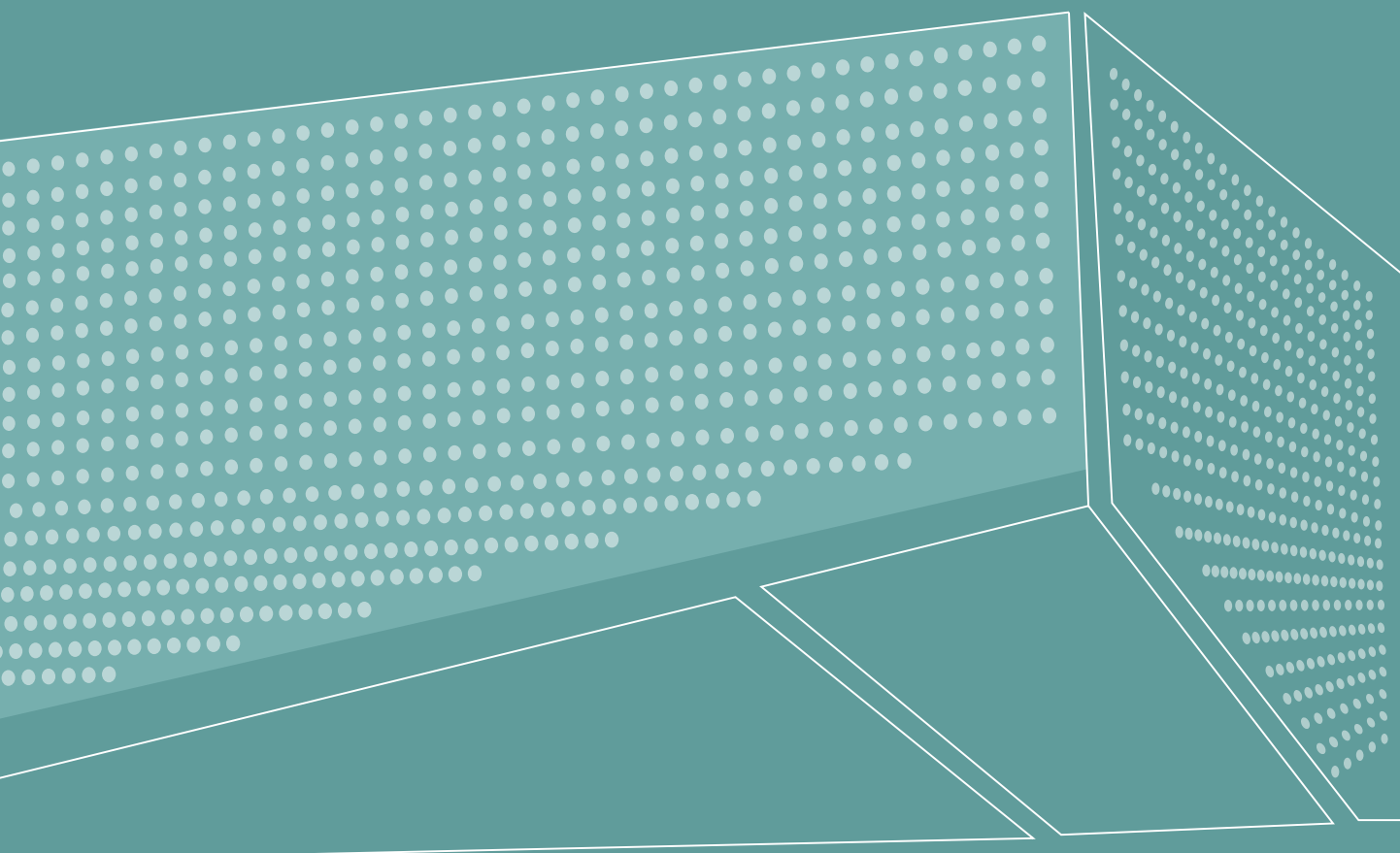




საქართველოს ეროვნული ბანკი
National Bank of Georgia

ANNUAL REPORT

2024



ANNUAL REPORT 2024

TABLE OF CONTENTS

Abbreviations	7	4.12.4. Open Banking/Finance	110
Introduction	8	4.13. Processing of Information and Regulatory Technologies	111
01		05	
MACROECONOMIC ENVIRONMENT	15	CONSUMER RIGHTS PROTECTION	112
1.1. Global Economy	16	5.1. Improvement of the Legislative Framework	113
1.2. External Sector and Balance of Payments	19	5.1.1. Regulation on Protecting Consumer Rights	113
1.3. Economic Growth	26	5.1.2. Cooperation between regulatory agencies in the field of consumer rights protection	114
1.4. Change in Consumer Prices	30	5.2. Remote and on-site inspection of consumer rights protection standards in the financial sector; thematic inspections	114
		5.2.1. Credit Information Bureau	115
02		5.3. Data on Claims Recorded in Financial Organizations	116
MONETARY AND EXCHANGE RATE POLICY	34	06	
2.1. Monetary Policy	35	FINANCIAL EDUCATION	123
2.2. Monetary Policy Instruments	40	6.1. Financial Education	124
2.2.1. Refinancing Loan	40	6.2. Strategic Development – the National Bank of Georgia’s Educational Space	139
2.2.2. One-Month Open Market Instrument	41		
2.2.3. Overnight Loans and Overnight Deposits	41	07	
2.2.4. Securities	41	NON-BANK SUPERVISION	143
2.2.5. Minimum Reserve Requirements	44	7.1. General Overview of Non-bank Sector	144
2.2.6. Development of the Securities Settlement System in Georgia	45	7.2. Microfinance Organizations	144
2.3. Exchange Rate Policy and International Reserves Management	45	7.3. Lending Entities	155
		7.4. Currency Exchange Points	157
03		7.5. Credit Unions	158
