-	-
Assets repaid	(2,142,937)	(125,830)	(71,105)	(5,917)	(2,345,789)
Resegmentation	(224,709)	(4,680)	5,034	-	(224,355)
Impact of modifications	194	139	(2,627)	(36)	(2,330)
Write-offs	-	-	(37,629)	(98)	(37,727)
Recoveries of amounts previously written off	-	-	11,875	79	11,954
Unwind of discount	-	-	1,262	58	1,320
Currency translation differences	(11,551)	(1,097)	(1,147)	-	(13,795)
Foreign exchange movement	(275,010)	(27,918)	(17,669)	(350)	(320,947)
Net other changes	51,417	168	7,865	38	59,488
Balance at 31 December 2022	**3,475,839**	**200,463**	**146,517**	**2,844**	**3,825,663**
Individually assessed	-	-	39,448	-	39,448
Collectively assessed	3,475,839	200,463	107,069	2,844	3,786,215
Balance at 31 December 2022	**3,475,839**	**200,463**	**146,517**	**2,844**	**3,825,663**

Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**28,177**	**6,556**	**39,584**	**124**	**74,441**
New financial asset originated or purchased	38,841	81	97	281	39,300
Transfer to Stage 1	7,921	(7,921)	-	-	-
Transfer to Stage 2	(8,873)	20,802	(11,929)	-	-
Transfer to Stage 3	(8,295)	(7,503)	15,798	-	-
Impact on ECL of exposures transferred between stages during the year	(962)	(9,903)	29,077	-	18,212
Assets repaid	(13,663)	(3,065)	(24,514)	(496)	(41,738)
Resegmentation	(5,935)	(129)	541	-	(5,523)
Impact of modifications	10	(24)	(1,147)	16	(1,145)
Foreign exchange movement	(1,071)	(114)	(3,448)	(67)	(4,700)
Net other measurement of ECL	(15,929)	6,764	18,514	762	10,111
Income statement (releases)/charges	(7,956)	(1,012)	22,989	496	14,517
Write-offs	-	-	(37,629)	(98)	(37,727)
Recoveries of amounts previously written off	-	-	11,875	79	11,954
Unwind of discount	-	-	1,262	58	1,320
Currency translation differences	(143)	(96)	(764)	-	(1,003)
Balance at 31 December 2022	**20,078**	**5,448**	**37,317**	**659**	**63,502**
Individually assessed	-	-	10,552	-	10,552
Collectively assessed	20,078	5,448	26,765	659	52,950
Balance at 31 December 2022	**20,078**	**5,448**	**37,317**	**659**	**63,502**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Consumer loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2021	**2,635,438**	**215,026**	**107,642**	**23,199**	**2,981,305**
New financial asset originated or purchased	3,313,393	7,566	969	15,493	3,337,421
Transfer to Stage 1	344,640	(344,445)	(195)	-	-
Transfer to Stage 2	(534,425)	608,146	(73,721)	-	-
Transfer to Stage 3	(121,557)	(167,897)	289,454	-	-
Assets repaid	(2,357,992)	(102,236)	(64,593)	(12,241)	(2,537,062)
Resegmentation	30,506	2,058	1,578	-	34,142
Impact of modifications	1,152	(84)	(24,515)	(1,236)	(24,683)
Write-offs	-	-	(171,142)	(4,431)	(175,573)
Recoveries of amounts previously written off	-	-	22,074	879	22,953
Unwind of discount	-	-	4,252	922	5,174
Currency translation differences	(14,539)	(80)	(163)	-	(14,782)
Foreign exchange movement	(86,830)	(4,100)	(1,319)	(611)	(92,860)
Net other changes	33,406	(79)	31,671	1,021	66,019
Balance at 31 December 2022	**3,243,192**	**213,875**	**121,992**	**22,995**	**3,602,054**
Individually assessed	-	-	2,650	(1)	2,649
Collectively assessed	3,243,192	213,875	119,342	22,996	3,599,405
Balance at 31 December 2022	**3,243,192**	**213,875**	**121,992**	**22,995**	**3,602,054**

Consumer loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2021	**57,083**	**19,410**	**58,731**	**811**	**136,035**
New financial asset originated or purchased	131,916	1,199	478	4,325	137,918
Transfer to Stage 1	26,886	(26,872)	(14)	-	-
Transfer to Stage 2	(36,429)	72,075	(35,646)	-	-
Transfer to Stage 3	(61,445)	(37,845)	99,290	-	-
Impact on ECL of exposures transferred between stages during the year	(3,821)	(29,191)	48,501	-	15,489
Assets repaid	(41,829)	(8,884)	(38,047)	(3,763)	(92,523)
Resegmentation	531	156	456	-	1,143
Impact of modifications	121	(12)	(10,792)	122	(10,561)
Foreign exchange movement	(191)	(60)	(763)	(63)	(1,077)
Net other measurement of ECL	(32,188)	29,344	90,779	8,785	96,720
Income statement (releases)/charges	(16,449)	(90)	154,242	9,406	147,109
Write-offs	-	-	(171,142)	(4,431)	(175,573)
Recoveries of amounts previously written off	-	-	22,074	879	22,953
Unwind of discount	-	-	4,252	922	5,174
Currency translation differences	(36)	(11)	(201)	-	(248)
Balance at 31 December 2022	**40,598**	**19,309**	**67,956**	**7,587**	**135,450**
Individually assessed	-	-	1,054	-	1,054
Collectively assessed	40,598	19,309	66,902	7,587	134,396
Balance at 31 December 2022	**40,598**	**19,309**	**67,956**	**7,587**	**135,450**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**152,787**	**10,116**	**2,514**	**-**	**165,417**
New financial asset originated or purchased	122,438	1	54	-	122,493
Transfer to Stage 1	17,460	(17,460)	-	-	-
Transfer to Stage 2	(24,040)	25,642	(1,602)	-	-
Transfer to Stage 3	(7,251)	(2,757)	10,008	-	-
Assets repaid	(112,603)	(6,938)	(4,054)	-	(123,595)
Resegmentation	228	-	(45)	-	183
Write-offs	-	-	(635)	-	(635)
Recoveries of amounts previously written off	-	-	(25)	-	(25)
Unwind of discount	-	-	1	-	1
Foreign exchange movement	(33)	(4)	4	-	(33)
Net other changes	(1,461)	13	2,196	-	748
Balance at 31 December 2022	**147,525**	**8,613**	**8,416**	**-**	**164,554**
Individually assessed	-	-	4,337	-	4,337
Collectively assessed	147,525	8,613	4,079	-	160,217
Balance at 31 December 2022	**147,525**	**8,613**	**8,416**	**-**	**164,554**

Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**1,822**	**11**	**241**	**-**	**2,074**
Transfer to Stage 1	27	(27)	-	-	-
Transfer to Stage 2	(16)	149	(133)	-	-
Transfer to Stage 3	(2,502)	(6)	2,508	-	-
Assets repaid	(18)	(6)	(30)	-	(54)
Net other measurement of ECL	756	(89)	3,412	-	4,079
Income statement (releases)/charges	(1,753)	21	5,757	-	4,025
Write-offs	-	-	(635)	-	(635)
Recoveries of amounts previously written off	-	-	(25)	-	(25)
Unwind of discount	-	-	1	-	1
Balance at 31 December 2022	**69**	**32**	**5,339**	**-**	**5,440**
Individually assessed	-	-	4,337	-	4,337
Collectively assessed	69	32	1,002	-	1,103
Balance at 31 December 2022	**69**	**32**	**5,339**	**-**	**5,440**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Commercial loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**4,296,883**	**382,118**	**241,821**	**8,376**	**4,929,198**
New financial asset originated or purchased	4,363,757	34,815	3,202	10,032	4,411,806
Transfer to Stage 1	231,287	(229,399)	(1,888)	-	-
Transfer to Stage 2	(373,532)	394,553	(21,021)	-	-
Transfer to Stage 3	(10,148)	(52,529)	62,677	-	-
Assets derecognised due to pass-through arrangement	(28,338)	(2,048)	(124)	-	(30,510)
Assets repaid	(3,477,879)	(159,200)	(102,689)	(144)	(3,739,912)
Resegmentation	109,367	35,325	2,164	-	146,856
Impact of modifications	686	258	152	(22)	1,074
Write-offs	-	-	(4,574)	-	(4,574)
Recoveries of amounts previously written off	-	-	47,192	69	47,261
Unwind of discount	-	-	2,959	4	2,963
Currency translation differences	(13,676)	(358)	(866)	-	(14,900)
Foreign exchange movement	(350,775)	(27,796)	(9,555)	(380)	(388,506)
Net other changes	16,416	(806)	3,951	79	19,640
Balance at 31 December 2021	**4,764,048**	**374,933**	**223,401**	**18,014**	**5,380,396**
Individually assessed	-	-	199,907	9,566	209,473
Collectively assessed	4,764,048	374,933	23,494	8,448	5,170,923
Balance at 31 December 2021	**4,764,048**	**374,933**	**223,401**	**18,014**	**5,380,396**

Commercial loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**28,180**	**8,157**	**136,572**	**7**	**172,916**
New financial asset originated or purchased	20,591	1,973	312	3,481	26,357
Transfer to Stage 1	2,934	(2,932)	(2)	-	-
Transfer to Stage 2	(2,904)	11,116	(8,212)	-	-
Transfer to Stage 3	(1,769)	(374)	2,143	-	-
Impact on ECL of exposures transferred between stages during the year	(1,373)	(6,710)	10,153	-	2,070
Assets derecognised due to pass-through arrangement	(138)	(74)	(70)	-	(282)
Assets repaid	(9,349)	(3,694)	(67,366)	(80)	(80,489)
Resegmentation	192	298	-	-	490
Impact of modifications	11	(2)	12	(14)	7
Foreign exchange movement	(498)	(141)	(5,254)	10	(5,883)
Net other measurement of ECL	(22,754)	(648)	19,943	(551)	(4,010)
Income statement (releases)/charges	(15,057)	(1,188)	(48,341)	2,846	(61,740)
Write-offs	-	-	(4,574)	-	(4,574)
Recoveries of amounts previously written off	-	-	47,192	69	47,261
Unwind of discount	-	-	2,959	4	2,963
Currency translation differences	(131)	(76)	(382)	-	(589)
Balance at 31 December 2021	**12,992**	**6,893**	**133,426**	**2,926**	**156,237**
Individually assessed	-	-	125,089	2,837	127,926
Collectively assessed	12,992	6,893	8,337	89	28,311
Balance at 31 December 2021	**12,992**	**6,893**	**133,426**	**2,926**	**156,237**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**3,287,844**	**314,215**	**168,476**	**25,849**	**3,796,384**
New financial asset originated or purchased	1,549,472	238	103	13,615	1,563,428
Transfer to Stage 1	428,840	(407,795)	(21,045)	-	-
Transfer to Stage 2	(344,981)	588,640	(243,659)	-	-
Transfer to Stage 3	(158,425)	(129,954)	288,379	-	-
Assets repaid	(975,730)	(94,131)	(73,544)	(9,287)	(1,152,692)
Resegmentation	5,514	970	-	-	6,484
Impact of modifications	988	670	143	(283)	1,518
Write-offs	-	-	(5,750)	(561)	(6,311)
Recoveries of amounts previously written off	-	-	993	205	1,198
Unwind of discount	-	-	244	17	261
Currency translation differences	(1,910)	(45)	2	(2)	(1,955)
Foreign exchange movement	(155,793)	(11,366)	(9,238)	(1,648)	(178,045)
Net other changes	(6,450)	(1,472)	(590)	300	(8,212)
Balance at 31 December 2021	**3,629,369**	**259,970**	**104,514**	**28,205**	**4,022,058**
Individually assessed	-	-	277	-	277
Collectively assessed	3,629,369	259,970	104,237	28,205	4,021,781
Balance at 31 December 2021	**3,629,369**	**259,970**	**104,514**	**28,205**	**4,022,058**

Residential mortgage loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**8,650**	**11,410**	**25,236**	**3,311**	**48,607**
New financial asset originated or purchased	29,065	3	4	887	29,959
Transfer to Stage 1	15,750	(12,962)	(2,788)	-	-
Transfer to Stage 2	(5,679)	46,641	(40,962)	-	-
Transfer to Stage 3	(18,908)	(5,725)	24,633	-	-
Impact on ECL of exposures transferred between stages during the year	(5,562)	(37,935)	22,414	-	(21,083)
Assets repaid	(2,621)	(2,674)	(12,902)	(1,763)	(19,960)
Resegmentation	21	1	-	-	22
Impact of modifications	-	-	438	(198)	240
Foreign exchange movement	(470)	101	(1,732)	(409)	(2,510)
Net other measurement of ECL	(10,545)	4,943	7,211	1,004	2,613
Income statement (releases)/charges	9,701	3,803	21,552	2,832	37,888
Write-offs	-	-	(5,750)	(561)	(6,311)
Recoveries of amounts previously written off	-	-	993	205	1,198
Unwind of discount	-	-	244	17	261
Balance at 31 December 2021	**9,701**	**3,803**	**17,039**	**2,493**	**33,036**
Individually assessed	-	-	7	-	7
Collectively assessed	9,701	3,803	17,032	2,493	33,029
Balance at 31 December 2021	**9,701**	**3,803**	**17,039**	**2,493**	**33,036**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**2,649,107**	**439,405**	**177,471**	**3,471**	**3,269,454**
New financial asset originated or purchased	3,303,744	17,798	1,152	7,599	3,330,293
Transfer to Stage 1	384,411	(377,752)	(6,659)	-	-
Transfer to Stage 2	(571,845)	678,669	(106,824)	-	-
Transfer to Stage 3	(108,524)	(112,029)	220,553	-	-
Assets repaid	(1,987,068)	(282,948)	(96,106)	(4,718)	(2,370,840)
Resegmentation	(247,911)	(40,492)	(2,790)	(5)	(291,198)
Impact of modifications	319	210	(4,384)	(11)	(3,866)
Write-offs	-	-	(40,195)	(214)	(40,409)
Recoveries of amounts previously written off	-	-	12,628	686	13,314
Unwind of discount	-	-	265	23	288
Currency translation differences	(5,494)	(473)	(386)	2	(6,351)
Foreign exchange movement	(180,781)	(27,138)	(9,910)	(271)	(218,100)
Net other changes	44,191	(1,777)	6,684	73	49,171
Balance at 31 December 2021	**3,280,149**	**293,473**	**151,499**	**6,635**	**3,731,756**
Individually assessed	-	-	23,466	-	23,466
Collectively assessed	3,280,149	293,473	128,033	6,635	3,708,290
Balance at 31 December 2021	**3,280,149**	**293,473**	**151,499**	**6,635**	**3,731,756**

Micro and SME loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**26,157**	**20,571**	**55,560**	**64**	**102,352**
New financial asset originated or purchased	58,476	804	92	81	59,453
Transfer to Stage 1	20,352	(18,841)	(1,511)	-	-
Transfer to Stage 2	(14,284)	35,909	(21,625)	-	-
Transfer to Stage 3	(13,914)	(7,459)	21,373	-	-
Impact on ECL of exposures transferred between stages during the year	(4,218)	(18,652)	27,259	-	4,389
Assets repaid	(16,879)	(7,632)	(26,573)	(968)	(52,052)
Resegmentation	(1,280)	(476)	(182)	-	(1,938)
Impact of modifications	2	(7)	(2,180)	1	(2,184)
Foreign exchange movement	(1,020)	(184)	(2,826)	(79)	(4,109)
Net other measurement of ECL	(25,153)	2,557	17,767	530	(4,299)
Income statement (releases)/charges	28,239	6,590	67,154	(371)	101,612
Write-offs	-	-	(40,195)	(214)	(40,409)
Recoveries of amounts previously written off	-	-	12,628	686	13,314
Unwind of discount	-	-	265	23	288
Currency translation differences	(62)	(34)	(268)	-	(364)
Balance at 31 December 2021	**28,177**	**6,556**	**39,584**	**124**	**74,441**
Individually assessed	-	-	10,613	-	10,613
Collectively assessed	28,177	6,556	28,971	124	63,828
Balance at 31 December 2021	**28,177**	**6,556**	**39,584**	**124**	**74,441**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**1,904,182**	**194,366**	**100,950**	**8,515**	**2,208,013**
New financial asset originated or purchased	2,747,021	7,001	1,718	19,540	2,775,280
Transfer to Stage 1	270,620	(253,910)	(16,710)	-	-
Transfer to Stage 2	(367,600)	489,718	(122,118)	-	-
Transfer to Stage 3	(134,641)	(123,558)	258,199	-	-
Assets repaid	(1,849,334)	(100,322)	(65,394)	(4,297)	(2,019,347)
Resegmentation	110,449	3,487	706	5	114,647
Impact of modifications	246	82	(9,482)	(46)	(9,200)
Write-offs	-	-	(72,832)	(415)	(73,247)
Recoveries of amounts previously written off	-	-	19,405	148	19,553
Unwind of discount	-	-	397	345	742
Currency translation differences	(6,094)	(33)	(68)	-	(6,195)
Foreign exchange movement	(51,792)	(1,590)	(688)	(223)	(54,293)
Net other changes	12,381	(215)	13,559	(373)	25,352
Balance at 31 December 2021	**2,635,438**	**215,026**	**107,642**	**23,199**	**2,981,305**
Individually assessed	-	-	1,481	-	1,481
Collectively assessed	2,635,438	215,026	106,161	23,199	2,979,824
Balance at 31 December 2021	**2,635,438**	**215,026**	**107,642**	**23,199**	**2,981,305**

Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**40,597**	**25,533**	**46,641**	**1,030**	**113,801**
New financial asset originated or purchased	153,477	1,570	546	251	155,844
Transfer to Stage 1	33,951	(26,256)	(7,695)	-	-
Transfer to Stage 2	(26,684)	75,148	(48,464)	-	-
Transfer to Stage 3	(57,627)	(20,176)	77,803	-	-
Impact on ECL of exposures transferred between stages during the year	(12,239)	(40,279)	53,664	-	1,146
Assets repaid	(47,437)	(11,239)	(36,001)	(1,449)	(96,126)
Resegmentation	548	83	182	-	813
Impact of modifications	(2)	(1)	(5,036)	5	(5,034)
Foreign exchange movement	(153)	(37)	(643)	(29)	(862)
Net other measurement of ECL	(27,338)	15,067	30,779	925	19,433
Income statement (releases)/charges	57,093	19,413	111,776	733	189,015
Write-offs	-	-	(72,832)	(415)	(73,247)
Recoveries of amounts previously written off	-	-	19,405	148	19,553
Unwind of discount	-	-	397	345	742
Currency translation differences	(10)	(3)	(15)	-	(28)
Balance at 31 December 2021	**57,083**	**19,410**	**58,731**	**811**	**136,035**
Individually assessed	-	-	585	-	585
Collectively assessed	57,083	19,410	58,146	811	135,450
Balance at 31 December 2021	**57,083**	**19,410**	**58,731**	**811**	**136,035**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**97,776**	**3,879**	**1,729**	**-**	**103,384**
New financial asset originated or purchased	170,198	1,117	219	-	171,534
Transfer to Stage 1	10,556	(10,148)	(408)	-	-
Transfer to Stage 2	(21,129)	23,266	(2,137)	-	-
Transfer to Stage 3	(3,856)	(2,531)	6,387	-	-
Assets repaid	(123,964)	(6,222)	(3,071)	-	(133,257)
Resegmentation	22,581	710	(80)	-	23,211
Write-offs	-	-	(253)	-	(253)
Recoveries of amounts previously written off	-	-	3	-	3
Unwind of discount	-	-	(1)	-	(1)
Currency translation differences	(1)	-	1	-	-
Foreign exchange movement	(18)	(6)	(3)	-	(27)
Net other changes	644	51	128	-	823
Balance at 31 December 2021	**152,787**	**10,116**	**2,514**	**-**	**165,417**
Collectively assessed	152,787	10,116	2,514	-	165,417
Balance at 31 December 2021	**152,787**	**10,116**	**2,514**	**-**	**165,417**

Gold – pawn loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**39**	**16**	**172**	**-**	**227**
New financial asset originated or purchased	497	138	-	-	635
Transfer to Stage 1	34	(10)	(24)	-	-
Transfer to Stage 2	-	85	(85)	-	-
Transfer to Stage 3	(2)	(4)	6	-	-
Impact on ECL of exposures transferred between stages during the year	(24)	-	-	-	(24)
Assets repaid	(177)	(27)	(24)	-	(228)
Resegmentation	519	94	-	-	613
Net other measurement of ECL	936	(281)	447	-	1,102
Income statement (releases)/charges	1,822	11	492	-	2,325
Write-offs	-	-	(253)	-	(253)
Recoveries of amounts previously written off	-	-	3	-	3
Unwind of discount	-	-	(1)	-	(1)
Balance at 31 December 2021	**1,822**	**11**	**241**	**-**	**2,074**
Collectively assessed	1,822	11	241	-	2,074
Balance at 31 December 2021	**1,822**	**11**	**241**	**-**	**2,074**

The contractual amounts outstanding on loans to customers that have been written off during the reporting period but are still subject to enforcement activity was GEL 138,972 (2022: GEL 188,545, 2021: GEL 95,469).