FINANCIAL STABILITY POLICY	49	08	
3.1. Development of Financial Stability Framework	52	SECURITIES MARKET	159
3.2. Recovery and Resolution Framework	56	8.1. Implemented Activities for Securities Market Development and Measures to Strengthen Market Transparency	160
3.3. Interagency Committee for Financial Stability	60	8.2. Securities Market Data	162
3.4. Liquidation of Financial Institutions	60	8.3. Overview of Market Participants	168
		8.4. Investment Activity of the Pension Agency	171
04		8.5. Overview of Asset Management Companies and Investment Funds	175
BANKING SUPERVISION	62	09	
4.1. Development of Supervisory Framework	63	MONEY LAUNDERING INSPECTION AND SUPERVISION	176
4.2. Corporate Governance and Group Structure Risk	65		
4.3. Capital Adequacy	68	10	
4.4. Financial Reporting and Transparency	69	OVERSIGHT OF PAYMENT SYSTEMS	181
4.5. Credit Risk	70	10.1. Important Payment Systems	183
4.6. Market Risk	84	10.2. RTGS Transactions in the RTGS System	184
4.6.1. Foreign Exchange Risk	84	10.3. Electronic Means of Payment	189
4.6.2. Interest Rate Risk	85	10.4. Card Instrument Market	192
4.7. Profitability Risk	86	10.5. Non-bank Payment Service Providers	198
4.8. Liquidity Risk	88		
4.8.1. Liquid Asset Structure	88		
4.8.2. Liability Structure	90		
4.8.3. Retail Funding	91		
4.8.4. Wholesale funding	93		
4.9. Macroprudential Risks	94		
4.10. Operational Risk	96		
4.11. Cyber Risk	100		
4.11.1. Regulatory Actions Addressing Cyber Risk	101		
4.12. Development of Financial and Supervisory Technologies	102		
4.12.1. Promoting Financial Innovations	102		
4.12.2. Model Risk	106		
4.12.3. Credit Information Bureau/Platform	107		

11	PAYMENT SERVICE PROVIDERS SUPERVISION AND VIRTUAL ASSET SERVICES	200	
12	DEVELOPMENT OF INFORMATION TECHNOLOGIES	206	
13	ORGANIZATION OF CASH AND EMISSION ACTIVITIES	213	
14	INTERNAL AUDIT AND CENTRALIZED RISK MANAGEMENT	224	
	14.1. Internal Audit Service	225	
	14.2. Non-financial Risk Management	226	
	14.3. Business Continuity Management	227	
15	PUBLIC RELATIONS AND INTERNATIONAL COOPERATION	228	
16	HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT	237	
17	DEVELOPMENT OF LEGISLATIVE FRAMEWORK	242	
18	STATISTICAL ACTIVITY	262	
19	CYBERSECURITY	266	
20	FINANCIAL STATEMENTS	268	
	BOXES		
	Box 1. Synthetic Data Generation		105
	Box 2. AI in Central Banks		106
	DIAGRAMS		
	Diagram N 1.1 Real GDP Growth in the World		17
	Diagram N 1.2. CPI Inflation in the World		17
	Diagram N 1.3 Real GDP Growth in Georgia and weighted average growth of trading partner countries		18
	Diagram 1.4 Current Account Components to GDP		19
	Diagram 1.5 Service Export Components to GDP		19
	Diagram 1.6 Annual Change in Commodity Exports and Imports		20
	Diagram 1.7 Decomposition of the Annual Change in Commodity Exports by Category		20
	Diagram 1.8 Decomposition of the Annual Change In Imports Of Goods by Category		22
	Diagram 1.9 Annual Growth of Registered Imports of Goods		22
	Diagram 1.10 Visits by International Visitors		23
	Diagram 1.11 Travel Revenues		23
	Diagram 1.12 Instant Money Transfers by Country		24
	Diagram 1.13 Sources of Financing the Current Account Deficit (Percent of Gdp)		25
	Diagram 1.14 Indices of The Real and Nominal Effective Gel Exchange Rates (Jan.2020=100)		26
	Diagram 1.15 Real GDP Growth by Sector (Share In Growth)		27
	Diagram 1.16 Real GDP Growth by Expenditures (Share In Growth)		29
	Diagram 1.17 Headline and Core (Excluding Food, Energy and Tobacco) Inflation		30
	Diagram 1.18 Share of Core Components in Inflation		31
	Diagram 1.19 Inflation of Imported and Local Goods		32
	Diagram N 2.1 Monetary Policy Rate		36
	Diagram N 2.2 Interest Rate Spread and Lending Activity (annual growth rate of loans by currencies)		37
	Diagram N 2.3 Factors affecting annual change in refinancing loans		38
	Diagram N 2.4 Interbank Money Market		38
	Diagram N 2.5 Banking Sector Dollarization (excluding the exchange rate effect)		39
	Diagram 2.6 Dynamics of the Certificates of Deposit Portfolio, 2019-2024		42
	Diagram 2.7 Dynamics of the Treasury Bills and Treasury Bonds Portfolio, 2015-2024		43
	Diagram 2.8 Treasury Bills and Treasury Bonds Portfolio Dynamics by Ownership, 2015-2024		43
	Diagram 2.9 Official International Reserves, 1997-2024 (Million Usd, Year End)		47
	Diagram N 3.1 Comparison of Loan and Nominal GDP growth rates		52
	Diagram N 3.2 Concentration of Systemic banks in the banking market (As of December 31, 2024)		57
	Diagram 3.3 Mrel Resources by Instrument (as of 31 December 2024)		59
	Diagram 3.4 Progress of Liquidation of Financial Institutions in 2024		61
	Diagram N 4.1 Capital Adequacy Ratios under Basel III		68
	Diagram N 4.2 Total Pillar 2 requirements by banks as of December 31, 2024		69
	Diagram N 4.3 Change in total loan portfolio compared to the previous year		70
	Diagram N 4.4 Weighted average interest rates on loans per segment		71
	Diagram N 4.5 Weighted average interest rates on loans in corporate segment		72