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables, third-party corporate guarantees and personal guarantees of shareholders.
- For retail lending, mortgages over residential properties, cars, gold and jewellery, third-party corporate guarantees and personal guarantees of shareholders.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss/impairment of loans.

It is the Group's policy to dispose of repossessed properties in an orderly fashion or to hold them for capital appreciation or earning rentals, as appropriate in each case. In general, the Group does not occupy repossessed properties for business use.

Without taking into account the discounted value of collateral, the ECL for credit-impaired loans would be as follows:

2023	***ECL for credit-impaired loans***	***ECL without taking into account the discounted value of collateral***
Commercial loans	51,068	116,365
Residential mortgage loans	16,742	56,851
Micro and SME loans	55,119	152,430
Consumer loans	71,642	105,437
Gold – pawn loans	1,322	3,290
Total	**195,893**	**434,373**

2022	***ECL for credit-impaired loans***	***ECL without taking into account the discounted value of collateral***
Commercial loans	46,859	185,698
Residential mortgage loans	18,592	67,537
Micro and SME loans	37,976	131,404
Consumer loans	75,543	103,597
Gold – pawn loans	5,339	6,947
Total	**184,309**	**495,183**

2021	***ECL for credit-impaired loans***	***ECL without taking into account the discounted value of collateral***
Commercial loans	136,352	230,333
Residential mortgage loans	19,532	93,804
Micro and SME loans	39,708	140,929
Consumer loans	59,542	87,891
Gold – pawn loans	241	1,805
Total	**255,375**	**554,762**

Without taking into account the discounted value of collateral, the allowance for expected credit loss/impairment of loans would be GEL 238,480 higher as at 31 December 2023 (2022: GEL 310,874 higher, 2021: GEL 299,387 higher).

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Concentration of loans to customers

As at 31 December 2023, the concentration of loans granted by the Group to the ten largest third-party borrowers comprised GEL 1,507,812 accounting for 7% of the gross loan portfolio of the Group (2022: GEL 1,017,629 and 6% respectively, 2021: GEL 1,187,521 and 7% respectively). An allowance of expected credit loss of GEL 13,524 (2022: GEL 8,209, 2021: GEL 1,424) was established against these loans.

As at 31 December 2023, the concentration of loans granted by the Group to the ten largest third-party group of borrowers (borrower and its related parties) comprised GEL 2,414,054 accounting for 12% of the gross loan portfolio of the Group (2022: GEL 1,736,614 and 10% respectively, 2021: GEL 1,976,154 and 12% respectively). An allowance of GEL 3,599 (2022: GEL 17,392, 2021: GEL 6,128) was established against these loans.

As at 31 December 2023, 31 December 2022 and 31 December 2021, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2023	*2022*	*2021*
Individuals	11,445,733	10,011,378	9,184,255
Real estate	1,608,487	1,024,364	1,025,298
Manufacturing	1,477,204	1,030,899	1,189,008
Trade	1,472,682	1,132,089	1,185,512
Hospitality	975,621	828,577	946,224
Electricity, gas and water supply	665,454	458,415	384,554
Financial intermediation	418,103	308,121	261,965
Construction	377,857	512,345	379,813
Service	306,465	302,442	307,602
Transport & communication	273,071	190,175	234,512
Mining and quarrying	160,261	148,489	183,270
Other	1,330,767	1,131,792	998,919
Loans to customers, gross	**20,511,705**	**17,079,086**	**16,280,932**
Less – Allowance for expected credit loss	(325,810)	(324,053)	(401,823)
Loans to customers, net	**20,185,895**	**16,755,033**	**15,879,109**

Loans have been extended to the following types of customers:

	2023	*2022*	*2021*
Individuals	11,445,733	10,011,378	9,184,255
Private companies	9,063,405	7,064,014	7,084,205
State-owned entities	2,567	3,694	12,472
Loans to customers, gross	**20,511,705**	**17,079,086**	**16,280,932**
Less – Allowance for expected credit loss	(325,810)	(324,053)	(401,823)
Loans to customers, net	**20,185,895**	**16,755,033**	**15,879,109**

Finance lease receivables

	2023	*2022*	*2021*
Minimum lease payments receivable	91,182	120,740	168,508
Less – Unearned finance lease income	(17,695)	(25,392)	(43,556)
	73,487	**95,348**	**124,952**
Less – Allowance for expected credit loss / impairment loss	(11,315)	(8,778)	(5,895)
Finance lease receivables, net	**62,172**	**86,570**	**119,057**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Finance lease receivables (continued)

As at 31 December 2023**,** no finance lease receivables were pledged for inter-bank loans received from several credit institutions (2022: GEL 16,965, 2021: GEL 67,556).

As at 31 December 2023, the concentration of investment in the five largest lease receivables comprised GEL 18,436 or 25% of total finance lease receivables (2022: GEL 20,273 or 21%, 2021: GEL 22,417 or 18%) and finance income received from them for the year ended 31 December 2023 comprised GEL 2,857 or 20% of total finance income from lease (2022: GEL 793 or 4%, 2021: GEL 1,706 or 6%).

Future minimum lease payments to be received after **31 December 2023**, **31 December 2022** and **31 December 2021** are as follows:

	2023	*2022*	*2021*
Within 1 year	48,985	51,944	76,407
From 1 to 2 years	10,136	22,480	35,929
From 2 to 3 years	7,639	18,109	24,390
From 3 to 4 years	2,053	7,613	14,996
From 4 to 5 years	3,169	3,036	3,159
More than 5 years	19,200	17,559	13,627
Minimum lease payment receivables	**91,182**	**120,740**	**168,508**

Movements of the gross finance lease receivables and respective allowance for expected credit loss/impairment of finance lease receivables are as follows:

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2022	**59,531**	**6,451**	**14,156**	**15,210**	**95,348**
New financial asset originated or purchased	28,851	-	-	10,525	39,376
Transfer to Stage 1	9,296	(8,702)	(594)	-	-
Transfer to Stage 2	(17,459)	21,451	(3,992)	-	-
Transfer to Stage 3	(1,597)	(10,139)	11,736	-	-
Assets repaid	(37,236)	(3,603)	(5,285)	(6,389)	(52,513)
Impact of modifications	(221)	-	138	-	(83)
Write-offs	-	-	(3,429)	313	(3,116)
Recoveries of amounts previously written off	-	-	66	-	66
Unwind of discount	-	-	23	284	307
Currency translation differences	(7,420)	(426)	(626)	-	(8,472)
Foreign exchange movement	2,285	198	117	(804)	1,796
Net other changes	987	(2)	(148)	(59)	778
Balance at 31 December 2023	**37,017**	**5,228**	**12,162**	**19,080**	**73,487**
Individually assessed	-	-	384	-	384
Collectively assessed	37,017	5,228	11,778	19,080	73,103
Balance at 31 December 2023	**37,017**	**5,228**	**12,162**	**19,080**	**73,487**

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2022	**852**	**258**	**3,587**	**4,081**	**8,778**
New financial asset originated or purchased	1,375	-	-	-	1,375
Transfer to Stage 1	275	(262)	(13)	-	-
Transfer to Stage 2	(663)	782	(119)	-	-
Transfer to Stage 3	(542)	(434)	976	-	-
Impact on ECL of exposures transferred between stages during the year	(142)	238	291	-	387
Assets repaid	(558)	(184)	(3,122)	(2,394)	(6,258)
Impact of modifications	(2)	-	-	-	(2)
Foreign exchange movement	51	37	3	-	91
Net other measurement of ECL	353	(56)	5,307	1,565	7,169
Income statement (releases)/charges	147	121	3,323	(829)	2,762
Write-offs	-	-	(316)	313	(3)
Recoveries of amounts previously written off	-	-	66	-	66
Unwind of discount	-	-	23	284	307
Currency translation differences	178	106	(879)	-	(595)
Balance at 31 December 2023	**1,177**	**485**	**5,804**	**3,849**	**11,315**
Individually assessed	-	-	158	-	158
Collectively assessed	1,177	485	5,646	3,849	11,157
Balance at 31 December 2023	**1,177**	**485**	**5,804**	**3,849**	**11,315**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Finance lease receivables (continued)

Finance lease receivables, gross	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2021	**81,174**	**17,584**	**16,612**	**9,582**	**124,952**
New financial asset originated or purchased	47,812	-	-	12,081	59,893
Transfer to Stage 1	25,182	(19,801)	(5,381)	-	-
Transfer to Stage 2	(26,267)	33,605	(7,338)	-	-
Transfer to Stage 3	(3,139)	(15,782)	18,921	-	-
Assets repaid	(60,440)	(8,077)	(5,299)	(6,537)	(80,353)
Impact of modifications	278	-	-	-	278
Write-offs	-	-	(2,724)	-	(2,724)
Unwind of discount	-	-	105	-	105
Currency translation differences	(6,273)	(1,022)	(1,039)	-	(8,334)
Foreign exchange movement	865	(66)	86	-	885
Net other changes	339	10	213	84	646
Balance at 31 December 2022	**59,531**	**6,451**	**14,156**	**15,210**	**95,348**
Individually assessed	-	-	1,245	-	1,245
Collectively assessed	59,531	6,451	12,911	15,210	94,103
Balance at 31 December 2022	**59,531**	**6,451**	**14,156**	**15,210**	**95,348**

Finance lease receivables, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2021	**1,126**	**763**	**2,810**	**1,196**	**5,895**
New financial asset originated or purchased	1,537	-	-	-	1,537
Transfer to Stage 1	1,686	(1,044)	(642)	-	-
Transfer to Stage 2	(1,241)	2,013	(772)	-	-
Transfer to Stage 3	(188)	(1,253)	1,441	-	-
Impact on ECL of exposures transferred between stages during the year	(1,513)	586	2,104	-	1,177
Assets repaid	(664)	(299)	(1,645)	(1,856)	(4,464)
Foreign exchange movement	64	(3)	5	-	66
Net other measurement of ECL	27	(487)	611	4,741	4,892
Income statement (releases)/charges	(292)	(487)	1,102	2,885	3,208
Write-offs	-	-	(480)	-	(480)
Unwind of discount	-	-	105	-	105
Currency translation differences	18	(18)	50	-	50
Balance at 31 December 2022	**852**	**258**	**3,587**	**4,081**	**8,778**
Individually assessed	-	-	352	-	352
Collectively assessed	852	258	3,235	4,081	8,426
Balance at 31 December 2022	**852**	**258**	**3,587**	**4,081**	**8,778**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Finance lease receivables (continued)

Finance lease receivables, gross	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**67,346**	**53,276**	**18,750**	**-**	**139,372**
New financial asset originated or purchased	90,739	-	465	3,107	94,311
Transfer to Stage 1	34,761	(34,715)	(46)	-	-
Transfer to Stage 2	(43,879)	57,480	(13,601)	-	-
Transfer to Stage 3	(3,925)	(33,434)	37,359	-	-
Assets repaid	(60,625)	(23,912)	(4,116)	(122)	(88,775)
Impact of modifications	20	-	-	-	20
Write-offs	-	-	(21,232)	-	(21,232)
Unwind of discount	-	-	10	13	23
Currency translation differences	(2,087)	(1,057)	(931)	-	(4,075)
Foreign exchange movement	(641)	(47)	(66)	(249)	(1,003)
Net other changes	(535)	(7)	20	6,833	6,311
Balance at 31 December 2021	**81,174**	**17,584**	**16,612**	**9,582**	**124,952**
Individually assessed	-	-	2,746	-	2,746
Collectively assessed	81,174	17,584	13,866	9,582	122,206
Balance at 31 December 2021	**81,174**	**17,584**	**16,612**	**9,582**	**124,952**

Finance lease receivables, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2020	**649**	**1,109**	**2,618**	**-**	**4,376**
New financial asset originated or purchased	1,570	-	256	-	1,826
Transfer to Stage 1	684	(683)	(1)	-	-
Transfer to Stage 2	(976)	2,371	(1,395)	-	-
Transfer to Stage 3	(85)	(1,975)	2,060	-	-
Impact on ECL of exposures transferred between stages during the year	(12)	1,036	2,151	-	3,175
Assets repaid	(461)	(467)	(361)	-	(1,289)
Net other measurement of ECL	(207)	(78)	328	1,195	1,238
Income statement (releases)/charges	1,162	1,313	5,656	1,195	9,326
Write-offs	-	-	(2,704)	-	(2,704)
Unwind of discount	-	-	10	13	23
Currency translation differences	(36)	(550)	(152)	(12)	(750)
Balance at 31 December 2021	**1,126**	**763**	**2,810**	**1,196**	**5,895**
Individually assessed	-	-	1,236	-	1,236
Collectively assessed	1,126	763	1,574	1,196	4,659
Balance at 31 December 2021	**1,126**	**763**	**2,810**	**1,196**	**5,895**

The Group writes off the finance lease receivable balance when it takes possession of the underlying asset. The difference between the gross and ECL balances at the time of write-off represents the value of the repossessed asset.

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets

	2023	*2022*	*2021*
Right-of-use assets	134,422	115,404	77,676
Lease liability	137,554	112,624	85,098

Administrative expenses include occupancy and rent expenses on lease contracts where the recognition exemptions have been applied:

	2023	*2022*	*2021*
Short-term leases	(4,601)	(4,413)	(3,595)
Leases of low-value assets	(1,665)	(1,385)	(1,553)
	(6,266)	**(5,798)**	**(5,148)**

Movement in liabilities arising from financing activities

	Movement in liabilities arising from financing activities
Carrying amount at 1 January 2021	**95,201**
Cash payments for the principal portion of the lease liability	(28,672)
Change in accrued interest	193
Additions	39,289
Other movements*	(20,913)
Carrying amount at 31 December 2021	**85,098**
Cash payments for the principal portion of the lease liability	(25,020)
Change in accrued interest	1,089
Additions	70,095
Other movements*	(18,638)
Carrying amount at 31 December 2022	**112,624**
Cash payments for the principal portion of the lease liability	(31,606)
Change in accrued interest	(743)
Additions	59,709
Other movements*	(2,430)
Carrying amount at 31 December 2023	**137,554**

**Other movement mainly includes translation effect of foreign currency contracts and cancelled lease contracts.*

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets (continued)

The movements in right-of-use assets were as follows:

	Office buildings & service centres	*Computers & equipment*	*Total*
Cost			
31 December 2022	**177,533**	**2,333**	**179,866**
Additions	59,974	-	59,974
Disposals	(14,548)	-	(14,548)
Currency translation differences	(5,284)	(559)	(5,843)
31 December 2023	**217,675**	**1,774**	**219,449**
Accumulated depreciation			
31 December 2022	**63,362**	**1,100**	**64,462**
Depreciation charge	31,782	315	32,097
Disposals	(10,164)	-	(10,164)
Currency translation differences	(1,052)	(316)	(1,368)
31 December 2023	**83,928**	**1,099**	**85,027**
Net book value			
31 December 2022	**114,171**	**1,233**	**115,404**
31 December 2023	**133,747**	**675**	**134,422**

	Office buildings & service centres	*Computers & equipment*	*Total*
Cost			
31 December 2021	**123,669**	**2,631**	**126,300**
Additions	73,773	-	73,773
Disposals	(18,960)	-	(18,960)
Currency translation differences	(949)	(298)	(1,247)
31 December 2022	**177,533**	**2,333**	**179,866**
Accumulated depreciation			
31 December 2021	**47,760**	**864**	**48,624**
Depreciation charge	24,473	345	24,818
Disposals	(8,656)	-	(8,656)
Currency translation differences	(215)	(109)	(324)
31 December 2022	**63,362**	**1,100**	**64,462**
Net book value			
31 December 2021	**75,909**	**1,767**	**77,676**
31 December 2022	**114,171**	**1,233**	**115,404**

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets (continued)

	Office buildings & service centres	*Computers & equipment*	*Total*
Cost			
31 December 2020	**115,349**	**2,749**	**118,098**
Additions	39,780	-	39,780
Disposals	(31,315)	-	(31,315)
Currency translation differences	(145)	(118)	(263)
31 December 2021	**123,669**	**2,631**	**126,300**
Accumulated depreciation			
31 December 2020	**34,778**	**516**	**35,294**
Depreciation charge	20,757	388	21,145
Disposals	(7,719)	-	(7,719)
Currency translation differences	(56)	(40)	(96)
31 December 2021	**47,760**	**864**	**48,624**
Net book value			
31 December 2020	**80,571**	**2,233**	**82,804**
31 December 2021	**75,909**	**1,767**	**77,676**

The movements in property and equipment were as follows:

	Office buildings & service centres	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost							
31 December 2022	**229,184**	**190,730**	**219,231**	**6,063**	**26,574**	**1,346**	**673,128**
Additions	20,379	24,936	25,362	2,795	1,544	16,793	91,809
Transfers	2,557	-	-	-	8,507	(11,064)	-
Transfers to investment properties	(641)	-	-	-	-	-	(641)
Transfers to assets held for sale	(1,363)	-	-	-	-	-	(1,363)
Transfers from foreclosed Assets	3,516	-	-	-	-	-	3,516
Transfers (to) from other assets	934	(1,421)	(7,714)	(207)	(29)	(243)	(8,680)
Disposals	-	(267)	(480)	(194)	(222)	-	(1,163)
Write-offs	-	-	(2)	(284)	(2,161)	(318)	(2,765)
Currency translation differences	(2,662)	(452)	(2,128)	(141)	(402)	(34)	(5,819)
31 December 2023	**251,904**	**213,526**	**234,269**	**8,032**	**33,811**	**6,480**	**748,022**
Accumulated impairment							
31 December 2022	**2,557**	**36**	**98**	**8**	**-**	**-**	**2,699**
31 December 2023	**2,557**	**36**	**98**	**8**	**-**	**-**	**2,699**
Accumulated depreciation							
31 December 2022	**29,859**	**119,721**	**141,695**	**3,556**	**11,992**	**-**	**306,823**
Depreciation charge	4,947	11,583	26,109	910	4,576	-	48,125
Transfers to investment properties	(225)	(1)	-	-	-	-	(226)
Transfers to assets held for sale	(1,065)	-	-	-	-	-	(1,065)
Transfers to other assets	-	(996)	(5,526)	(203)	-	-	(6,725)
Disposals	-	(194)	(445)	(112)	(217)	-	(968)
Write-offs	-	(354)	(745)	(85)	(1,147)	-	(2,331)
Currency translation differences	(1,239)	(198)	(985)	(25)	(166)	-	(2,613)
31 December 2023	**32,277**	**129,561**	**160,103**	**4,041**	**15,038**	**-**	**341,020**
Net book value							
31 December 2022	**196,768**	**70,973**	**77,438**	**2,499**	**14,582**	**1,346**	**363,606**
31 December 2023	**217,070**	**83,929**	**74,068**	**3,983**	**18,773**	**6,480**	**404,303**

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets (continued)

	Office buildings & service centres	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost							
31 December 2021	**210,883**	**186,683**	**194,705**	**5,029**	**26,863**	**1,095**	**625,258**
Additions	120	10,566	30,290	1,952	72	27,736	70,736
Transfers	23,333	32	77	-	3,804	(27,246)	-
Transfers to investment properties	769	-	-	-	-	-	769
Transfers to other assets	-	(1,571)	(2,135)	(265)	-	(231)	(4,202)
Disposals	(3,011)	(83)	(439)	(365)	(27)	(1)	(3,926)
Write-offs	(29)	(4,699)	(2,455)	(241)	(4,051)	-	(11,475)
Currency translation differences	(2,881)	(198)	(812)	(47)	(87)	(7)	(4,032)
31 December 2022	**229,184**	**190,730**	**219,231**	**6,063**	**26,574**	**1,346**	**673,128**
Accumulated impairment							
31 December 2021	**2,557**	**36**	**98**	**8**	**-**	**-**	**2,699**
31 December 2022	**2,557**	**36**	**98**	**8**	**-**	**-**	**2,699**
Accumulated depreciation							
31 December 2021	**27,512**	**111,842**	**124,814**	**3,381**	**11,985**	**-**	**279,534**
Depreciation charge	4,159	13,618	22,606	643	4,130	-	45,156
Transfers to investment properties	(155)	-	-	-	-	-	(155)
Transfers to other assets	-	(916)	(2,479)	(230)	-	-	(3,625)
Disposals	(795)	(176)	(366)	(88)	(25)	-	(1,450)
Write-offs	2	(4,546)	(2,414)	(130)	(4,027)	-	(11,115)
Currency translation differences	(851)	(114)	(466)	(20)	(71)	-	(1,522)
31 December 2022	**29,859**	**119,721**	**141,695**	**3,556**	**11,992**	**-**	**306,823**
Net book value							
31 December 2021	**180,814**	**74,805**	**69,793**	**1,640**	**14,878**	**1,095**	**343,025**
31 December 2022	**196,768**	**70,973**	**77,438**	**2,499**	**14,582**	**1,346**	**363,606**

	Office buildings & service centres	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost							
31 December 2020	**210,632**	**176,395**	**175,854**	**5,210**	**31,810**	**3,222**	**603,123**
Additions	1,985	11,785	28,214	438	10	7,071	49,503
Transfers	6,416	-	-	-	2,493	(8,909)	-
Revaluation	2,359	-	-	-	-	-	2,359
Transfers to investment properties	(11,320)	-	-	-	-	-	(11,320)
Transfers to assets held for sale	2,245	-	-	-	-	-	2,245
Transfers to other assets	-	(998)	(8,647)	-	-	(183)	(9,828)
Disposals	(766)	(406)	(484)	-	-	-	(1,656)
Write-offs	-	(43)	-	(602)	(7,416)	-	(8,061)
Currency translation differences	(668)	(50)	(232)	(17)	(34)	(106)	(1,107)
31 December 2021	**210,883**	**186,683**	**194,705**	**5,029**	**26,863**	**1,095**	**625,258**
Accumulated impairment							
31 December 2020	**2,557**	**36**	**98**	**8**	**-**	**-**	**2,699**
31 December 2021	**2,557**	**36**	**98**	**8**	**-**	**-**	**2,699**
Accumulated depreciation							
31 December 2020	**24,829**	**100,785**	**109,284**	**3,340**	**15,319**	**-**	**253,557**
Depreciation charge	4,123	12,673	18,758	624	4,109	-	40,287
Transfers to investment properties	(1,119)	-	-	-	-	-	(1,119)
Transfers to assets held for sale	-	-	-	-	-	-	-
Transfers to other assets	-	(1,225)	(2,639)	-	-	-	(3,864)
Disposals	(51)	(307)	(428)	-	-	-	(786)
Write-offs	5	(23)	4	(576)	(7,416)	-	(8,006)
Currency translation differences	(275)	(61)	(165)	(7)	(27)	-	(535)
31 December 2021	**27,512**	**111,842**	**124,814**	**3,381**	**11,985**	**-**	**279,534**
Net book value							
31 December 2020	**183,246**	**75,574**	**66,472**	**1,862**	**16,491**	**3,222**	**346,867**
31 December 2021	**180,814**	**74,805**	**69,793**	**1,640**	**14,878**	**1,095**	**343,025**

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets (continued)

The movements in intangible assets were as follows:

	Software and licence	*Other*	*Total*
Cost			
31 December 2022	**212,765**	**26,253**	**239,018**
Additions	47,926	-	47,926
Disposals	(8,320)	-	(8,320)
Write-offs	-	-	-
Currency translation differences	(4,214)	-	(4,214)
31 December 2023	**248,157**	**26,253**	**274,410**
Accumulated impairment			
31 December 2022	**-**	**-**	**-**
Impairment charge	2,201	-	2,201
31 December 2023	**2,201**	**-**	**2,201**
Accumulated amortisation			
31 December 2022	**103,273**	**5,438**	**108,711**
Amortisation charge	28,302	15	28,317
Disposals	(7,814)	-	(7,814)
Write-offs	(4)	-	(4)
Currency translation differences	(1,358)	-	(1,358)
31 December 2023	**122,399**	**5,453**	**127,852**
Net book value			
31 December 2022	**109,492**	**20,815**	**130,307**
31 December 2023	**123,557**	**20,800**	**144,357**

	Software and licence	*Other*	*Total*
Cost			
31 December 2021	**187,760**	**26,254**	**214,014**
Additions	34,124	-	34,124
Disposals	(7,330)	-	(7,330)
Currency translation differences	(1,413)	-	(1,413)
31 December 2022	**212,765**	**26,253**	**239,018**
Accumulated amortisation			
31 December 2021	**83,820**	**5,419**	**89,239**
Amortisation charge	25,983	20	26,003
Disposals	(5,683)	-	(5,683)
Write-offs	(377)	(1)	(378)
Currency translation differences	(470)	-	(470)
31 December 2022	**103,273**	**5,438**	**108,711**
Net book value			
31 December 2021	**103,940**	**20,835**	**124,775**
31 December 2022	**109,492**	**20,815**	**130,307**

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets (continued)

	Software and licence	*Other*	*Total*
Cost			
31 December 2020	**152,019**	**26,254**	**178,273**
Additions	37,009	-	37,009
Disposals	(741)	-	(741)
Write-offs	-	-	-
Currency translation differences	(527)	-	(527)
31 December 2021	**187,760**	**26,254**	**214,014**
Accumulated amortisation			
31 December 2020	**62,604**	**5,308**	**67,912**
Amortisation charge	22,141	109	22,250
Disposals	(747)	-	(747)
Write-offs	-	2	2
Currency translation differences	(178)	-	(178)
31 December 2021	**83,820**	**5,419**	**89,239**
Net book value			
31 December 2020	**89,415**	**20,946**	**110,361**
31 December 2021	**103,940**	**20,835**	**124,775**

11. Investment properties

	2023	*2022*	*2021*
At 1 January	**170,629**	**231,707**	**234,835**
Additions	4,882	5,845	83,912
Disposals	(38,175)	(54,713)	(68,713)
Net gains (losses) from revaluation of investment	579	6,645	437
Transfers to assets held for sale	(10,756)	(16,955)	(28,390)
Transfers from (to) property and equipment	415	(924)	10,201
Transfers from foreclosed assets	3,428	-	-
Currency translation differences	(3,078)	(976)	(575)
At 31 December	**127,924**	**170,629**	**231,707**

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2023, the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 28 for details on fair value measurements of investment properties.

(Thousands of Georgian Lari)

12. Foreclosed Assets

	2023	*2022*	*2021*
At 1 January	**119,924**	**3,216**	**5,989**
Additions	239,872	128,170	2,587
Disposals	(77,324)	(8,063)	(5,168)
Write-down	(2,114)	(3,399)	(192)
Transfers to property and equipment	(3,516)	-	-
Transfers to Investment property	(3,428)	-	-
Currency translation differences	(1,702)	-	-
At 31 December	**271,712**	**119,924**	**3,216**

13. Goodwill

Movements in goodwill were as follows:

	2023	*2022*	*2021*
Cost			
1 January	**57,209**	**57,209**	**57,209**
At 31 December	**57,209**	**57,209**	**57,209**
Accumulated impairment			
1 January	**23,756**	**23,756**	**23,756**
At 31 December	**23,756**	**23,756**	**23,756**
Net book value:			
1 January	**33,453**	**33,453**	**33,453**
At 31 December	**33,453**	**33,453**	**33,453**

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Corporate Banking and Retail Banking.

The carrying amount of goodwill allocated to each of the cash-generating units ("CGU") is as follows:

	2023	*2022*	*2021*
Retail Banking	23,488	23,488	23,488
Corporate Banking	9,965	9,965	9,965
Total	**33,453**	**33,453**	**33,453**

Key assumptions used in value-in-use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU beyond the three-year period covered in financial budgets.

The following discount rates were used by the Group for Corporate Banking and Retail Banking:

	Corporate Banking			*Retail Banking*		
	2023, %	*2022, %*	*2021, %*	*2023, %*	*2022, %*	*2021, %*
Discount rate	5.3%	4.3%	3.9%	6.6%	8.4%	8.1%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("WACC").

(Thousands of Georgian Lari)

13. Goodwill (continued)

Discount rates (continued)

For the Retail banking and Corporate Banking CGUs, the following additional assumptions were made:

- stable, business as usual growth of loans and deposits;
- no material changes in cost / income structure or ratio; and
- stable, business as usual growth of trade finance and other documentary businesses.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value-in-use over carrying value is determined by reference to the net book value as at 31 December 2023. Possible change was taken as +/-3% in discount rate and growth rate.

14. Taxation

The corporate income tax expense in income statement comprises:

	2023	*2022*	*2021*
Current income benefit (expense)	(324,449)	(137,386)	(111,643)
Deferred income tax benefit (expense)	65,481	(53,221)	36,828
Income tax expense	**(258,968)**	**(190,607)**	**(74,815)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income, which ranges from 15% to 25% (2022: from 15% to 25%, 2021: from 15% to 25%).

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses, became effective. The change implied a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023. On 16 December 2022, an amendment to the corporate tax code was passed into law abolishing the expected transition to taxation on distributed earnings from 1 January 2023. According to the amendment, which became effective from 1 January 2023, existing taxation rules for financial institutions, including banks, are to be maintained. At the same time, the existing corporate tax rate for banks increased from 15% to 20% from 2023 going forward. In addition, with effect from 2023, taxable interest income and deductible ECLs on loans to customers will be defined as per IFRS, instead of local NBG regulations. Transition differences in ECLs and interest income will be taxed one-off at 15% and 20% respectively.

The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 31 December 2022, deferred tax assets and liabilities balances were re-measured, in line with the updated legislation. The change resulted in material one-off deferred tax charge as previously the Bank recognised deferred taxes only to the extent they were expected to realise before 1st January 2023.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2023, 31 December 2022 and 31 December 2021**,** a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2023	*2022*	*2021*
Profit before income tax expense	**1,592,687**	**1,182,611**	**818,626**
Statutory tax rate in Georgia	20%	15%	15%
Theoretical income tax expense at average tax rate	**(318,537)**	**(177,392)**	**(122,794)**
Non-taxable income	61,739	47,610	51,571
Non-deductible expenses	(2,086)	(1,371)	(1,612)
Correction of prior year declarations	(2,342)	(2,846)	(15)
Tax at the domestic rates applicable to profits in each country	(965)	(3,585)	(2,108)
Effects from changes in tax legislation	110	(53,074)	-
Tax deductible expenses	7,030	-	-
Other	(3,917)	51	143
Income tax expense	**(258,968)**	**(190,607)**	**(74,815)**

(Thousands of Georgian Lari)

14. Taxation (continued)

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2023, 31 December 2022 and 31 December 2021, income tax assets and liabilities consist of the following:

	As at		
	2023	*2022*	*2021*
Current income tax assets	-	224	109
Deferred income tax assets	464	640	183
Income tax assets	**464**	**864**	**292**
Current income tax liabilities	185,440	20,258	85,270
Deferred income tax liabilities	13,618	79,275	25,598
Income tax liabilities	**199,058**	**99,533**	**110,868**

Deferred tax assets and liabilities as at 31 December 2023, 31 December 2022 and 31 December 2021, and their movements for the respective years, are as follows:

	2020	*Origination and reversal of temporary differences In the income statement*	*2021*	*Origination and reversal of temporary differences In the income statement*	*2022*	*Origination and reversal of temporary differences In the income statement*	*2023*
Tax effect of deductible temporary differences:							
Amounts due to credit institutions	-	-	-	193	193	(30)	163
Investment securities	-	-	-	294	294	(489)	(195)
Investment properties	59	108	167	1,954	2,121	(2,121)	-
Property and equipment	2,385	29	2,414	(182)	2,232	(1,072)	1,160
Intangible assets	-	-	-	-	-	24	24
Assets held for sale	-	-	-	465	465	(127)	338
Lease liability	6,006	(2,236)	3,770	19,389	23,159	5,012	28,171
Accruals and deferred income	7,205	12,539	19,744	18,388	38,132	5,393	43,525
Other assets and liabilities	67	368	435	3,845	4,280	1,415	5,695
Deferred tax assets	**15,722**	**10,808**	**26,530**	**44,346**	**70,876**	**8,005**	**78,881**
Tax effect of taxable temporary differences:							
Amounts due to credit institutions	2,228	59	2,287	1,660	3,947	(651)	3,296
Debt securities issued	1,624	(932)	692	1,259	1,951	(414)	1,537
Cash and cash equivalents	-	-	-	-	-	240	240
Loans to customers and finance lease	54,066	(24,192)	29,874	30,697	60,571	(57,006)	3,565
Client deposits and notes	176	(176)	-	-	-	104	104
Property and equipment	9,021	(3,121)	5,900	37,342	43,242	4,309	47,551
Right-of-use assets	5,510	(2,294)	3,216	20,606	23,822	3,719	27,541
Investment properties	340	625	965	7,822	8,787	(1,277)	7,510
Intangible assets	-	-	-	-	-	-	-
Assets held for sale	1,540	(1,055)	485	(485)	-	-	-
Accruals and deferred income	293	(180)	113	(113)	-	-	-
Other assets and liabilities	3,166	5,246	8,412	(1,221)	7,191	(6,500)	691
Deferred tax liabilities	**77,964**	**(26,020)**	**51,944**	**97,567**	**149,511**	**(57,476)**	**92,035**
Net deferred tax liabilities	**(62,242)**	**36,828**	**(25,414)**	**(53,221)**	**(78,635)**	**65,481**	**(13,154)**

(Thousands of Georgian Lari)

15. Other assets and other liabilities

Other assets comprise:

	2023	*2022*	*2021*
Receivables from remittance operations	138,833	86,701	34,996
Other receivables	70,538	69,907	18,463
Inventory	13,756	11,441	6,243
Derivatives margin	12,129	21,053	18,586
Derivative financial assets	10,942	39,270	135,079
Investments in associates	9,537	9,249	8,917
Operating tax assets	6,219	3,897	7,000
Assets purchased for finance lease purposes	2,019	2,140	13,093
Other	40,975	27,540	16,216
Other assets, gross	**304,948**	**271,198**	**258,593**
Less – Allowance for impairment of other assets	(14,796)	(16,853)	(14,366)
Other assets, net	**290,152**	**254,345**	**244,227**

Other liabilities comprise:

	2023	*2022*	*2021*
Payables for remittance operations	59,079	24,671	8,457
Creditors	36,878	32,381	28,447
Derivative financial liabilities	25,779	59,020	7,865
Provisions	6,304	5,127	5,793
Other taxes payable	3,926	5,619	10,093
Dividends payable	3,522	2,346	1,713
Accounts payable	1,469	2,131	3,423
Advances received	629	805	265
Derivatives margin	-	-	98,844
Other	12,261	21,491	12,144
Other liabilities	**149,847**	**153,591**	**177,044**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the credit risk.

	2023		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Forwards and swaps – domestic	1,099,787	2,703	3,712
Forwards and swaps – foreign	3,776,221	8,239	22,067
Interest rate contracts			
Forwards and swaps - foreign (IR)	-	-	-
Total derivative assets / liabilities	**4,876,008**	**10,942**	**25,779**

(Thousands of Georgian Lari)

15. Other assets and other liabilities (continued)

	2022			2021		
	Notional amount	Fair value Asset	Fair value Liability	Notional amount	Fair value Asset	Fair value Liability
Foreign exchange contracts						
Forwards and swaps – domestic	1,392,118	5,688	2,873	1,065,639	931	3,141
Forwards and swaps – foreign	4,615,758	33,234	56,147	5,678,727	131,321	3,339
Interest rate contracts						
Forwards and swaps – foreign	1,209	348	-	1,129	296	-
Options - foreign (IR)	-	-	-	7,434	2,531	1,385
Total derivative assets / liabilities	**6,009,085**	**39,270**	**59,020**	**6,752,929**	**135,079**	**7,865**

16. Client deposits and notes

The amounts due to customers include the following:

	2023	2022	2021
Current accounts	12,445,328	11,029,798	7,053,360
Time deposits	8,331,488	7,244,263	7,028,078
Client deposits and notes	**20,776,816**	**18,274,061**	**14,081,438**
Held as security against letters of credit and	**334,092**	**121,753**	**117,379**

At 31 December 2023, amounts due to customers of GEL 2,042,323 (10%) were due to the ten largest customers (2022: GEL 2,107,058 (12%), 2021: GEL 1,953,107 (14%)).