Diagram N 4.6 Weighted average interest rates on loans in MSME segment	72	Diagram 5.6 Distribution of claims at microfinance organizations by status	120
Diagram N 4.7 Weighted average interest rates on loans in retail segment	73	Diagram 5.7 Distribution of claims in lending entities by product	121
Diagram N 4.8 Share of economically vulnerable sectors in the total loan portfolio	75	Diagram 5.8 Distribution of claims in lending entities by nature of complaint	121
Diagram N 4.9 Segment balances by currency at the end of 2024 (except interbank loans)	76	Diagram 5.9 Distribution of claims in lending entities by status	122
Diagram N 4.10 Composition of the retail portfolio by currencies	76	Diagram N 8.1 Balances of non-government bonds at period-end (2014-2024)	168
Diagram N 4.11 Quality of Retail Portfolio and Share of Provisioning by products	78	Diagram 7.1 Number of Microfinance Organizations and Branches	145
Diagram N 4.12 Change in cost of credit risk (Dec-2023 - Dec-2024)	78	Diagram 7.2 Regional Distribution of the Branches Of Microfinance Organizations	145
Diagram N 4.13 Credit Portfolio by Quality Indicators (except interbank loans)	79	Diagram 7.3 Number of Borrowers at Microfinance Organization	146
Diagram N 4.14 Share of restructured loans by currencies in total loan portfolio	79	Diagram 7.4 Regional Distribution of the Branches and Borrowers of Microfinance Organizations	146
Diagram N 4.15 Share of non-performing loans by currencies in the business loans	80	Diagram 7.5 Number of Staff at Microfinance Organizations	147
Diagram N 4.16 Share of non-performing loans by currencies in the mortgage loans	80	Diagram 7.6 Total Assets of Microfinance Organizations	147
Diagram N 4.17 Loan Loss Reserves to Total Portfolio	81	Diagram 7.7 Loan Portfolio of Microfinance Organizations	148
Diagram N 4.18 Volume and ratio of variable interest rate loans (to net loans)	81	Diagram 7.8 Loan Portfolio Structure	148
Diagram N 4.19 Write-offs and Recoveries of Loans	82	Diagram 7.9 Quality of the Loan	149
Diagram N 4.20 Problem Assets	82	Diagram 7.10 Weighted Average Interest Rates of the Loan Portfolio	149
Diagram N 4.21 Repossessed Assets	83	Diagram 7.11 Dollarization of the Credit Portfolio	150
Diagram N 4.22 Total loans to non-bank deposits by currency	85	Diagram 7.12 Funding Structure	150
Diagram 4.23 Change in Eve to Tier 1 Capital	86	Diagram 7.13 Borrowings Structure	151
Diagram 4.24 Return on Equity and Assets	87	Diagram 7.14 Funds Raised from Individuals and Number of Individual Creditors	151
Diagram 4.25 Costs to Income and Assets	87	Diagram 7.15 Non-Resident Funds	152
Diagram 4.26 Level of Liquid Assets	88	Diagram 7.16 Funds of Non-Residents by Country	152
Diagram 4.27 LCR Dynamics (10-Day Floating Average)	89	DIAGRAM 7.17 Funds Attracted in FX	153
Diagram 4.28 Net Stable Funding Ratio	89	DIAGRAM 7.18 Regulatory Capital Structure	153
Diagram 4.29 Liquidity Gap – Assets to Liabilitie	90	Diagram 7.19 Capital Structure by Residency	154
Diagram 4.30 Volume and Structure of Liquid Assets	90	Diagram 7.20 Cost of Funds and Profitability of the Portfolio	154
Diagram 4.31 Liability Structure	91	Diagram 7.21 Net Profit Dynamics	155
Diagram 4.32 Annual Growth of Non-Bank Deposits	91	Diagram 7.22 Regional Distribution of Structural Units of Lending Entities	155
Diagram 4.33 Share of Deposits of Non-Resident Clients	92	Diagram 7.23 Lending Entities and Number of Borrowers	156
Diagram 4.34 Non-Resident Deposit Structure (December 2024)	92	Diagram 7.24 Dynamics of Total Assets and Net Loans	156
Diagram 4.35 Deposits of Non-Residents by Country (December 2024)	93	Diagram 7.25 Sources of Funding for Lending Entities	157
Diagram 4.36 Total Loans to Non-Bank Deposits by Currency	93	Diagram 7.26 Number and Branches of Currency Exchange Points	158
Diagram 4.37 Dollarization of Deposits (Fixed Exchange Rate)	95	Diagram 7.27 Regional Distribution of Structural Units of Currency Exchange Points	158
Diagram 4.38 Total Operational Losses, 2024	98	Diagram 8.1 Balances of Non-Government Bonds at Period-End, 2014-2024	163
Diagram 4.39 Total Losses for Banking Sector, 2020-2024	99	Diagram 8.2 Placements of Public Corporate Bonds During the Period, 2014-2024	164
Diagram 4.40 Dynamics Of The Operational Loss Indicator, 2024	99	Diagram 8.3 Balances of Public Corporate Bonds at the End of The Period, 2014-2024	163
Diagram 4.41 Distribution of Total Losses of the Banking System for 2024 by Category Of Event	100	Diagram 8.4 Public Corporate Bond Placements by Issuer Credit Rating, 2014-2024	164
Diagram 4.42 Number and Volume of Current Loans, 2024	107	Diagram 8.5 Distribution Of Corporate Bond Balances By Sector And Industry, 2024	166
Diagram 4.43 Unique Number of Current Borrowers, 2024	108	Diagram 8.6 Balances Of Treasury Securities By Maturity, 2010-2024	166
Diagram 4.44 Number of Customer Complaints, 2024	108	Diagram 8.7 Balances of Treasury Securities by Ownership, 2014-2024	167
Diagram 4.45 Number Of Cashed International Remittances, 2024	109	Diagram 8.8 Secondary Market Activity for Debt Securities Issued in Georgia, 2015-202459	168
Diagram 4.46 Numbers Of Unique Persons Cashing Remittances, 2024	109	Diagram 8.9 Total Value of Securities of Clients Registered in the Securities Accounts of Brokerage Companies (Gel)	169
Diagram 5.1 Distribution of claims made at commercial banks by product	117	Diagram 8.10 Distribution of Securities of Clients Registered in the Securities Accounts of Brokerage Companies (Securities Issued In Foreign Countries And Georgia)	169
Diagram 5.2 Distribution of claims made at commercial banks by nature of complaint	118	Table 8.1 Aggregate Information Based on the Rates Recorded in Trading Sessions and on The Stock Exchange, 2022-2024	170
Diagram 5.3 Distribution of claims made at commercial banks by status	118	Diagram 8.12 Number of Transactions Recorded in Trading Sessions and on the Stock Exchange by Year, 2012-2024	170
Diagram 5.4 Distribution of claims at microfinance organizations by product	119		
Diagram 5.5 Distribution of claims at microfinance organizations by nature of complaint	120		

Diagram 8.13 Distribution of Pension Assets by Portfolios, December 2024	172	Diagram 12.3 Incident Management Statistics Based on Division	211
Diagram 8.14 Distribution of Pension Assets by Portfolio, 31 December 2024	173	Diagram N 13.1 Cash in Circulation (2020-2024)	214
Diagram 8.15 Geographical Distribution of Shares in Pension Assets, 31 December 2024	173	Diagram N 13.2 Share of banknotes of individual denominations and coins in circulation (2020-2024)	215
Diagram 8.16 Benchmark Portfolios of the Pension Fund	174	Diagram 13.3 Share of Banknotes of Individual Denominations and Coins in Circulation, 2020-2024	215
Diagram 8.17 Investment Funds and Asset Management Companies	175	Diagram 13.4 Percentage of 5, 10, 20, 50 and 100 Lari Banknotes in Circulation, by Denomination	216
Diagram N 10.1 Transfers through the RTGS (2014-2024)	185	Diagram 13.5 Banknotes/Coins Received and Issued by the Cash Center, 2020-2024	218
Diagram 10.2 Transfers Through the RtgS System, 2024	186	Diagram 13.6 Counterfeit Gel Banknotes and Coins Found in 2024 (Percentage)	219
Diagram 10.3 Amount of RtgS Transactions by Month and Year, 2020-2024	186	Diagram 13.7 Number of Counterfeit Gel Banknotes Found, 2020-2024	220
Diagram 10.4 Amount of RtgS Transactions by Month and Year, 2020-2024	186	Diagram 13.8 Number of Counterfeit Gel Coins Found, 2020-2024	220
Diagram 10.5 Amount of RtgS Transactions by Members, 2014-2024	187	Diagram 13.9 Valuables Sold, 2020-2024 (Quantity)	221
Diagram 10.6 Number o RtgS Transactions by Members, 2014-2024	187		
Diagram 10.7 Amount of RtgS Transactions by Settlement, 2011-2024	188	TABLES	
Diagram 10.8 Number of Payments by Bank Clients by Amount Limits	188	Table 1.1 Export structure for 2024 by top 5 countries and products	21
Diagram 10.9 Distribution of Payments by Bank Clients by Amount	189	Table 1.2 2024 Import structure by top 5 countries and products	21
Diagram 10.10 Use of Cashless Payment Initiation Means, 2012-2024	191	Table 1.3 GDP by sector	28
Diagram 10.11 Distribution of Non-Cash Payments in Georgia by Means of Initiation, 2024	191	Table 1.4 Inflation indicators by individual components, their weight in the consumer basket and impact on inflation	33
Diagram 10.12 Annual Growth of Card Operations in Value and Volume	192	Table 4.1 Composition of the loan portfolio (excluding interbank loans) by segment, without exchange rate effect, the exchange rate as of the end of 2024	71
Diagram 10.13 Dynamics of the Share of Cash Withdrawals and Non-Cash Payments Made With Card Instruments in 2013-2024	193	Table 4.2 External sources of wholesale funding and their repayment schedule as of December 31, 2024	74
Diagram 10.14 Dynamics of The Share of Cash Withdrawals and Payments Made with a Card Instrument at Pos Terminals Abroad and in Georgia, 2020-2024	194	Table 4.3 Growth in retail products, excluding the exchange rate effect (exchange rate as of end of 2024)	75
Diagram 10.15 Dynamics of Non-Cash Payment Transactions Made With Cards Issued in Georgia, 2018-2024	195	Table 4.4 Classification of The Loan Portfolio by Quality	77
Diagram 10.16 Dynamics of Payments Made with Georgian Cards at Pos Terminals in Georgia and Abroad 2018-2024	195	Table 4.5 Portfolio Quality by Segment, December 2024	77
Diagram 10.17 Number of Cards Issued by Commercial Banks by Card Scheme	196	Table 4.6 Reduction in Sectoral Turnover	84
Diagram 10.18 Average Number and Value of Monthly Payments Made with an Active Card	197	Table 4.7 External Sources of Wholesale Funding and Their Repayment Schedules as of 31 December 2024	94
Diagram 10.19 Share of the Number of Payment Pos Terminals Located in Tbilisi in Total Payment Pos Terminals, 2019-2024	197	Table 8.1 Aggregate information based on the rates recorded in the trading sessions and on the exchange (2022-2024)	170
Diagram 10.20 Payments Made by Payment Service Providers (Excluding Electronic Money)	198	Table 9.1 Remote Supervision, 2024	177
Diagram 11.3 Dynamics of Payment Transactions Performed by Payment Service Providers Registered with the NBG	204	Table 9.2 Amount of Fines 2024	178
Diagram N 12.1	210	Table 9.3 Number of Recommendations, 2024	179
Diagram N 12.2	210	Table 9.4 Training Modules, 2024.	180
		Table 11.1 Changes related to the registration and deregistration of payment service providers during 2024	203
		Table 11.2 Number of providers by the payment services offered	203
		TABLE 12.1	211
		TABLE 12.2	212
		Table 13.1 Results of expert examination of suspicious cash in 2024 (quantity):	219