Amounts due to customers include accounts with the following types of customers:

	2023	2022	2021
Individuals	12,883,062	11,158,313	8,399,292
Private enterprises	7,399,436	6,424,514	5,060,010
State and state-owned entities	494,318	691,234	622,136
Client deposits and notes	**20,776,816**	**18,274,061**	**14,081,438**

The breakdown of customer accounts by industry sector is as follows:

	2023	2022	2021
Individuals	12,883,062	11,158,313	8,399,292
Financial intermediation	1,716,673	1,316,330	1,433,939
Trade	1,367,950	1,158,681	853,235
Construction	1,140,925	796,019	664,695
Service	862,354	734,205	361,158
Transport & communication	621,322	488,132	399,010
Manufacturing	492,516	758,774	443,864
Government services	445,880	682,809	613,710
Real estate	346,751	233,177	214,670
Hospitality	108,103	172,925	70,375
Electricity, gas and water supply	76,384	186,517	112,244
Other	714,896	588,179	515,246
Client deposits and notes	**20,776,816**	**18,274,061**	**14,081,438**

17. Amounts owed to credit institutions

Amounts due to credit institutions comprise:

	2023	*2022*	*2021*
Short-term loans from National Bank of Georgia	2,101,653	1,715,257	1,413,333
Borrowings from international credit institutions	1,771,716	1,500,037	1,667,915
Time deposits and inter-bank loans	130,382	777,638	198,037
Correspondent accounts	431,232	660,768	170,411
	4,434,983	**4,653,700**	**3,449,696**
Non-convertible subordinated debt	562,520	401,733	668,766
Additional Tier 1	135,526	136,061	-
Amounts due to credit institutions	**5,133,029**	**5,191,494**	**4,118,462**

During the year ended 31 December 2023, the Group paid up to 9.36% on USD borrowings from international credit institutions (2022: up to 7.52%, 2021: up to 4.18%). During the year ended 31 December 2023, the Group paid up to 11.82% on USD subordinated debt (2022: up to 10.73%, 2021: up to 7.75%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2023, 31 December 2022 and 31 December 2021, the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

On 31 August 2023, the Bank signed a USD 100 million loan agreement with Japan International Cooperation Agency as lender with maturity of five years, which was fully utilised as at 31 December 2023.

On 13 September 2023, the Bank signed a loan agreement with Asian Development Bank as lender with maturity of five years in the amount of the GEL equivalent of USD 100 million, which was fully utilised as at 31 December 2023.

On 31 May 2022, the Bank signed a US$ 50 million Additional Tier 1 Capital Perpetual Subordinated Syndicated Facility with the European Bank for Reconstruction and Development and Swedfund International AB as lenders. The amount was fully utilised as at 31 December 2022.

In June 2022, the Bank repaid the outstanding US$ 70 million of its initial US$ 90 million subordinated loan facility from the International Finance Corporation, out of which US$ 42 million qualified as Tier II capital.

Subordinated debt contracts details (more than 10% of total subordinated debt, on a contract basis):

Facility provider	Commencement date	Maturity date	Interest rate	Currency	Original contractual value	Carrying value as at 31 December 2023	Carrying value as at 31 December 2022	Carrying value as at 31 December 2021
FMO - Dutch entrepreneurial development ban	20-Dec-19	20-Dec-29	libor+5.65	USD	127,000	345,364	345,709	390,058
European Bank for Reconstruction and Develop	7-Jun-22	10-Jun-27	14.1%	USD	35,000	94,868	95,243	-
GREEN FOR GROWTH FUND, SOUTHEA	27-Dec-23	15-Dec-33	libor+5.3	EUR	25,000	74,459	-	-
Swedfund International AB	7-Jun-22	10-Jun-27	14.1%	USD	15,000	40,658	40,818	-
International Finance Corporation	29-Jun-15	15-Jun-25	libor+7.5	USD	70,000	-	-	215,732

18. Debt securities issued

Debt securities issued comprise:

	2023	*2022*	*2021*
Additional Tier 1 capital notes issued	267,113	267,702	306,239
Tier 2 notes issued	83,158	-	-
Eurobonds and notes issued	-	226,857	938,372
Certificates of deposit	64,278	107,022	128,484
Local bonds	6,810	44,556	87,384
Debt securities issued	**421,359**	**646,137**	**1,460,479**

(Thousands of Georgian Lari)

18. Debt securities issued (continued)

Changes in liabilities arising from financing activities

	Eurobonds and notes issued	Additional Tier 1 capital notes issued	Tier 2 notes issued
Carrying amount at 31 December 2020	**1,020,428**	**323,320**	**-**
Repurchase of debt securities issued	(28,825)	**-**	-
Repayment of the principal portion of the debt securities issued	(46,706)	**-**	-
Other movements	(6,525)	(17,081)	-
Carrying amount at 31 December 2021	**938,372**	**306,239**	**-**
Repurchase of debt securities issued	(617,194)	-	-
Repayment of the principal portion of the debt securities issued	(31,581)	-	-
Other movements	(62,740)	(38,537)	-
Carrying amount at 31 December 2022	**226,857**	**267,702**	**-**
Repurchase of debt securities issued	(20,980)	-	-
Repayment of the principal portion of the debt securities issued	(230,995)	-	-
Proceeds from Tier 2 notes issued	-	-	78,921
Other movements	25,118	(589)	4,237
Carrying amount at 31 December 2023	**-**	**267,113**	**83,158**

19. Commitments and contingencies

Legal

Sai-invest

As at 31 December 2023, the Bank was engaged in litigation with Sai-Invest LLC ("Sai-Invest") in relation to a deposit pledge in the amount of EUR 7 million for the benefit of LTD Sport Invest's loans owing to JSC Bank of Georgia. Sai-Invest LLC has challenged the validity of the deposit pledge in the Georgian courts, and its challenge has been substantially sustained in the Court of Appeal, a determination which the Bank believes to be erroneous and without merit, and which the Bank has appealed to the Supreme Court. The matter is currently under review by the Supreme Court, and the timeline as to when the judgment has to be expected is not available. The Bank's management is of the opinion that the probability of incurring material losses on this claim is low, and, accordingly, no provision has been made in these consolidated financial statements.

Financial commitments and contingencies

As at 31 December 2023, 31 December 2022 and 31 December 2021**,** the Group's financial commitments and contingencies comprised the following:

	2023	*2022*	*2021*
Credit-related commitments			
Financial and performance guarantees issued*	1,918,997	1,717,308	1,686,913
Letters of credit	77,545	116,309	71,676
Undrawn loan facilities	1,014,951	869,061	809,481
	3,011,493	**2,702,678**	**2,568,070**
Less – Cash held as security against letters of credit and guarantees (Note 16)	(334,092)	(121,753)	(117,379)
Less – Provisions	(6,304)	(5,127)	(5,793)
Operating lease commitments			
Not later than 1 year	1,808	1,975	1,875
Later than 1 year but not later than 5 years	2,293	2,592	2,486
Later than 5 years	-	451	986
	4,101	**5,018**	**5,347**
Capital expenditure commitments	**7,559**	**6,790**	**4,539**

* *Out of total guarantees issued as at 31 December 2023 financial and performance guarantees of the Group comprised GEL 1,162,825 (31 December 2022: GEL 988,094, 31 December 2021: GEL 1,030,122) and GEL 756,172 (31 December 2022: GEL 729,214, 31 December 2021: GEL 656,791), respectively.*

The Group discloses its undrawn loan facility balances based on the contractual terms and existing practice in regards to disbursement of these amounts. The balances are disclosed as commitments if the Group has an established practice of disbursing undrawn amounts without any subsequent approval.

(Thousands of Georgian Lari)

20. Equity

Share capital

As at 31 December 2023, 31 December 2022 and 31 December 2021, authorised common capital comprised 43,308,125 common shares. As at 31 December 2023, 31 December 2022 and 31 December 2021, issued share capital comprised 27,993,660 common shares, all of which were fully paid. Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2023 are described below:

	Number of ordinary shares	*Amount of ordinary shares*
31 December 2020	**27,993,660**	**27,994**
31 December 2021	**27,993,660**	**27,994**
31 December 2022	**27,993,660**	**27,994**
31 December 2023	**27,993,660**	**27,994**

Treasury shares

The number of treasury shares held by the Group as at 31 December 2023, comprised 11,366 (31 December 2022: 10,173, 31 December 2021: 10,173), with nominal amount of GEL 11 (31 December 2022: GEL 10, 31 December 2021: GEL 10).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 23 August 2023, the Board of JSC Bank of Georgia declared an interim dividend for 2023 of Georgian Lari 7.04 per share. Payment of the total GEL 196,956 interim dividends was received by shareholders on 26 September 2023.

On 1 May 2023, the Board of JSC Bank of Georgia declared a final dividend for 2022 of Georgian Lari 14.69 per share. Payment of the total GEL 410,999 final dividends was received by shareholders on 8 May 2023.

On 16 August 2022, the Board of JSC Bank of Georgia declared an interim dividend for 2022 of Georgian Lari 4.65 per share. Payment of the total GEL 129,914 interim dividends was received by shareholders on 10 October 2022.

On 20 June 2022, the Board of JSC Bank of Georgia declared a final dividend for 2021 of Georgian Lari 5.18 per share. Payment of the total GEL 145,065 final dividends was received by shareholders on 5 July 2022.

On 17 August 2021, the Board of JSC Bank of Georgia declared an interim dividend for 2021 of Georgian Lari 2.52 per share. Payment of the total GEL 70,390 interim dividends was received by shareholders on 5 November 2021.

Nature and purpose of other reserves

Unrealised gains (losses) on investment securities

This reserve records fair value changes on investment securities.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries

This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries with functional currency other than GEL.

Movements on this account during the years ended 31 December 2023, 31 December 2022 and 31 December 2021, are presented in the statements of other comprehensive income.

(Thousands of Georgian Lari)

20. Equity (continued)

The movements in foreign currency translation reserve were as follows:

	Foreign currency translation reserve
31 December 2020	**(832)**
Loss from currency translation differences	(4,544)
31 December 2021	**(5,376)**
Loss from currency translation differences	(9,372)
31 December 2022	**(14,748)**
Loss from currency translation differences	(8,376)
31 December 2023	**(23,124)**

Earnings per share

	2023	*2022*	*2021*
Basic and diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Bank	1,333,719	992,004	743,811
Weighted average number of ordinary shares outstanding during the year	27,983,526	27,983,827	27,983,827
Earnings per share	47.6609	35.4492	26.5800

21. Net interest income

	2023	*2022*	*2021*
Interest income calculated using EIR method	**2,715,232**	**2,223,455**	**1,796,788**
From loans to customers	2,315,430	1,906,884	1,593,053
From investment securities	339,520	296,517	197,240
From amounts due from credit institutions	74,662	46,192	16,949
Net gain (loss) on modification of financial assets	(14,380)	(26,138)	(10,454)
Other interest income	**14,053**	**20,573**	**28,737**
From finance lease receivable	13,962	20,573	28,727
From other assets	91	-	10
Interest income	**2,729,285**	**2,244,028**	**1,825,525**
On client deposits and notes	(811,254)	(573,148)	(499,279)
On amounts owed to credit institutions	(286,093)	(418,941)	(286,771)
On debt securities issued	(45,480)	(84,254)	(109,715)
Interest element of cross-currency swaps	25,276	29,402	30,632
On lease liability	(5,487)	(4,759)	(4,880)
Interest expense	**(1,123,038)**	**(1,051,700)**	**(870,013)**
Deposit insurance fees	(20,247)	(17,717)	(14,629)
Net interest income	**1,586,000**	**1,174,611**	**940,883**

(Thousands of Georgian Lari)

22. Net fee and commission income

	2023	*2022*	*2021*
Settlements operations	537,730	444,629	306,567
Currency conversion operations	49,370	34,546	15,783
Guarantees and letters of credit	45,323	35,283	34,402
Cash operations	27,935	28,230	18,409
Brokerage service fees	616	49	460
Other	8,562	6,045	7,009
Fee and commission income	**669,536**	**548,782**	**382,630**
Settlements operations	(291,105)	(248,530)	(176,329)
Cash operations	(19,473)	(26,426)	(8,826)
Currency conversion operations	(8,971)	(5,378)	(1,668)
Brokerage service fees	(1,600)	(1,152)	(1,208)
Guarantees and letters of credit	(239)	(323)	(724)
Other	(7,476)	(5,553)	(5,539)
Fee and commission expense	**(328,864)**	**(287,362)**	**(194,294)**
Net fee and commission income	**340,672**	**261,420**	**188,336**

Revenue from customers

In 2023, the Group recognised GEL 583,053 revenue from contracts with customers in the income statement, including fee and commission as well as net other income (2022: GEL 479,912, 2021: GEL 340,969).

Contract assets and liabilities

As at 31 December 2023, the Group has recognised GEL 60,151 revenue-related contract liabilities (2022: GEL 50,440, 2021: GEL 40,798). Accounts receivable are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

In 2023, the Group recognised GEL 48,303 revenue (2022: GEL 38,495, 2021: GEL 10,619) mainly from Georgia that relates to carried-forward contract liabilities and was previously included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In 1 year	**In 2 years**	**In 3 years**	**In 3 to 5 years**	**In 5 to 10 years**	**Total**
As at 31 December 2023	55,724	2,425	1,324	593	87	**60,153**
As at 31 December 2022	47,788	2,465	126	43	18	**50,440**
As at 31 December 2021	39,212	1,119	388	76	3	**40,798**

(Thousands of Georgian Lari)

23. Salaries and other employee benefits, and general and administrative expenses

Salaries and other employee benefits

	2023	*2022*	*2021*
Salaries and bonuses	(366,362)	(319,285)	(245,363)
Social security costs	(7,877)	(6,818)	(5,107)
Pension costs	(5,477)	(4,273)	(3,683)
Salaries and other employee benefits	**(379,716)**	**(330,376)**	**(254,153)**

In 2023, salaries and bonuses include GEL 70,970 of the Equity Compensation Plan costs (2022: GEL 80,955, 2021: GEL 44,445), associated with the existing share-based compensation scheme approved in the Group (Note 26).

The average number of staff employed by the Group for the years ended 31 December 2023, 31 December 2022 and 31 December 2021, comprised:

	2023	*2022*	*2021*
The Bank	6,981	6,324	6,012
BNB	802	654	540
Other	32	187	104
Average total number of staff employed	**7,815**	**7,165**	**6,656**

Average number of employees for the year:	*2023*	*2022*	*2021*
Permanent employment:			
Top management	15	27	25
Middle management	148	112	104
Other employees	7,633	6,981	6,467
	7,796	**7,120**	**6,596**
Temporary employment:			
Other employees	19	45	60
	19	**45**	**60**
Total	**7,815**	**7,165**	**6,656**

General and administrative expenses

	2023	*2022*	*2021*
Repairs and maintenance	(53,374)	(44,543)	(37,655)
Marketing and advertising	(45,348)	(36,637)	(24,477)
Legal and other professional services	(19,447)	(12,088)	(10,111)
Operating taxes	(11,846)	(11,578)	(12,298)
Office supplies	(9,208)	(7,920)	(6,062)
Corporate hospitality and entertainment	(7,021)	(6,048)	(1,995)
Travel expenses	(7,005)	(5,298)	(3,711)
Personnel training and recruitment	(6,888)	(4,290)	(1,852)
Communication	(6,787)	(7,072)	(5,663)
Occupancy and rent	(6,266)	(5,798)	(5,148)
Security	(4,303)	(3,176)	(3,420)
Insurance	(3,242)	(3,727)	(3,496)
Other	(4,122)	(3,537)	(3,670)
General and administrative expenses	**(184,857)**	**(151,712)**	**(119,558)**

Increase in expenses related to legal and other professional services was partly attributable to the transaction costs incurred in relation to the acquisition of Ameriabank as well as the consulting projects in IT and several other business areas (totalling GEL 4.5 million).

(Thousands of Georgian Lari)

23. Salaries and other employee benefits, and general and administrative expenses (continued)

Auditor remuneration

Auditor remuneration comprises:

	2023	*2022*	*2021*
Fees for the audit of the Bank's annual financial statements	771	634	592
Expenditures for other assurance services	471	386	517
Expenditures for other professional services	9	9	9
Total fees	**1,251**	**1,029**	**1,118**

The figures shown in the above table relate to fees of EY LLC ("EY") and its associates. In 2023, fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were GEL 719 (2022: GEL 106, 2021: GEL 129), and in respect of other services of the Group were GEL 230 (2022: GEL 579, 2021: GEL 452).