ABBREVIATIONS

API (Application Programming Interface)
ARA (Assessing Reserve Adequacy)
BCBS (Basel Committee on Banking Supervision)
BI (Business Intelligence)
BIA (Business Impact Analysis)
BIS (Bank for International Settlements)
BISIP (BIS Investment Pool)
BMatch (a rule-based bilateral intervention mechanism)
BSCEE (Banking Supervisors from Central and Eastern Europe)
CAREC (Central Asia Regional Economic Cooperation)
CBDC (Central Bank Digital Currency)
CICR (Currency-Induced Credit Risk)
CRA (Credit Risk Adjustment)
CRD IV (Capital Requirement Directive)
CRR (Capital Requirements Regulation)
CSP (Customer Security Program)
DDoS (Distributed Denial-of-Service)
DeFi (Decentralized Finance)
DPM (Data Point Model)
EBA (European Banking Authority)
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
EBRD (European Bank for Reconstruction and Development)
ECB (European Central Bank)
EFSE DF (European Fund for Southeast Europe Development Facility)
ESG (Environmental, Social, and Governance)
EVE (Economic Value of Equity)
FAO (Food and Agriculture Organization)
FATF (Financial Action Task Force)
FEA Georgia (Financial Education Association of Georgia)
FinEdu (the National Bank of Georgia's financial education platform)
FINREP (Financial Reporting –a European regulation that applies to credit institutions)
FSAP (Financial Sector Assessment Program)
FSI (Financial Stability Indicators)
GRAPE (General Risk Assessment Program)
GSSS (Georgian Securities Settlement System)

HR (Human Resources)
HRMS (Human Resources Management System)
IFC (International Finance Corporation)
IFRS (International Financial Reporting Standards)
IIA (Institute of Internal Auditors)
IMF (International Monetary Fund)
IOSCO (International Organization of Securities Commissions)
IPPF (International Professional Practice Framework)
ISO (International Organization for Standardization)
IT (Information Technology)
LCR (Liquidity Coverage Ratio)
LTV (Loan to Value)
NGFS (Network for Greening the Financial System)
NII (Net Interest Income)
NPL (Non-Performing Loan)
NSFR (Net Stable Funding Ratio)
OECD (Organization for Economic Cooperation and Development)
OECD/INFE (Organization for Economic Cooperation and Development/International Network on Financial Education)
PTI (Payment to Income)
ROA (Return on Assets)
ROE (Return on Equity)
ROSC (Report on the Observance of Standards and Codes)
RTGS (Real Time Gross Settlement)
SBFN (Sustainable Banking and Finance Network)
SECO (State Secretariat for Economic Affairs)
SEPA (Single Euro Payment Area)
SMEDA (Small and Medium Enterprise Development Association)
SWIFT (Society for Worldwide Interbank Financial Telecommunication)
TIBR (Tbilisi Interbank Rate)
TMS (Taxonomy Management System)
UNCTAD (United Nations Conference on Trade and Development)
USAID (United States Agency for International Development)
VASP (Virtual Asset Service Provider)
XBRL (Extensible Business Reporting Language)

INTRODUCTION

The 2024 Annual Report of the National Bank of Georgia (NBG) has been compiled following Articles 60 and 61 of the Organic Law “On the National Bank of Georgia”. It gives an overview of the NBG’s monetary, foreign exchange, and supervisory policies, along with audited financial statements.

According to the Organic Law of Georgia “On the National Bank of Georgia”, the main goal of the NBG is to keep prices stable, which is crucial for long-term economic prosperity. To achieve this, the NBG implements monetary policy under an inflation-targeting regime, with the target inflation rate set at 3%. The bank aims to keep inflation close to this target over the medium term. The National Bank of Georgia first adopted its inflation-targeting regime in 2009, initially setting the target inflation rate at 6%. From 2009 to 2024, the average annual inflation rate in Georgia was 4.3%, compared to 6.6% in the period 2000 to 2008.

In 2024, Georgia maintained a stable low inflation environment. Thanks to the NBG’s monetary policy, inflation stayed below the target, averaging 1.1%. Core inflation, which excludes volatile food, energy, and cigarette prices, averaged 1.6%. The NBG’s consistent policy kept long-term inflation expectations close to the target. The low inflation environment was mainly a result of domestic economic factors. Inflation for domestically produced goods and services, which reflects long-term inflation expectations, averaged 2.1% in 2024. Additionally, improvements to the economy’s production potential helped mitigate inflationary pressures coming from strong demand. The reduction of electricity tariffs in 2024 and the stable exchange rate of the lari also contributed to low inflation.

With inflation expectations stabilized, the NBG began to normalize its monetary policy, reducing the policy rate by 1.5 PP to 8.0% in the first half of 2024. However, due to domestic economic trends and increased global risks, the NBG took a cautious

approach in the second half of the year and kept the monetary policy rate unchanged.

Monetary policy normalization led to accelerated credit activity, stimulating aggregate demand. Along with strong demand, improvements in the economy’s production potential contributed to high economic growth, with real GDP growth reaching 9.4% in 2024. External demand also had a positive impact on economic activity. In the first half of the year, weak global demand led to relatively weak exports. However, in the second half of the year, revenues from export grew significantly. Georgia’s role as a Middle Corridor country has increased, boosting international transport and highlighting the importance of the transportation sector. Revenues from information and communication sector remained high in 2024, and travel revenues increased by 7.3%. These factors kept the share of service exports in GDP high, improving the current account compared to the previous year. In 2024, the current account deficit was 4.4% of GDP, with net foreign direct investment remaining an important source of financing, as in previous years.

International reserves are crucial for a country’s macroeconomic stability. The NBG has always aimed to accumulate and effectively manage these reserves. As of December 2024, Georgia’s international reserves stood at USD 4.4 billion. At the start of 2024, favorable market conditions allowed the NBG to replenish the reserves through foreign exchange interventions. However, in the second half of the year it became necessary to supply foreign currency to the market to neutralize one-time excess fluctuations.

Georgia, as a small open economy, operates under a floating exchange rate regime, which is optimal for its situation. The exchange rate is determined by market supply and demand as well as macroeconomic fundamentals. In the second half of 2024, these fundamentals were strong. However, uncertainty

led to expectations forming in the foreign exchange market that differed from the fundamentals, causing excessive volatility. These factors had only a short-term impact on the exchange rate and the NBG resumed replenishing the reserves by the end of the year. In total, the NBG's net sales in 2024 amounted to USD 434.75 million.