24. Cost of risk

The table below shows ECL charges on financial instruments for the year recorded in the income statement:

	Stage 1		Stage 2		Stage 3		POCI	
	Individual	Collective	Individual	Collective	Individual	Collective		Total
Cash and cash equivalents	-	(182)	-	-	-	-	-	(182)
Amounts due from credit institutions	-	4,260	-	-	-	-	-	4,260
Investment securities measured at amortised cost - debt instruments	-	3,766	-	-	-	-	-	3,766
Investment securities measured at FVOCI - debt instruments	-	(1,932)	-	-	-	-	-	(1,932)
Loans to customers at amortised cost		17,054	-	(8,060)	(157)	(129,119)	(3,727)	(124,009)
Finance lease receivables	-	(147)	-	(121)	(92)	(3,231)	829	(2,762)
Other financial assets	-	-	-	-	(3,855)	-	-	(3,855)
Financial guarantees	-	284	-	(2)	24	5	-	311
Letter of credit to customers	-	15	-	-	-	-		15
Other financial commitments	-	721	-	13	-	-	-	734
For the year ended 31 December 2023	**-**	**23,839**	**-**	**(8,170)**	**(4,080)**	**(132,345)**	**(2,898)**	**(123,654)**

	Stage 1		Stage 2		Stage 3		POCI	
	Individual	Collective	Individual	Collective	Individual	Collective		Total
Cash and cash equivalents	-	(334)	-	-	-	-	-	(334)
Amounts due from credit institutions	-	(5,179)	-	-	-	-	-	(5,179)
Investment securities measured at FVOCI - debt instruments	-	(3,896)	-	-	-	-	-	(3,896)
Loans to customers at amortised cost	-	19,980	-	(15,433)	53,516	(177,169)	(10,598)	(129,704)
Finance lease receivables	-	292	-	487	784	(1,886)	(2,885)	(3,208)
Other financial assets	-	(4,204)	-	-	-	-	-	(4,204)
Financial guarantees	-	(437)	-	6	32	2	-	(397)
Letter of credit to customers	-	(33)	-	-	65	-		32
Other financial commitments	-	140	-	292	-	-	-	432
For the year ended 31 December 2022	**-**	**3,130**	**-**	**(14,648)**	**54,397**	**(179,053)**	**(13,483)**	**(149,657)**

	Stage 1		Stage 2		Stage 3		POCI	
	Individual	Collective	Individual	Collective	Individual	Collective		Total
Cash and cash equivalents	-	48	-	-	-	-	-	48
Amounts due from credit institutions	-	66	-	-	-	-	-	66
Investment securities measured at FVOCI - debt instruments	-	1,090	-	-	-	-	-	1,090
Loans to customers at amortised cost	-	(6,355)	-	28,901	6,267	(31,291)	(1,635)	(4,113)
Finance lease receivables	-	(513)	-	(204)	(264)	(2,774)	(1,195)	(4,950)
Other financial assets	-	(2,621)	-	-	-	-	-	(2,621)
Financial guarantees	-	6,599	-	53	3,733	(7)	-	10,378
Letter of credit to customers	-	1,543	-	-	328	-		1,871
Other financial commitments	-	(1,137)	-	(443)	-	-	-	(1,580)
For the year ended 31 December 2021	**-**	**(1,280)**	**-**	**28,307**	**10,064**	**(34,072)**	**(2,830)**	**189**

(Thousands of Georgian Lari)

24. Cost of risk (continued)

In addition, in 2023 ECL charge includes GEL 500 (2022: GEL 16,105) cost incurred by the Group through synthetic agreement to accelerate the recovery process related to one of its defaulted borrowers. Such cost is not reflected in the ECL movement, but recorded directly through consolidated income statement.
Impairment charge on other assets and provisions comprise:

	2023	*2022*	*2021*
Litigation provision reversal/(charge)	(2,388)	341	(2,421)
Impairment (charge)/reversal on assets held for sale	(4,550)	(4,295)	(3,805)
Other impairment charge	(11,379)	(14,053)	(14,262)
Impairment charge on other assets and provisions	**(18,317)**	**(18,007)**	**(20,488)**

25. Net other gains/(losses)

	2023	*2022*	*2021*
Net real estate gains / (losses)	92,520	21,128	33,704
Net gains / (losses) on derecognition of financial assets measured at fair value through other comprehensive income	18,512	7,528	30,044
Net gains / (losses) on financial assets at fair value through profit or loss	-	(1,204)	760
Net gains / (losses) from revaluation of investment property	579	6,645	437
Net other gains / (losses)	2,935	6,459	5,458
Net other gains / (losses)	**114,546**	**40,556**	**70,403**

During 2021-2023, the Group repossessed significant movable and immovable assets from its defaulted group of borrowers via the public auction as a result of bankruptcy proceedings of the borrower at a deep discount. The properties were classified as Foreclosed Assets and measured at lower of cost and net realizable value. The Group managed to realize large properties at then current market prices in 2023 and recorded the respective real estate gain in an amount of GEL 81,327 in its consolidated financial statements.

26. Share-based payments

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP")

In 2015, the Group set up Executive Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). The Group makes contributions to the Trustee in respect of the awards granted within EECP. JSC BGEO Group has the legal obligation to settle the awards. In granting the awards, the Bank acts as the agent of the parent and the ultimate parent.

In 2019, the Group set up Employee Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Employees' Equity Compensation Plan ("EECP").

In 2023, the Group contributed GEL 109,667 (2022: GEL 71,891, 2021: GEL 80,449) as intra-group recharge under share-based compensation schemes described above.

Share-based payment transactions fixed in monetary terms

In 2022, the Group introduced the new remuneration policy for the Management Board and Key Material Risk Taker (MRT) employees. Under the new policy, part of the fixed component of the remuneration is fixed in monetary terms at the date of the contract and shall be paid by award of the number of shares equivalent to the fixed monetary value as at the date of the award. Such awards vest immediately following the award year and are subject to up to four-year holding period. For the CEO, annual remuneration paid in shares are fixed every three years, whereas for other members of the Management Board and MRTs the remuneration is set on annual basis. As for the variable share remuneration, it is awarded annually in the form of nil-cost options over the shares of BOGG PLC and is also fixed in monetary terms at the date of the contract. Such awards are subject to vesting and holding periods.

The awards of shares in monetary terms are accounted as equity-settled transactions and are measured by reference to the monetary value (as awarded) adjusted for the time value of money where necessary. The cost of equity-settled transactions is recognised together with the corresponding increase in equity as part of additional paid-in capital, over the period in which the service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award (the 'vesting date').

26. Share-based payments (continued)

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP") (continued)

In February 2023, BOGG's Remuneration Committee resolved to award 241,500 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 74,520 ordinary shares of Bank of Georgia Group PLC to the Group's 18 executives. Shares awarded to the Management Board are subject to five-year vesting and two-year holding periods, while those awarded to the other 18 executives are subject to three-year vesting periods with continuous employment being the only vesting condition for both awards. The Group considers 9 February, 10 May and 20 October 2023 as the grant date. The Group estimates that the fair value of the shares awarded on 9 February, 10 May and 20 October 2023 was Georgian Lari 87.65, 99.04 and 106.31 per share.

In January 2022, BOGG's Remuneration Committee resolved to award 350,017 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 54,851 ordinary shares of Bank of Georgia Group PLC to the Group's 13 executives. Shares awarded to the Management Board are subject to two-year vesting and two-year holding periods, while those awarded to the other 13 executives are subject to three-year vesting periods with continuous employment being the only vesting condition for both awards. The Group considers 31 January 2022 as the grant date. The Group estimates that the fair value of the shares awarded on 31 January 2022 was Georgian Lari 59.98 per share.

In March 2021, BOGG's Remuneration Committee resolved to award 20,100 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 176,218 ordinary shares of Bank of Georgia Group PLC to the Group's 46 executives. Shares awarded to the Management Board and other 46 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Group considers 11 March 2021as the grant date. The Group estimates that the fair value of the shares awarded on 11 March 2021 was Georgian Lari 50.12 per share.

In 2023, Management Board members signed fixed contingent share-based compensation agreements, with fixed contract value of GEL 16,248. The Group considers 1 January 2023 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 82.91 per share respectively, based on the five working day average share price before the 25 December 2022, respectively. The awards will be subject to one-year vesting and three-year holding periods.

In 2023, the Group's other executive members signed fixed contingent share-based compensation agreements, with fixed contract value of GEL 4,149. The Group considers 1 January 2023, 1 April 2023, 27 April 2023, 1 May 2023 and 1 June 2023 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 82.91, 78.44, 76.77, 76.61 and 79.99 per share respectively, based on the five working day average share price before the 25 December 2022, respectively. The awards will be subject to one-year vesting and three-year holding periods.

In 2022, Management Board members signed fixed contingent share-based compensation agreements, with fixed contract value of GEL 46,168. The Group considers 1 January 2022 and 30 June 2022 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 64.10 and 60.77 per share respectively, based on the five working day average share price before the 25 December 2021, respectively. The awards will be subject to one-year vesting and three-year holding periods.

In 2022, the Group's other executive members signed fixed contingent share-based compensation agreements, with fixed contract value of GEL 4,493. The Group considers 1 January 2022 and 1 July 2022 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 64.10 and 60.76 per share respectively, based on the five working day average share price before the 25 December 2021, respectively. The awards will be subject to one-year vesting and three-year holding periods.

In 2021, key executive member signed fixed contingent share-based compensation agreements with the total of 10,000 ordinary shares of BOGG. The award will be subject to a three-year vesting period. The Group considers 1 March 2021 as the grant dates for the awards. The Group estimates that the fair value of the shares on 1 March 2021 were Georgian Lari 45.89.

In 2021, key executive members signed fixed contingent share-based compensation agreements, with fixed contract value of GEL 2,065. The Group considers 1 May 2021 and 1 October 2021 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 51.57 and 66.12, respectively, based on five working day average share price before the grant dates of 1 May 2021 and 1 October 2021, respectively. The award will be subject to a one-year vesting and three-year holding periods.

The Bank grants share compensation to its non-executive employees. In February 2023, January 2022 and March 2021, the Supervisory Board of the Bank resolved to award 127,676, 189,382 and 169,605 ordinary shares, respectively, to its certain non-executive employees. All these awards are subject to three-year vesting, with continuous employment being the only vesting condition for all awards. The Group considers 09 February 2023, 31 January 2022 and 11 March 2021 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 09 February 2023, 31 January 2022 and 11 March 2021 were Georgian Lari 87.65, 59.98 and 50.12 per share, respectively.

(Thousands of Georgian Lari)

26. Share-based payments (continued)

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 88.47 per share in year ended 31 December 2023 (31 December 2022: Georgian Lari 62.28 per share, 31 December 2021: Georgian Lari 50.70).

The Group's total share-based payment expenses for the year ended 31 December 2023 comprised GEL 70,970 (31 December 2022: GEL 80,955, 31 December 2021: GEL 44,445) and are included in "salaries and other employee benefits", as "salaries and bonuses". Below is the summary of the share-based payments-related data:

	2023	*2022*	*2021*
Total number of equity instruments awarded	694,826	1,382,444	415,681
– *Among them, to Management Board*	*437,461*	*1,071,053*	*30,100*
Weighted average value at grant date, per share (GEL in full amount)	88.47	62.28	50.70
Value at grant date, total (GEL)	**61,469**	**86,105**	**21,074**
Total expense recognised during the year (GEL)	**(70,970)**	**(80,955)**	**(44,445)**

27. Risk management

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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

Risk Management structure

The Bank's risk management framework and risk appetite framework policies are based on the three lines of defence model and reflect the requirements of the Corporate Governance Code adopted by the NBG. The three lines of defence model enhances the understanding of risk management and control by clarifying roles and responsibilities within the Bank's different risk management bodies and business units in order to increase the effective management of risk and control.

<u>Committees operating under the Supervisory Board:</u>

<u>Audit and Corporate Governance Committee</u>

The Audit Committee assists the Supervisory Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the Internal Audit function and external auditor, reporting back to the Supervisory Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and Internal Security (including cyber-security), and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

<u>Risk Committee</u>

The Risk Committee assists the Supervisory Board in relation to the oversight of risk. It reviews the Group's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework.

27. Risk management (continued)

Introduction (continued)

Special Committee

The Special Committee assists the Supervisory Board in relation to the oversight of post-demerger processes, including review and approval of certain transactions between the Bank and Georgia Capital Group PLC (former investment arm of BGEO Group PLC) group companies.

Other risk management bodies:

Management Board

The Management Board has overall responsibility for the Bank's asset, liability and Risk Management activities, policies and procedures. In order to effectively implement the Risk Management system, the Management Board delegates individual Risk Management functions to each of the various decision-making and execution bodies within the Bank.

Bank Asset and Liability Management Committee

The Bank's Asset and Liability Management Committee ("ALCO") is the core Risk Management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits, that designs and implements respective Risk Management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits.

Internal Audit

The Internal Audit department is responsible for the audit of the Group's Risk Management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy and the Group's compliance with those procedures. The Group's Internal Audit department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects the expected loss likely to arise in both normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is base case (forecast under normal business conditions) and the other two are troubled and distressed scenarios, which are worse and worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the expected credit loss on a monthly basis. The Management Board receives a comprehensive credit risk report and ALCO report. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

27. Risk management (continued)

Introduction (continued)

Risk mitigation

As part of its overall Risk Management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, they do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared with the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on, maintaining a diversified portfolio of financial assets. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to the carrying value of respective instruments and notional amounts of guarantees and commitments provided.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitment risks

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal and external credit ratings used in ECL calculations.

27. Risk management (continued)

Credit risk (continued)

For corporate loan portfolios, the Group runs an internal rating model in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to each borrower, utilising supplemental external information that could affect the borrower's behaviour. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused 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 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 Group's rating policy. Attributable risk ratings are assessed and updated regularly.

For Retail, Micro and SME loans, the Group uses external ratings provided by Credit Bureau.

The Group's treasury, trading and inter-bank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available, the Group Credit Risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

The table below shows internal and external grades used in ECL calculating.

			External Rating Grades	
			Credit Bureau	Standard & Poor's
Internal Rating Description*	Internal Rating Grades			
High grade				
	Aaa	1	A	AAA
	Aa1	2+	B	AA+
	Aa2	2	C1	AA
	Aa3	2-	C2	AA-
	A1	3+	C3	A+
	A2	3		A
	A3	3-		A-
	Baa1	4+		BBB+
	Baa2	4		BBB
	Baa3	4-		BBB-
Standard grade				
	Ba1	5+	D1	BB+
	Ba2	5	D2	BB
	Ba3	5-	D3	BB-
	B1	6+		B+
	B2	6		B
Low grade				
	B3	6-	E1	B-
	Caa1	7+	E2	CCC+
	Caa2	7	E3	CCC
	Caa3	7-		CCC-
	Ca			CC
				C

* *Grades are not supposed to be corresponded to each other across the rating categories above.*

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset in the statement of financial position, presented in gross amounts, based on the Group's credit rating system.

A defaulted financial asset that is past due more than 90 days is assessed as a non-performing loan or as determined on individual basis based on other available information regarding financial difficulties of the borrower.

Cash and cash equivalents, excluding cash on hand	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,097,398	-	-	-	1,097,398
Standard grade	654,810	-	-	-	654,810
Low grade	32,372	-	-	-	32,372
Not rated	292,048	-	-	-	292,048
Balance at 31 December 2023	**2,076,628**	**-**	**-**	**-**	**2,076,628**

Amounts due from credit institutions	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,734,224	-	-	-	1,734,224
Not rated	19,328	-	-	-	19,328
Balance at 31 December 2023	**1,753,552**	**-**	**-**	**-**	**1,753,552**

Investment securities measured at FVOCI - debt instruments	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,202,596	-	-	-	2,202,596
Standard grade	2,058,495	-	-	-	2,058,495
Not rated	88,518	-	-	-	88,518
Balance at 31 December 2023	**4,349,609**	**-**	**-**	**-**	**4,349,609**

Investment securities measured at amortized cost - debt instruments	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	387,623	-	-	-	387,623
Standard grade	25,101	-	-	-	25,101
Not rated	111,709	-	-	-	111,709
Balance at 31 December 2023	**524,433**	**-**	**-**	**-**	**524,433**

Commercial loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	4,388,581	68,175	-	339	4,457,095
Standard grade	1,389,821	58,796	-	755	1,449,372
Low grade	133,488	372,006	-	-	505,494
Not rated	481,986	16,812	-	-	498,798
Defaulted					
Non-performing	-	-	97,721	22,481	120,202
Balance at 31 December 2023	**6,393,876**	**515,789**	**97,721**	**23,575**	**7,030,961**

Residential mortgage loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	3,346,499	11,608	-	4,209	3,362,316
Standard grade	714,568	45,712	-	3,689	763,969
Low grade	86,008	116,000	-	6,839	208,847
Not rated	153,263	732	-	131	154,126
Defaulted					
Non-performing	-	-	37,771	16,214	53,985
Other	-	-	13,175	1,107	14,282
Balance at 31 December 2023	**4,300,338**	**174,052**	**50,946**	**32,189**	**4,557,525**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

Micro and SME loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,480,970	29,931	-	316	2,511,217
Standard grade	1,012,833	73,925	-	228	1,086,986
Low grade	75,930	76,380	-	242	152,552
Not rated	140,137	11,294	48	-	151,479
Defaulted					
Non-performing	-	-	167,506	2,364	169,870
Other	-	-	871	47	918
Balance at 31 December 2023	**3,709,870**	**191,530**	**168,425**	**3,197**	**4,073,022**

Consumer loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,693,768	7,996	-	2,405	2,704,169
Standard grade	1,179,793	50,968	-	3,069	1,233,830
Low grade	233,382	173,992	-	4,607	411,981
Not rated	218,817	1,273	90	-	220,180
Defaulted					
Non-performing	-	-	91,584	16,090	107,674
Other	-	-	19,795	2,340	22,135
Balance at 31 December 2023	**4,325,760**	**234,229**	**111,469**	**28,511**	**4,699,969**

Gold – pawn loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	65,002	48	-	-	65,050
Standard grade	40,495	733	-	-	41,228
Low grade	17,381	7,915	-	-	25,296
Not rated	14,538	-	273	-	14,811
Defaulted					
Non-performing	-	-	2,566	-	2,566
Other	-	-	1,277	-	1,277
Balance at 31 December 2023	**137,416**	**8,696**	**4,116**	**-**	**150,228**

Finance lease receivables	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	5,832	80	-	4,274	10,186
Standard grade	2,731	381	-	1,697	4,809
Low grade	475	1,261	-	2,161	3,897
Not rated	27,979	3,506	-	-	31,485
Defaulted					
Non-performing	-	-	12,162	10,391	22,553
Other	-	-	-	557	557
Balance at 31 December 2023	**37,017**	**5,228**	**12,162**	**19,080**	**73,487**

Accounts receivable	*Stage 1*	*Stage 3*	*Total*
Not rated	8,277	-	8,277
Balance at 31 December 2023	**8,277**	**-**	**8,277**

Other financial assets	*Stage 1*	*Stage 3*	*Total*
Not rated	209,371	-	209,371
Balance at 31 December 2023	**209,371**	**-**	**209,371**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

Financial and performance guarantees issued	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
High grade	997,529	-	-	997,529
Standard grade	347,015	257	-	347,272
Low grade	264,715	161,350	-	426,065
Not rated	140,467	8	-	140,475
Defaulted				
Non-performing	-	-	1,915	1,915
Other	-	-	5,741	5,741
Balance at 31 December 2023	**1,749,726**	**161,615**	**7,656**	**1,918,997**

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
High grade	69,260	-	-	69,260
Standard grade	7,546	-	-	7,546
Low grade	307	-	-	307
Not rated	432	-	-	432
Balance at 31 December 2023	**77,545**	**-**	**-**	**77,545**

Undrawn loan facilities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
High grade	668,644	215	12	668,871
Standard grade	240,974	1,203	-	242,177
Low grade	23,791	6,757	-	30,549
Not rated	71,305	278	-	71,583
Defaulted				
Non-performing	-	-	1,764	1,771
Balance at 31 December 2023	**1,004,714**	**8,453**	**1,776**	**1,014,951**

Cash and cash equivalents, excluding cash on hand	*Stage 1*	*Stage 3*	*Total*
High grade	1,372,649	-	1,372,649
Standard grade	577,159	-	577,159
Low grade	18,466	-	18,466
Not rated	527,209	-	527,209
Balance at 31 December 2022	**2,495,483**	**-**	**2,495,483**

Amounts due from credit institutions	*Stage 1*	*Stage 3*	*Total*
High grade	2,396,898	-	2,396,898
Not rated	25,726	-	25,726
Balance at 31 December 2022	**2,422,624**	**-**	**2,422,624**

Investment securities measured at FVOCI - debt instruments	*Stage 1*	*Stage 3*	*Total*
High grade	2,337,630	-	2,337,630
Standard grade	1,546,899	-	1,546,899
Not rated	76,381	1,619	78,000
Balance at 31 December 2022	**3,960,910**	**1,619**	**3,962,529**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

Commercial loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,484,436	78,817	-	-	2,563,253
Standard grade	1,431,663	123,274	-	310	1,555,247
Low grade	238,808	391,875	-	1,187	631,870
Not rated	338,464	17,341	-	-	355,805
Defaulted					
Non-performing	-	-	169,661	14,453	184,114
Other	-	-	3,322	-	3,322
Balance at 31 December 2022	**4,493,371**	**611,307**	**172,983**	**15,950**	**5,293,611**

Residential mortgage loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	3,020,624	22,479	-	4,103	3,047,206
Standard grade	657,117	37,241	-	4,446	698,804
Low grade	107,484	108,764	-	3,402	219,650
Not rated	140,681	1,082	-	-	141,763
Defaulted					
Non-performing	-	-	53,073	13,650	66,723
Other	-	-	16,584	2,474	19,058
Balance at 31 December 2022	**3,925,906**	**169,566**	**69,657**	**28,075**	**4,193,204**

Micro and SME loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,026,620	43,580	-	347	2,070,547
Standard grade	1,022,762	67,959	-	361	1,091,082
Low grade	145,066	75,782	-	45	220,893
Not rated	281,391	13,142	10	207	294,750
Defaulted					
Non-performing	-	-	135,965	1,658	137,623
Other	-	-	10,542	226	10,768
Balance at 31 December 2022	**3,475,839**	**200,463**	**146,517**	**2,844**	**3,825,663**

Consumer loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,003,630	13,253	-	2,411	2,019,294
Standard grade	872,122	39,737	-	1,763	913,622
Low grade	202,919	159,751	-	2,021	364,691
Not rated	164,521	1,134	103	-	165,758
Defaulted					
Non-performing	-	-	70,885	11,279	82,164
Other	-	-	51,004	5,521	56,525
Balance at 31 December 2022	**3,243,192**	**213,875**	**121,992**	**22,995**	**3,602,054**

Gold – pawn loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	61,635	195	-	-	61,830
Standard grade	43,456	1,077	-	-	44,533
Low grade	39,509	7,339	-	-	46,848
Not rated	2,925	2	493	-	3,420
Defaulted					
Non-performing	-	-	1,318	-	1,318
Other	-	-	6,605	-	6,605
Balance at 31 December 2022	**147,525**	**8,613**	**8,416**	**-**	**164,554**

Finance lease receivables	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	17,702	4,495	-	-	22,197
Standard grade	-	694	-	-	694
Not rated	41,829	1,262	5,101	-	48,192
Defaulted					
Non-performing	-	-	3,814	11,909	15,723
Other	-	-	5,241	3,301	8,542
Balance at 31 December 2022	**59,531**	**6,451**	**14,156**	**15,210**	**95,348**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

Accounts receivable	***Stage 1***	***Stage 3***	***Total***
Not rated	4,975	-	4,975
Balance at 31 December 2022	**4,975**	**-**	**4,975**

Other financial assets	***Stage 1***	***Stage 3***	***Total***
Not rated	156,608	-	156,608
Balance at 31 December 2022	**156,608**	**-**	**156,608**

Financial and performance guarantees issued	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
High grade	1,049,817	103	-	-	1,049,920
Standard grade	241,914	4,357	-	-	246,271
Low grade	223,983	20,097	-	-	244,080
Not rated	163,278	111	-	-	163,389
Defaulted					
Other	-	-	13,648	-	13,648
Balance at 31 December 2022	**1,678,992**	**24,668**	**13,648**	**-**	**1,717,308**

Letters of credit	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
High grade	76,091	-	-	-	76,091
Standard grade	39,671	-	-	-	39,671
Not rated	547	-	-	-	547
Balance at 31 December 2022	**116,309**	**-**	**-**	**-**	**116,309**

Undrawn loan facilities	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
High grade	498,164	306	-	-	498,470
Standard grade	259,919	6,168	-	-	266,087
Low grade	7,719	7,829	-	-	15,548
Not rated	87,136	82	-	1	87,219
Defaulted					
Non-performing	-	-	1,537	1	1,538
Other	-	-	199	-	199
Balance at 31 December 2022	**852,938**	**14,385**	**1,736**	**2**	**869,061**

Cash and cash equivalents, excluding cash on hand	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
High grade	480,889	-	-	-	480,889
Standard grade	53,892	-	-	-	53,892
Low grade	132	-	-	-	132
Not rated	185,311	-	-	-	185,311
Balance at 31 December 2021	**720,224**	**-**	**-**	**-**	**720,224**

Amounts due from credit institutions	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Standard grade	1,892,669	-	-	-	1,892,669
Not rated	25,601	-	-	-	25,601
Balance at 31 December 2021	**1,918,270**	**-**	**-**	**-**	**1,918,270**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

Investment securities measured at FVOCI - debt instruments	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,031,369	-	-	-	1,031,369
Standard grade	1,435,747	-	-	-	1,435,747
Low grade	13,804	-	-	-	13,804
Not rated	79,948	-	-	-	79,948
Balance at 31 December 2021	**2,560,868**	**-**	**-**	**-**	**2,560,868**

Commercial loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,815,718	11,769	-	-	2,827,487
Standard grade	1,130,598	166,392	-	-	1,296,990
Low grade	369,056	176,236	-	7,131	552,423
Not rated	448,676	20,536	-	-	469,212
Defaulted					
Non-performing	-	-	212,134	10,883	223,017
Other	-	-	11,267	-	11,267
Balance at 31 December 2021	**4,764,048**	**374,933**	**223,401**	**18,014**	**5,380,396**

Residential mortgage loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,751,165	67,134	-	2,163	2,820,462
Standard grade	616,665	84,564	-	4,284	705,513
Low grade	112,440	106,454	-	5,083	223,977
Not rated	149,099	1,818	-	-	150,917
Defaulted					
Non-performing	-	-	31,140	3,767	34,907
Other	-	-	73,374	12,908	86,282
Balance at 31 December 2021	**3,629,369**	**259,970**	**104,514**	**28,205**	**4,022,058**

Micro and SME loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,733,636	103,160	-	308	1,837,104
Standard grade	932,109	90,631	-	1,588	1,024,328
Low grade	108,045	69,942	-	561	178,548
Not rated	506,359	29,740	11	-	536,110
Defaulted					
Non-performing	-	-	115,794	2,125	117,919
Other	-	-	35,694	2,053	37,747
Balance at 31 December 2021	**3,280,149**	**293,473**	**151,499**	**6,635**	**3,731,756**

Consumer loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,415,629	23,339	-	858	1,439,826
Standard grade	758,684	54,826	-	1,640	815,150
Low grade	272,104	135,897	-	2,259	410,260
Not rated	189,021	964	267	-	190,252
Defaulted					
Non-performing	-	-	41,757	1,141	42,898
Other	-	-	65,618	17,301	82,919
Balance at 31 December 2021	**2,635,438**	**215,026**	**107,642**	**23,199**	**2,981,305**

Gold – pawn loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	58,481	295	-	-	58,776
Standard grade	41,990	2,606	-	-	44,596
Low grade	19,639	7,215	-	-	26,854
Not rated	32,677	-	-	-	32,677
Defaulted					
Non-performing	-	-	1,003	-	1,003
Other	-	-	1,511	-	1,511
Balance at 31 December 2021	**152,787**	**10,116**	**2,514**	**-**	**165,417**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	8,585	3,221	-	-	11,806
Standard grade	8,337	2,733	-	-	11,070
Low grade	8,515	5,850	-	-	14,365
Not rated	55,737	5,780	-	-	61,517
Defaulted					
Non-performing	-	-	605	-	605
Other	-	-	16,007	9,582	25,589
Balance at 31 December 2021	**81,174**	**17,584**	**16,612**	**9,582**	**124,952**

Accounts receivable	Stage 1	Stage 2	Stage 3	POCI	Total
Not rated	25,267	-	-	-	25,267
Balance at 31 December 2021	**25,267**	**-**	**-**	**-**	**25,267**

Other financial assets	Stage 1	Stage 2	Stage 3	POCI	Total
Not rated	53,459	-	-	-	53,459
Balance at 31 December 2021	**53,459**	**-**	**-**	**-**	**53,459**

Financial and performance guarantees issued	Stage 1	Stage 2	Stage 3	Total
High grade	307,607	24,337	-	331,944
Standard grade	91,528	7,799	-	99,327
Low grade	58,376	3,334	-	61,710
Not rated	1,193,179	9	-	1,193,188
Balance at 31 December 2021	**1,650,690**	**35,479**	**744**	**1,686,913**

Letters of credit	Stage 1	Stage 2	Stage 3	Total
High grade	67,925	-	-	67,925
Standard grade	1,743	-	-	1,743
Low grade	410	-	-	410
Not rated	1,598	-	-	1,598
Balance at 31 December 2021	**71,676**	**-**	**-**	**71,676**

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	Total
High grade	581,310	1,415	-	582,725
Standard grade	121,376	3,011	-	124,387
Low grade	12,986	4,561	-	17,547
Not rated	83,653	240	9	83,902
Defaulted				
Non-performing	-	-	5	5
Other	-	-	909	915
Balance at 31 December 2021	**799,325**	**9,227**	**923**	**809,481**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

Types of collateral the Group accepts include real estate, movable properties as well as financial assets (deposits, shares and guarantees) and other registered liens. Measurement and processing of collateral is governed by generally acceptable standards and collateral-specific instructions. These transactions are structured under legally verified standard agreements where the pledges are secured through public registry where eligible. The following table shows the ratio of the loan portfolio to the market value of collateral held by the Group in respect of the portfolio. As at 31 December 2023, up to 80.1% of the collateral held has been re-valued within the last two years (31 December 2022: 78.6%, 31 December 2021: 76.0%). For residential mortgage loans, in cases where the collateral for a loan may not be officially registered until its construction is complete, respective loan is shown as unsecured, even though it is usually secured by the corporate guarantee of the construction company.

	As at 31 December 2023									
	Total gross carrying amount		*Loan-to-value %*							
		Unsecured	*Less than 50%*	*50%-80%*	*80% - 90%*	*90%-100%*	*100%-200%*	*200%-300%*	*300%-400%*	*More than 400%*
Commercial loans	7,030,961	854,091	1,235,492	1,618,714	297,635	370,658	1,450,549	531,632	133,244	538,946
ECL Coverage	1.40%	0.61%	0.55%	0.42%	0.21%	2.63%	1.98%	4.45%	2.41%	2.54%
Residential mortgage loans	4,557,525	105,607	1,097,126	1,997,629	613,407	533,097	175,455	9,783	5,224	20,197
ECL Coverage	0.50%	2.22%	0.00%	0.24%	0.73%	0.78%	3.56%	1.23%	2.28%	2.09%
Micro and SME loans	4,073,022	241,068	885,575	1,131,643	358,909	314,671	981,784	82,058	26,254	51,060
ECL Coverage	1.76%	6.03%	0.01%	0.57%	0.79%	1.23%	3.85%	3.02%	4.57%	4.75%
Consumer loans	4,699,969	2,266,702	815,573	919,577	330,004	257,059	87,651	8,396	4,722	10,285
ECL Coverage	2.80%	5.16%	0.01%	0.38%	0.83%	1.10%	5.61%	3.85%	4.36%	1.62%
Gold – pawn loans	150,228	-	4,362	49,324	93,706	1,083	790	941	-	22
ECL Coverage	0.92%	N/A	0.00%	0.06%	0.24%	16.25%	27.72%	76.09%	N/A	81.82%
Loans to customers at amortised cost, gross	**20,511,705**	**3,467,468**	**4,038,128**	**5,716,887**	**1,693,661**	**1,476,568**	**2,696,229**	**632,810**	**169,444**	**620,510**

	As at 31 December 2022									
	Total gross carrying amount		*Loan-to-value %*							
		Unsecured	*Less than 50%*	*50%-80%*	*80% - 90%*	*90%-100%*	*100%-200%*	*200%-300%*	*300%-400%*	*More than 400%*
Commercial loans	5,293,611	731,018	1,002,735	900,866	158,713	245,750	1,239,811	340,917	70,694	603,107
ECL Coverage	1.69%	2.73%	0.58%	1.18%	0.82%	1.56%	2.99%	1.18%	1.31%	1.01%
Residential mortgage loans	4,193,204	120,440	981,034	1,859,064	532,412	441,719	230,274	8,114	2,665	17,482
ECL Coverage	0.72%	2.45%	0.01%	0.38%	1.00%	1.45%	3.07%	4.42%	1.43%	4.06%
Micro and SME loans	3,825,663	405,003	885,724	966,056	278,684	280,462	800,119	73,083	30,447	106,085
ECL Coverage	1.66%	4.73%	0.02%	0.41%	0.92%	1.48%	2.92%	3.42%	4.59%	5.88%
Consumer loans	3,602,054	1,794,034	629,846	694,153	217,045	174,755	83,286	4,926	1,196	2,813
ECL Coverage	3.76%	6.79%	0.03%	0.51%	1.36%	1.59%	4.58%	7.69%	0.92%	1.53%
Gold – pawn loans	164,554	-	8,590	58,481	94,082	2,044	1,338	-	-	19
ECL Coverage	3.31%	N/A	50.52%	0.07%	0.30%	13.65%	35.87%	n/a	N/A	84.21%
Loans to customers at amortised cost, gross	**17,079,086**	**3,050,495**	**3,507,929**	**4,478,620**	**1,280,936**	**1,144,730**	**2,354,828**	**427,040**	**105,002**	**729,506**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

	As at 31 December 2021									
	Total gross carrying amount		*Loan-to-value %*							
		Unsecured	*Less than 50%*	*50%-80%*	*80% - 90%*	*90%-100%*	*100%-200%*	*200%-300%*	*300%-400%*	*More than 400%*
Commercial loans	5,380,396	688,491	471,008	1,396,633	167,960	341,335	1,193,148	524,524	197,306	399,991
ECL Coverage	2.90%	1.47%	1.09%	0.69%	1.04%	1.92%	2.50%	16.19%	1.87%	1.17%
Residential mortgage loans	4,022,058	94,513	715,692	1,556,323	651,029	519,179	440,231	11,085	4,739	29,267
ECL Coverage	0.82%	4.19%	0.02%	0.09%	0.66%	1.19%	3.41%	9.24%	2.15%	3.32%
Micro and SME loans	3,731,756	429,366	725,310	933,874	272,270	328,758	835,894	90,748	34,841	80,695
ECL Coverage	1.99%	5.89%	0.10%	0.27%	0.66%	1.65%	3.11%	4.59%	2.43%	9.47%
Consumer loans	2,981,305	1,560,864	443,343	514,287	178,141	143,989	132,295	3,634	731	4,021
ECL Coverage	4.56%	8.07%	0.07%	0.36%	1.02%	1.43%	2.67%	11.23%	2.60%	3.13%
Gold – pawn loans	165,417	1	4,182	37,427	118,095	4,568	1,128	-	-	16
ECL Coverage	1.25%	N/A	0.02%	4.83%	0.09%	2.47%	2.48%	n/a	N/A	75.00%
Loans to customers at amortised cost, gross	**16,280,932**	**2,773,235**	**2,359,535**	**4,438,544**	**1,387,495**	**1,337,829**	**2,602,696**	**629,991**	**237,617**	**513,990**

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

During the year, the Group modified the contractual cash flows on certain loans and advances to customers. All such loans had previously been transferred to at least Stage 2, with a loss allowance measured at an amount equal to lifetime expected credit losses.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Financial assets modified during 2023:	**Amortised cost before modification**	**Net gain (loss) arising from modification**
Commercial loans	710,073	599
Residential mortgage loans	44,848	(131)
Micro and SME loans	168,593	(2,362)
Consumer loans	287,667	(12,791)
Gold – pawn loans	-	-
Loans to customers	**1,211,181**	**(14,685)**
Finance lease receivables	839	138
Total loans to customers and finance lease receivables	**1,212,020**	**(14,547)**

Financial assets modified during 2022:	**Amortised cost before modification**	**Net gain (loss) arising from modification**
Commercial loans	621,067	2,169
Residential mortgage loans	73,863	(3,081)
Micro and SME loans	173,382	(2,524)
Consumer loans	305,726	(25,835)
Loans to customers	**1,174,038**	**(29,271)**
Total loans to customers and finance lease receivables	**1,174,038**	**(29,271)**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

Financial assets modified during 2021:	Amortised cost before modification	Net gain (loss) arising from modification
Commercial loans	437,979	388
Residential mortgage loans	132,638	530
Micro and SME loans	243,217	(4,185)
Consumer loans	271,896	(9,446)
Loans to customers	**1,085,730**	**(12,713)**
Total loans to customers and finance lease receivables	**1,085,730**	**(12,713)**

The gross carrying value of loans that have previously been modified (when they were in Stage 2 or 3) which are now categorised as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses, are shown in the table below:

Financial assets modified since initial recognition, as at 31 December 2023	Gross Carrying Amount	Corresponding ECL
Commercial loans	96,127	(255)
Residential mortgage loans	63,193	(51)
Micro and SME loans	39,912	(98)
Consumer loans	14,217	(49)
Gold – pawn loans	-	-
Loans to customers	**213,449**	**(453)**
Finance lease receivables	-	-
Total loans to customers and finance lease receivables	**213,449**	**(453)**

Financial assets modified since initial recognition, as at 31 December 2022	Gross Carrying Amount	Corresponding ECL
Commercial loans	10,100	(24)
Residential mortgage loans	72,919	(104)
Micro and SME loans	40,925	(129)
Consumer loans	19,482	(204)
Loans to customers	**143,426**	**(461)**
Total loans to customers and finance lease receivables	**143,426**	**(461)**

Financial assets modified since initial recognition, as at 31 December 2021	Gross Carrying Amount	Corresponding ECL
Commercial loans	19,521	(121)
Residential mortgage loans	81,892	(231)
Micro and SME loans	35,301	(347)
Consumer loans	25,063	(633)
Loans to customers	**161,777**	**(1,332)**
Finance lease receivables	-	-
Total loans to customers and finance lease receivables	**161,777**	**(1,332)**

(Thousands of Georgian Lari)

27. Risk management (continued)

Credit risk (continued)

The geographical concentration of the Group's assets and liabilities is set out below:

	2023			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	1,465,026	974,224	603,582	3,042,832
Amounts due from credit institutions	1,733,899	-	18,759	1,752,658
Investment securities	2,194,483	2,258,203	428,129	4,880,815
Loans to customers and finance lease receivables	19,531,162	16,987	699,918	20,248,067
All other assets	1,246,815	146,974	75,949	1,469,738
	26,171,385	3,396,388	1,826,337	31,394,110
Liabilities:				
Client deposits and notes	15,083,091	1,189,517	4,504,208	20,776,816
Amounts owed to credit institutions	2,369,365	2,234,149	529,515	5,133,029
Debt securities issued	273,923	147,436	-	421,359
Lease Liability	124,345	-	13,209	137,554
All other liabilities	381,722	79,352	12,228	473,302
	18,232,446	3,650,454	5,059,160	26,942,060
Net balance sheet position	7,938,939	(254,066)	(3,232,823)	4,452,050

	2022				2021			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	1,419,835	1,453,123	622,770	3,495,728	812,315	417,228	264,909	1,494,452
Amounts due from credit institutions	2,342,829	54,175	20,302	2,417,306	1,909,220	-	8,719	1,917,939
Investment securities	1,792,192	2,436,465	115,092	4,343,749	1,462,826	953,739	147,396	2,563,961
Loans to customers and finance lease receivables	16,303,440	16,340	521,823	16,841,603	15,335,870	17,750	644,546	15,998,166
All other assets	1,070,174	119,933	78,565	1,268,672	951,588	178,108	56,998	1,186,694
	22,928,470	4,080,036	1,358,552	28,367,058	20,471,819	1,566,825	1,122,568	23,161,212
Liabilities:								
Client deposits and notes	13,018,270	978,029	4,277,762	18,274,061	11,219,941	897,834	1,963,663	14,081,438
Amounts owed to credit institutions	2,622,788	2,066,922	501,784	5,191,494	1,581,588	2,447,879	88,995	4,118,462
Debt securities issued	312,258	333,879	-	646,137	386,295	1,066,857	7,327	1,460,479
Lease Liability	99,556	-	13,068	112,624	82,311	-	2,787	85,098
All other liabilities	268,425	79,321	7,628	355,374	305,609	48,919	9,984	364,512
	16,321,297	3,458,151	4,800,242	24,579,690	13,575,744	4,461,489	2,072,756	20,109,989
Net balance sheet position	6,607,173	621,885	(3,441,690)	3,787,368	6,896,075	(2,894,664)	(950,188)	3,051,223

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, 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 regular 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 Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. The banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high-quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2023 was 125.2% (2022: 132.4%, 2021: 124.0%).

The Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. NSFR as at 31 December 2023 was 130.4%, (2022: 131.9%, 2021: 132.5%), all comfortably above the NBG's minimum regulatory requirements.

The Group also matches the maturity of financial assets and financial liabilities and regularly monitors negative gaps compared with the Bank's standalone total regulatory capital calculated per NBG regulation.

(Thousands of Georgian Lari)

27. Risk management (continued)

Liquidity risk and funding management (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations, except for other liabilities, which are presented at carrying amounts due to the short-term nature of these liabilities. Repayments that are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2023	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	8,744,192	10,559,751	1,964,484	73,382	21,341,809
Amounts owed to credit institutions	2,777,141	560,049	1,756,366	836,493	5,930,049
Debt securities issued	406	40,986	374,564	83,158	499,114
Lease liability	8,990	26,372	96,425	26,499	158,286
Other liabilities	134,313	13,032	2,369	133	149,847
Total undiscounted financial liabilities	**11,665,042**	**11,200,190**	**4,194,208**	**1,019,665**	**28,079,105**

Financial liabilities As at 31 December 2022	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	8,311,907	8,362,015	1,951,705	342,592	18,968,219
Amounts owed to credit institutions	3,380,461	570,588	1,284,397	654,002	5,889,448
Debt securities issued	7,849	343,213	411,265	-	762,327
Lease liability	7,458	21,841	76,111	16,756	122,166
Other liabilities	137,675	14,768	1,030	118	153,591
Total undiscounted financial liabilities	**11,845,350**	**9,312,425**	**3,724,508**	**1,013,468**	**25,895,751**

Financial liabilities As at 31 December 2021	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	5,355,862	7,318,350	1,645,710	352,824	14,672,746
Amounts owed to credit institutions	1,815,237	535,469	1,752,690	610,949	4,714,345
Debt securities issued	37,586	244,739	1,437,825	-	1,720,150
Lease liability	5,967	16,099	65,185	10,992	98,243
Other liabilities	171,819	3,192	2,015	18	177,044
Total undiscounted financial liabilities	**7,386,471**	**8,117,849**	**4,903,425**	**974,783**	**21,382,528**

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

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2023	1,349,928	636,409	1,009,256	27,560	3,023,153
31 December 2022	1,280,906	625,011	778,275	30,294	2,714,486
31 December 2021	1,010,650	663,865	885,895	17,546	2,577,956

The Group expects that not all guarantees or commitments will be drawn before expiry of the commitment.

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. These balances are included in amounts due in less than three months in the tables above. Perpetual Tier 1 capital notes are presented in "Over 5 years" category given the fact that the management does not consider them to be repaid earlier than that.

(Thousands of Georgian Lari)

27. Risk management (continued)

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. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2023. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the years ended 31 December 2023, 2022 and 2021**,** sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Increase in basis points* 2023	*Sensitivity of net interest income* 2023	*Sensitivity of other comprehensive income* 2023
GEL	22	6,541	2,289
EUR	8	707	2
USD	12	813	101

Currency	*Decrease in basis points* 2023	*Sensitivity of net interest income* 2023	*Sensitivity of other comprehensive income* 2023
GEL	22	(6,541)	(2,289)
EUR	8	(707)	(2)
USD	12	(813)	(101)

Currency	*Increase in basis points* 2022	*Sensitivity of net interest income* 2022	*Sensitivity of other comprehensive income* 2022
GEL	14	2,432	1,348
EUR	24	3,732	107
USD	21	1,624	1,022

Currency	*Decrease in basis points* 2022	*Sensitivity of net interest income* 2022	*Sensitivity of other comprehensive income* 2022
GEL	14	(2,432)	(1,348)
EUR	24	(3,732)	(107)
USD	21	(1,624)	(1,022)

(Thousands of Georgian Lari)

27. Risk management (continued)

Market risk (continued)

Currency	*Increase in basis points* 2021	*Sensitivity of net interest income* 2021	*Sensitivity of other comprehensive income* 2021
GEL	53	6,733	5,516
EUR	2	238	-
USD	5	355	-

Currency	*Decrease in basis points* 2021	*Sensitivity of net interest income* 2021	*Sensitivity of other comprehensive income* 2021
GEL	53	(6,733)	(5,516)
EUR	2	(238)	-
USD	5	(355)	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2023 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement. The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the 12 months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended 31 December 2023, year ended 31 December 2022 and year ended 31 December 2021, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2023		*2022*		*2021*	
EUR	8.8%	(400)	13.4%	1,179	8.6%	209
USD	4.9%	1,511	10.9%	4,018	6.4%	1,027

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar reasons.

The Group calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product.

The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

(Thousands of Georgian Lari)

27. Risk management (continued)

Market risk (continued)

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2023, 31 December 2022 and 31 December 2021, is as follows:

	Effect on net interest income
2023	(71,177)
2022	(51,899)
2021	(52,552)

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.

Cyber risk, AML and compliance risk

Information-security threats have continued to increase over the past few years and the Group has seen a number of major organisations subject to cyber-attacks. Fortunately, the Group's operations have not been materially affected and the Group has not suffered a data breach. Over the past few years, as the Group's operations have expanded and the focus has been directed towards more digitalisation of banking products and services, there has been seen an increase in electronic crimes, including fraud, although losses have not been significant. Money laundering (ML) and Terrorism financing (FT) risks, which the Bank has measures in place to guard against, continue to evolve globally. The Bank continues to face stringent regulatory and supervisory requirements related to the fight against ML/TF. Failure to comply with these requirements may lead to enforcement action by the regulator, which can result in a pecuniary penalty and negatively impact the Group's reputation.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to 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.

Operating environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and that Georgia has undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new tax code and procedural laws). In the view of the Board, these steps contribute to mitigating the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments, and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Regional instability

The Georgian economy is well-diversified and there is no significant dependency on a single country. However, it is dependent on economies of the region, in particular Russia, Turkey, Azerbaijan and Armenia, which are key trading partners. There has been ongoing geopolitical tension, political and economic instability and military conflict in the region, which may have an adverse effect on our business and financial position.

The Group actively monitors regional and local market conditions and risks related to political instability, and the Georgian Government's response thereto. It performs stress and scenario tests in order to assess the impact on its financial position, and develops responsive strategies and action plans. While financial market turbulences and geopolitical tensions affect regional trading partners, Georgia's preferential trading regimes and well-diversified economy in terms of dependency on a single country, support the country to enhance resilience to regional external shocks.

27. Risk management (continued)

Capital risk

The Bank faces the risk of not meeting the minimum capital adequacy requirements set by the NBG. The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy ratios set by the NBG. The failure to maintain the minimum capital adequacy requirements may have a material adverse effect on the Group and may compromise its strategic targets.

The Group maintains an actively managed capital base to cover risks inherent to its business. As part of its capital adequacy management framework, the Group continuously monitors market conditions and review market changes, and performs stress and scenario testing to test its position under adverse economic conditions, market and regulatory developments. Capital position is continuously monitored by the management, as well as the Board, to ensure prudent management and timely actions, when necessary. For further details, please refer to Note 31.

Emerging risks

Information compiled from all the businesses is examined and processed in order to analyse, control and identify emerging risks.

The Group has identified climate risk as an emerging risk. Climate risk was identified as an emerging risk in 2021 following our first climate materiality assessment. Climate risk is an evolving risk practice and we are examining risk drivers that may be material for certain sectors. Climate-related risk is the risk of financial loss and/or damage to the Group's reputation as a result of accelerating transition to a lower-carbon economy as well as the materialization of actual physical damage as a result of acute or chronic weather events. Among other things, transitional and physical risks may impact the performance and financial position of our customers and their ability to repay their loans.

The Bank conducted a qualitative analysis to understand how, under different scenarios, the transition and physical effects of climate change can drive credit, liquidity, capital, market, operational and reputational risk for the Bank over 'short-term' (i.e. one to two years) to 'very long-term' (i.e. over seven years) time horizons. Risks are perceived to be low over the coming years. However, reputational risks can occur if our climate action lacks ambition and credibility. We are conducting a more quantitative approach in 2024 to conduct materiality over multiple reference scenarios in addition to modelling impacts on capital and portfolios. Moreover, the Bank conducted a qualitative analysis of the transition and physical risks for the sectors in which our corporate and MSME clients are active. The results of this analysis showed that although both strong climate policy (transition risks) and untamed climate change (physical risks) can negatively affect borrowers' repayment capacity and value of collateral in the future (from 2030 and beyond), risks over the next years are expected to be low for our commercial portfolio and are not likely to affect current expectations of credit loss. Our current baseline is a climate policy supportive of low carbon transition and low and minimal exposure to physical risks. Indirect costs from loss of competitiveness are minimal in our view. A more ambitious transition drive, supported by policies that would increase the cost of capital, would have an overall negative impact on our current portfolio for carbon intensive sectors. Climate risks are currently managed at the deal level through an enhanced due diligence approach whereby borrowers within certain sectors are viewed as higher risk against our Heatmaps. Those deemed higher risk are offered additional guidance on mitigating options.

Our current assessment of climate risk is backward looking and takes into account only weather-related events from immediate proceeding years. In 2024 we are undertaking a forward-looking view whereby climate scenarios will impact the likelihood and intensity of weather-related events on our portfolio. Overall, many of the effects of climate change will be longer term in nature, with an inherent level of uncertainty, and have no effect on accounting judgments and estimates for the current period. As a result, there are no additional notes provided in the financial statements. Potential impacts of climate-related risks will be subject to further analysis in the future.

(Thousands of Georgian Lari)

28. Fair value measurements

Fair value hierarchy

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

At 31 December 2023	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	127,924	127,924
Land	-	-	*4,844*	*4,844*
Residential properties	-	-	*87,758*	*87,758*
Non-residential properties	-	-	*35,322*	*35,322*
Investment securities	6,944	4,349,655	108	4,356,707
Other assets – derivative financial assets	-	10,942	-	10,942
Assets for which fair values are disclosed				
Cash and cash equivalents	3,042,832	-	-	3,042,832
Amounts due from credit institutions	-	1,752,658	-	1,752,658
Investment securities measured at amortised cost - debt instruments	-	528,032	-	528,032
Loans to customers and finance lease receivables	-	-	19,491,361	19,491,361
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	25,779	-	25,779
Liabilities for which fair values are disclosed				
Client deposits and notes	-	20,796,389	-	20,796,389
Amounts owed to credit institutions	-	3,752,208	1,376,804	5,129,012
Debt securities issued	-	270,524	148,134	418,658
Lease liability	-	13,209	125,856	139,065

(Thousands of Georgian Lari)

28. Fair value measurements (continued)

Fair value hierarchy (continued)

At 31 December 2022	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	170,629	170,629
Land	-	-	*9,009*	*9,009*
Residential properties	-	-	*112,890*	*112,890*
Non-residential properties	-	-	*48,730*	*48,730*
Investment securities	4,744	3,960,360	108	3,965,212
Other assets – derivative financial assets	-	39,270	-	39,270
Assets for which fair values are disclosed				
Cash and cash equivalents	3,495,728	-	-	3,495,728
Amounts due from credit institutions	-	2,417,306	-	2,417,306
Investment securities measured at amortised cost - debt instruments	-	385,800	-	385,800
Loans to customers and finance lease receivables	-	-	16,246,726	16,246,726
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	59,020	-	59,020
Liabilities for which fair values are disclosed				
Client deposits and notes	-	18,241,016	-	18,241,016
Amounts owed to credit institutions	-	3,974,909	1,192,800	5,167,709
Debt securities issued	-	490,691	151,845	642,536
Lease liability	-	13,068	102,825	115,893

At 31 December 2021	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	231,707	231,707
Land	-	-	*11,762*	*11,762*
Residential properties	-	-	*152,167*	*152,167*
Non-residential properties	-	-	*67,778*	*67,778*
Investment securities	5,242	2,558,611	108	2,563,961
Other assets – derivative financial assets	-	135,079	-	135,079
Assets for which fair values are disclosed				
Cash and cash equivalents	1,494,452	-	-	1,494,452
Amounts due from credit institutions	-	1,917,939	-	1,917,939
Loans to customers and finance lease receivables	-	-	15,615,284	15,615,284
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	7,865	-	7,865
Liabilities for which fair values are disclosed				
Client deposits and notes	-	14,056,936	-	14,056,936
Amounts owed to credit institutions	-	3,453,121	665,341	4,118,462
Debt securities issued	-	1,316,918	215,791	1,532,709
Lease liability	-	2,787	89,018	91,805

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

(Thousands of Georgian Lari)

28. Fair value measurements (continued)

Fair value hierarchy (continued)

Derivative financial instruments

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

Trading securities and investment securities

Trading securities and a certain part of investment securities are quoted equity and debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only 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.

Assets and liabilities not measured at fair value but for which fair value is disclosed

The fair values in the level 2 and level 3 of the fair value hierarchy are estimated using the discounted cash flows valuation technique. Current interest rates for new instruments with similar credit risk, currency and remaining maturity is used as discount rate in the valuation model.

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 31 December 2020	At 31 December 2021	At 31 December 2022	At 31 December 2023
Level 3 financial assets				
Equity investment securities	108	108	108	108

Movements in Level 3 non-financial assets measured at fair value

All investment properties are Level 3. Reconciliations of their opening and closing amounts are provided in Note 11.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	Carrying amount	Effect of reasonably possible alternative	Carrying amount	Effect of reasonably possible alternative	Carrying amount	Effect of reasonably possible alternative
	2023		2022		2021	
Level 3 financial assets						
Equity investment securities	108	+/- 16	108	+/- 16	108	+/- 16

In order to determine reasonably possible alternative assumptions, the Group's adjusted key unobservable model inputs are as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

28. Fair value measurements (continued)

Fair value hierarchy (continued)

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

The following tables show descriptions of significant unobservable inputs to Level 3 valuations of investment properties:

	31 December 2023	Valuation technique	Significant unobservable inputs	MIN	MAX	Weighted average	Other key information	MIN	MAX	Weighted Average
Investment property	**127,924**									
Land	4,844									
Development land	4,505	Market approach	Price per square metre	0.012	2.220	1.033	Square metres, land	32	20,000	4,026
Agricultural land	339	Market approach	Price per square metre	0.001	0.709	0.337	Square metres, land	310	140,000	19,296
Residential properties	87,758	Market approach	Price per square metre	0.049	5.466	1.004	Square metres, building	18	3,170	225
Non-residential properties	35,322									
	35,322	Market approach	Price of the property	22.870	3,838.861	1,321.071	Square metres,Land	50	23,884	2,684
							Square metres,Building	32	3,000	984

* *Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.*

Set out below is an overview of all financial instruments, other than those for which carrying amount is a reasonable approximation of fair valueheld by the Group as at 31 December 2023, 31 December 2022 and 31 December 2021:

	At 31 December 2023		
	Amortised cost	Fair value through OCI	Fair value through profit or loss
Financial assets			
Loans to customers and finance lease receivables	20,248,067	-	-
Accounts receivable and other loans	3,530	-	-
Equity instruments	-	7,098	-
Debt instruments	524,108	4,349,609	-
Foreign currency derivative financial instruments	-	-	10,942
Total	**25,571,195**	**4,356,707**	**10,942**
Financial liabilities			
Client deposits and notes	20,776,816	-	-
Amounts owed to credit institutions	5,133,029	-	-
Debt securities issued	421,359	-	-
Lease liability	137,554	-	-
Trade and other payables (in other liabilities)	104,874	-	-
Foreign currency derivative financial instruments	-	-	25,779
Total	**26,573,632**	**-**	**25,779**

Financial instruments overview

	At 31 December 2022			At 31 December 2021		
	Amortised cost	Fair value through OCI	Fair value through profit or loss	Amortised cost	Fair value through OCI	Fair value through profit or loss
Financial assets						
Loans to customers and finance lease receivables	16,841,603	-	-	15,998,166	-	-
Accounts receivable and other loans	3,398	-	-	23,432	-	-
Equity instruments	-	4,912	-	-	5,419	-
Debt instruments	378,537	3,960,300	-	-	2,558,542	-
Interest rate contracts	-	-	348	-	-	2,827
Foreign currency derivative financial instruments	-	-	38,922	-	-	132,252
Total	**23,136,572**	**3,965,212**	**39,270**	**19,433,989**	**2,563,961**	**135,079**
Financial liabilities						
Client deposits and notes	18,274,061	-	-	14,081,438	-	-
Amounts owed to credit institutions	5,191,494	-	-	4,118,462	-	-
Debt securities issued	646,137	-	-	1,460,479	-	-
Lease liability	112,624	-	-	85,098	-	-
Trade and other payables (in other liabilities)	67,148	-	-	52,133	-	-
Interest rate contracts	-	-	-	-	-	1,385
Foreign currency derivative financial instruments	-	-	59,020	-	-	6,480
Total	**24,291,464**	**-**	**59,020**	**19,797,610**	**-**	**7,865**

(Thousands of Georgian Lari)

28. Fair value measurements (continued)

Fair value of financial instruments that are carried in the financial statements not at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities, fair values of other smaller financial assets and financial liabilities fair values of which are materially close to their carrying values.

	At 31 December 2023		
	Carrying value	Fair value	Unrecognised gain (loss)
Financial assets			
Investment securities measured at amortised cost - debt instruments	524,108	528,032	3,924
Loans to customers and finance lease receivables	20,248,067	19,491,361	(756,706)
Financial liabilities			
Client deposits and notes	20,776,816	20,796,389	(19,573)
Amounts owed to credit institutions	5,133,029	5,129,012	4,017
Debt securities issued	421,359	418,658	2,701
Lease liability	137,554	139,065	(1,511)
Total unrecognised change in unrealised fair value			**(767,148)**

	At 31 December 2022			At 31 December 2021		
	Carrying value	Fair value	Unrecognised gain (loss)	Carrying value	Fair value	Unrecognised gain (loss)
Financial assets						
Investment securities measured at amortised cost - debt instruments	378,537	385,800	7,263	-	-	-
Loans to customers and finance lease receivables	16,841,603	16,246,726	(594,877)	15,998,166	15,615,284	(382,882)
Financial liabilities						
Client deposits and notes	18,274,061	18,241,016	33,045	14,081,438	14,056,936	24,502
Amounts owed to credit institutions	5,191,494	5,167,709	23,785	4,118,462	4,118,462	-
Debt securities issued	646,137	642,536	3,601	1,460,479	1,532,709	(72,230)
Lease liability	112,624	115,893	(3,269)	85,098	91,805	(6,707)
Total unrecognised change in unrealised fair value			**(530,452)**			**(437,317)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments.

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. For financial assets and financial liabilities maturing in less than a year, it is assumed that the carrying amounts approximate to their fair value.

(Thousands of Georgian Lari)

29. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts and credit card loans as described below. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

	At 31 December 2023							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	2,358,521	684,311	-	-	-	-	-	3,042,832
Amounts due from credit institutions	1,733,899	-	-	-	-	-	18,759	1,752,658
Investment securities	1,492,313	2,587,018	374,800	227,208	165,913	31,111	2,452	4,880,815
Loans to customers and finance lease	1,190	2,870,703	1,353,016	2,771,695	5,370,552	2,964,992	4,915,919	20,248,067
Accounts receivable and other loans	463	2,963	13	91	-	-	-	3,530
Total	**5,586,386**	**6,144,995**	**1,727,829**	**2,998,994**	**5,536,465**	**2,996,103**	**4,937,130**	**29,927,902**
Financial liabilities								
Client deposits and notes	5,553,799	3,164,093	1,509,258	8,902,129	1,080,299	513,720	53,518	20,776,816
Amounts owed to credit institutions	476,646	2,297,284	84,200	420,567	795,241	554,167	504,924	5,133,029
Debt securities issued	-	406	25,135	13,388	294,075	5,197	83,158	421,359
Lease liability	-	8,783	8,535	16,287	53,705	29,335	20,909	137,554
Total	**6,030,445**	**5,470,566**	**1,627,128**	**9,352,371**	**2,223,320**	**1,102,419**	**662,509**	**26,468,758**
Net	**(444,059)**	**674,429**	**100,701**	**(6,353,377)**	**3,313,145**	**1,893,684**	**4,274,621**	**3,459,144**
Accumulated gap	**(444,059)**	**230,370**	**331,071**	**(6,022,306)**	**(2,709,161)**	**(815,477)**	**3,459,144**	

	At 31 December 2022							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	2,764,823	730,905	-	-	-	-	-	3,495,728
Amounts due from credit institutions	2,396,567	-	437	-	-	-	20,302	2,417,306
Investment securities	947,377	2,315,415	536,087	217,956	142,195	182,498	2,221	4,343,749
Loans to customers and finance lease	4,204	2,087,352	1,241,786	2,116,316	4,570,794	2,416,951	4,404,200	16,841,603
Accounts receivable and other loans	1,733	1,055	-	610	-	-	-	3,398
Total	**6,114,704**	**5,134,727**	**1,778,310**	**2,334,882**	**4,712,989**	**2,599,449**	**4,426,723**	**27,101,784**
Financial liabilities								
Client deposits and notes	5,433,605	2,811,267	1,297,146	6,962,098	1,224,218	279,175	266,552	18,274,061
Amounts owed to credit institutions	701,208	2,598,973	134,173	382,919	658,256	356,138	359,827	5,191,494
Debt securities issued	-	7,786	51,107	281,718	109,683	195,843	-	646,137
Lease liability	-	6,696	6,908	13,689	45,734	26,920	12,677	112,624
Total	**6,134,813**	**5,424,722**	**1,489,334**	**7,640,424**	**2,037,891**	**858,076**	**639,056**	**24,224,316**
Net	**(20,109)**	**(289,995)**	**288,976**	**(5,305,542)**	**2,675,098**	**1,741,373**	**3,787,667**	**2,877,468**
Accumulated gap	**(20,109)**	**(310,104)**	**(21,128)**	**(5,326,670)**	**(2,651,572)**	**(910,199)**	**2,877,468**	

	At 31 December 2021							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	1,265,780	228,672	-	-	-	-	-	1,494,452
Amounts due from credit institutions	1,893,732	7,744	7,744	-	-	-	8,719	1,917,939
Investment securities	1,157,889	1,282,083	7,083	12,486	12,998	88,776	2,646	2,563,961
Loans to customers and finance lease	2,965	3,046,019	937,783	1,981,480	4,000,593	2,276,915	3,752,411	15,998,166
Accounts receivable and other loans	21,502	190	-	1,740	-	-	-	23,432
Total	**4,341,868**	**4,564,708**	**952,610**	**1,995,706**	**4,013,591**	**2,365,691**	**3,763,776**	**21,997,950**
Financial liabilities								
Client deposits and notes	2,510,537	2,783,739	1,177,931	6,049,579	844,999	448,276	266,377	14,081,438
Amounts owed to credit institutions	170,411	1,635,122	147,011	343,720	903,976	509,173	409,049	4,118,462
Debt securities issued	-	37,429	16,376	169,718	1,014,078	222,878	-	1,460,479
Lease liability	-	5,993	5,596	10,037	34,020	22,171	7,281	85,098
Total	**2,680,948**	**4,462,283**	**1,346,914**	**6,573,054**	**2,797,073**	**1,202,498**	**682,707**	**19,745,477**
Net	**1,660,920**	**102,425**	**(394,304)**	**(4,577,348)**	**1,216,518**	**1,163,193**	**3,081,069**	**2,252,473**
Accumulated gap	**1,660,920**	**1,763,345**	**1,369,041**	**(3,208,307)**	**(1,991,789)**	**(828,596)**	**2,252,473**	

(Thousands of Georgian Lari)

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

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, 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. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the "Up to 1 year" category in the table above. The remaining current accounts are included in the "On demand" category. To match the coverage of short-term borrowings from the NBG with the investment securities pledged to secure it, those securities are included in the "On demand" category. Considering credit cards have no contractual maturities, the above allocation per category is done based on the statistical coverage rates observed.

The Group's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreements;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As at 31 December 2023, client deposits and notes amounted to GEL 20,776,816 (2022: GEL 18,274,061, 2021: GEL 14,081,438) and represented 77% (2022: 74%, 2021: 70%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2023, amounts owed to credit institutions amounted to GEL 5,133,029 (2022: GEL 5,191,494, 2021: GEL 4,118,462) and represented 19% (2022: 21%, 2021: 20%) of total liabilities. As at 31 December 2023, debt securities issued amounted to GEL 421,359 (2022: GEL 646,137, 2021: GEL 1,460,479) and represented 2% (2022: 3%, 2021: 7%) of total liabilities.

In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled, except for current accounts of client deposits and notes which are included in 'Up to 1 year' category, noting that respective contractual maturity may expand over significantly longer periods:

	At 31 December 2023		
	Less than 1 year	*More than 1 year*	*Total*
Cash and cash equivalents	3,042,832	-	3,042,832
Amounts due from credit institutions	1,733,899	18,759	1,752,658
Investment securities	4,681,339	199,476	4,880,815
Loans to customers and finance lease	6,996,604	13,251,463	20,248,067
Accounts receivable and other loans	3,530	-	3,530
Prepayments	25,154	6,878	32,032
Foreclosed Assets	-	271,712	271,712
Right-of-use assets	-	134,422	134,422
Investment properties	-	127,924	127,924
Property and equipment	-	404,303	404,303
Goodwill	-	33,453	33,453
Intangible assets	76	144,281	144,357
Income tax assets	464	-	464
Other assets	283,974	6,178	290,152
Assets held for sale	27,389	-	27,389
Total assets	**16,795,261**	**14,598,849**	**31,394,110**
Client deposits and notes	19,129,279	1,647,537	20,776,816
Amounts owed to credit institutions	3,278,697	1,854,332	5,133,029
Debt securities issued	38,929	382,430	421,359
Lease liability	33,605	103,949	137,554
Accruals and deferred income	85,809	38,588	124,397
Income tax liabilities	185,440	13,618	199,058
Other liabilities	149,847	-	149,847
Total liabilities	**22,901,606**	**4,040,454**	**26,942,060**
Net	**(6,106,345)**	**10,558,395**	**4,452,050**

(Thousands of Georgian Lari)

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

	At 31 December 2022			At 31 December 2021		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	3,495,728	-	3,495,728	1,494,452	-	1,494,452
Amounts due from credit institutions	2,397,004	20,302	2,417,306	1,909,220	8,719	1,917,939
Investment securities	4,016,835	326,914	4,343,749	2,459,541	104,420	2,563,961
Loans to customers and finance lease	5,449,658	11,391,945	16,841,603	5,968,247	10,029,919	15,998,166
Accounts receivable and other loans	3,398	-	3,398	23,432	-	23,432
Prepayments	43,825	3,351	47,176	56,558	1,602	58,160
Foreclosed Assets	-	119,924	119,924	-	3,216	3,216
Right-of-use assets	-	115,404	115,404	-	77,676	77,676
Investment properties	-	170,629	170,629	-	231,707	231,707
Property and equipment	-	363,606	363,606	-	343,025	343,025
Goodwill	-	33,453	33,453	-	33,453	33,453
Intangible assets	-	130,307	130,307	-	124,775	124,775
Income tax assets	224	640	864	109	183	292
Other assets	248,856	5,489	254,345	236,835	7,392	244,227
Assets held for sale	29,566	-	29,566	46,731	-	46,731
Total assets	**15,685,094**	**12,681,964**	**28,367,058**	**12,195,125**	**10,966,087**	**23,161,212**
Client deposits and notes	16,504,116	1,769,945	18,274,061	12,521,786	1,559,652	14,081,438
Amounts owed to credit institutions	3,817,273	1,374,221	5,191,494	2,296,264	1,822,198	4,118,462
Debt securities issued	340,611	305,526	646,137	223,523	1,236,956	1,460,479
Lease liability	27,293	85,331	112,624	21,626	63,472	85,098
Accruals and deferred income	69,792	32,458	102,250	56,129	20,471	76,600
Income tax liabilities	20,258	79,275	99,533	85,270	25,598	110,868
Other liabilities	152,848	743	153,591	175,765	1,279	177,044
Total liabilities	**20,932,191**	**3,647,499**	**24,579,690**	**15,380,363**	**4,729,626**	**20,109,989**
Net	**(5,247,097)**	**9,034,465**	**3,787,368**	**(3,185,238)**	**6,236,461**	**3,051,223**

30. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's-length basis.

The Bank has re-designed its policies and processes for identifying, assessing, and monitoring the related party transactions. The Bank's risk compliance risk management framework, at all levels, is subject to regular review by the Bank's Internal Audit department and external assurance service providers.

The volumes of related party transactions, outstanding balances at the year-end, and related expenses and income for the year are as follows:

	At 31 December 2023			At 31 December 2022			At 31 December 2021		
	The parent	Entities under common control	Key management personnel*	The parent	Entities under common control	Key management personnel*	The parent	Entities under common control	Key management personnel*
Loans outstanding at 1 January, gross	**16,343**	**-**	**9,819**	**17,750**	**-**	**12,050**	**10,701**	**-**	**10,646**
Loans issued during the year	50,092	-	5,666	-	-	7,090	7,127	-	8,944
Loan repayments during the year	(50,092)	-	(4,993)	-	-	(7,246)	-	-	(6,531)
Other movements	644	-	(407)	(1,407)	-	(2,075)	(78)	-	(1,009)
Loans outstanding at 31 December, gross	**16,987**	**-**	**10,085**	**16,343**	**-**	**9,819**	**17,750**	**-**	**12,050**
Less: allowance for impairment at 31 December	-	-	(110)	-	-	(67)	-	-	(27)
Loans outstanding at 31 December, net	**16,987**	**-**	**9,975**	**16,343**	**-**	**9,752**	**17,750**	**-**	**12,023**
Interest income on loans	868	-	557	928	-	745	858	-	644
Expected credit loss	-	-	(40)	-	-	(200)	-	-	-
Deposits at 1 January	**26,766**	**58,329**	**12,633**	**29,813**	**176,898**	**31,127**	**7,098**	**69,520**	**32,619**
Deposits received during the year	159,023	82,019	9,734	-	6,938	9,212	22,715	100,750	21,490
Deposits repaid during the year	-	(2,810)	(6,774)	(3,049)	(108,180)	(15,773)	-	(27,415)	(32,337)
Other movements	75	5,230	(1,284)	2	(17,327)	(11,933)	-	34,043	9,355
Deposits at 31 December	**185,864**	**142,768**	**14,309**	**26,766**	**58,329**	**12,633**	**29,813**	**176,898**	**31,127**
Interest expense on deposits	(12,437)	(4,623)	(864)	(2,436)	(1,270)	(959)	(547)	(1,669)	(1,368)
Debt securities at 1 January	**-**	**737**	**-**	**5,746**	**737**	**-**	**708**	**737**	**-**
Debt securities received during the period	-	-	-	-	-	-	5,746	-	-
Debt securities repaid during the period	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	(5,746)	-	-	(708)	-	-
Debt securities at 31 December	**-**	**737**	**-**	**-**	**737**	**-**	**5,746**	**737**	**-**
Interest expense on debt securities issued	-	-	-	(163)	-	-	(163)	-	-
Commitments, financial and performance guarantees issued	-	-	176	-	-	176	-	-	176

* *Key management personnel includes members of BOG's Supervisory Board, BOG's Management Board and key executives of the Group.*

(Thousands of Georgian Lari)

30. Related party disclosures (continued)

The loans and deposit agreements with the related parties are concluded at arm's length with standard terms considering the product type.

Compensation of key management comprised the following:

	2023	2022	2021
Salaries and other benefits	10,624	9,602	11,197
Share-based payments compensation	50,838	58,110	24,817
Total key management compensation	**61,462**	**67,712**	**36,014**

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2023 was 22 (31 December 2022: 20, 31 December 2021: 20).

As at 31 December 2023 interest rates on loans issued to key management personnel were within 4.5% and 16.8% (31 December 2022: 4.5% and 17.9%, 31 December 2021: 4.0% and 28.8%) for FC and GEL denominated loans, respectively. As at 31 December 2023 interest rates on deposits placed by key management personnel were within 0.0% and 13.5% (31 December 2022: 0.0% and 13.5%, 31 December 2021: 0.0% and 14.2%) for FC and GEL denominated deposits, respectively.

31. Capital adequacy

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

During the year ended 31 December 2023, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value. The Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

IFRS-Based NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations 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 banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of risk-weighted assets, computed based on the Bank's standalone special-purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel III requirements.

(Thousands of Georgian Lari)

31. Capital adequacy (continued)

IFRS-Based NBG (Basel III) capital adequacy ratio (continued)

In January 2023, the NBG transitioned to IFRS-based accounting and introduced a new Pillar 2 buffer - Credit Risk Adjustment (CRA) buffer, to account for the difference between the NBG-based and the IFRS-based provision levels (higher in the former case). As at 31 December 2023, 31 December 2022 and 31 December 2021, the Bank's capital adequacy ratio on this basis was as follows:

IFRS-Based NBG (Basel III) capital adequacy ratio

	2023
Tier 1 capital	4,603,352
Tier 2 capital	499,018
Total capital	**5,102,370**
Risk-weighted assets	**23,061,905**
Tier 1 capital ratio	**20.0%**
Total capital ratio	**22.1%**
Min. requirement for Tier 1 capital ratio	**16.7%**
Min. requirement for Total capital ratio	**19.6%**

As 31 December 2022 and 31 December 2021, the Bank's capital adequacy was as follows:

NBG (Basel III) capital adequacy ratio

	2022	*2021*
Tier 1 capital	3,388,048	2,691,000
Tier 2 capital	618,232	784,800
Total capital	**4,006,280**	**3,475,800**
Risk-weighted assets	**20,279,424**	**17,977,949**
Tier 1 capital ratio	**16.7%**	**15.0%**
Total capital ratio	**19.8%**	**19.3%**
Min. requirement for Tier 1 capital ratio	**13.8%**	**13.6%**
Min. requirement for Total capital ratio	**17.2%**	**17.7%**

32. Events after the reporting period

On 13 February 2024, the Board of JSC Bank of Georgia declared a final dividend for 2023 of Georgian Lari 6.65 per share. Payment of the total GEL 186,000 final dividends was received by shareholders on 1 March 2024.

In March 2024, with reference to Share Purchase Agreement ('SPA') dated 18 February 2024, BOGG together with the Bank acquired 90% of the share capital of Ameriabank CJSC one of the leading banks operating in Armenia from selling shareholders IMAST Group (CY) Limited (owning 48.82% shares in Ameriabank CJSC), European Bank for Reconstruction and Development (owning 17.71% shares in Ameriabank CJSC out of which 7.71% shares was acquired and remaining 10% is subject to put/call option), Asian Development Bank (owning 13.92% shares in Ameriabank CJSC), ESPS Holding Limited (owning 12.05% shares in Ameriabank CJSC) and Afeyan Foundation for Armenia Inc. (owning 7.5% shares in Ameriabank CJSC). The acquisition is financed by total cash consideration of USD 273,230 thousand (approximately GEL 734,825 thousand) to be increased by interest accrual at a rate of 8% from and including 1 February 2024 till receipt of all regulatory approvals. Out of total consideration USD 20,758 thousand which equals to approximately GEL 55,827 thousand is deferred and is due in 6 months after the completion date. The remaining 10% of share capital retained by European Bank for Reconstruction and Development is subject to a put/call option. Portion of share capital acquired attributable to the Bank is 30%. In the Bank's consolidated financial statements the acquisition will be accounted as an investment in associate using equity method whereby the investment will initially be recognised at cost and adjusted thereafter for the post-acquisition change in the Bank's share of the Ameriabank's net assets. All necessary approvals are obtained as at the date of issue of these consolidated financial statements.