Since December 2024, the upper limit of the reserve requirement for foreign currency liabilities attracted by commercial banks increased by 5 PP, which boosted the reserves at the end of the year. Additionally, in March 2024, monetary gold was added to the international reserves when the NBG purchased gold worth USD 500 million. As of December 2024, the value of this acquisition of monetary gold had increased by approximately USD 99 million – an upward trend that underscores the validity of the NBG's reserve diversification strategy.

Along with maintaining price stability, promoting financial stability is one of the NBG's key tasks. To ensure financial stability, the NBG implements macroprudential policy and supervises the financial sector. By identifying, assessing, and monitoring systemic risks, the NBG develops policies to reduce these risks, thereby increasing the stability of the financial system.

The main instrument of the NBG's macroprudential policy is the countercyclical capital buffer, which aims to limit excessive lending that increases systemic risks. According to the updated framework¹, the neutral rate of the countercyclical buffer is 1%. Commercial banks are required to accumulate this buffer in stages, following a schedule set by the NBG, by 15 March 2027. In 2024, no need was identified to change the cyclical component of the countercyclical capital buffer.

The NBG continues to actively work on reducing structural risks caused by high financial dollarization. Thanks to the measures taken by the NBG, dollarization has significantly decreased; however,

dollarization, and the risks associated with it, remain one of the main challenges for the financial sector. To mitigate these risks, in 2024, the NBG continued to implement its long-term de-dollarization plan. Specifically, the GEL 300,000 limit on unhedged foreign currency loans, which had been in effect since January 2024, was gradually increased. According to the decisions of the Financial Stability Committee, this limit was first raised to GEL 400,000 from 1 May 2024, and again to GEL 500,000 from 1 January 2025. In 2024, the NBG also reviewed and recalibrated the liquidity requirement for foreign currency deposits. In 2023, to address the risks stemming from the excessive growth of deposits in foreign currency by Russian residents, the NBG had increased the liquidity requirement (outflow rate) for such deposits to 80%. However, as of 2024, the volume of accounts and deposits of Russian residents stabilized and the Financial Stability Committee thus decided to set the liquidity requirement for foreign currency deposits of Russian residents in line with the liquidity requirement for other non-resident deposits, averaging 40%.

In 2024, the NBG actively continued the implementation of the measures specified in the Sustainable Finance Guidelines. A significant milestone in this direction was reached in April 2024 when the NBG moved from the "Advancing" to the "Consolidating" level in the 6-level Sustainable Banking and Financial Network (SBFN) assessment system². This promotion reflects the steps taken by the NBG towards developing a sustainable finance framework. In 2024, the NBG published its fourth Sustainable Finance Report³, presenting an overview of current sustainable finance trends, implemented policies, and future plans in Georgia.

In 2024, the NBG, in cooperation with the International Finance Corporation (IFC) and the SBFN, and with the support of the Swiss State Secretariat for Economic Affairs (SECO), hosted the fifth Sustainable Finance Forum. Additionally, in cooperation with the EBRD, the NBG hosted a two-day seminar dedicated to the Women Entrepreneurs' Finance Code.

1. In line with the Basel Recommendations, in 2022 the Financial Stability Board updated the countercyclical buffer framework, which includes both neutral and cyclical components. The board decided to set the neutral rate of the countercyclical buffer at 1% in March 2023.

2. SBFN Global Progress Brief 2024. See: <https://www.sbfnetwork.org/global-progress-brief-2024/>

3. 2024 Sustainable Finance Report. See: <https://bit.ly/4hXh8C5>

As part of the Sustainable Finance Framework, in 2024, the NBG, in cooperation with the German Sparkassenstiftung for International Cooperation (DSIK), developed an Environmental, Social, and Governance (ESG) Risk Radar. This report builds on and significantly improves the methodology of the 2022 Climate Risk Radar⁴, including a more detailed and transparent assessment of ESG risks⁵. Furthermore, as part of the ESG Guidelines, the NBG, with the support of DSIK, developed an ESG Due Diligence Tool⁶. This tool is based on the dual materiality principle for assessing and further categorizing ESG risks and is used in managing them.

In parallel, in 2024, the NBG, with financial support from the European Investment Bank (EIB) and in cooperation with international experts from EconLab, developed a climate stress test⁷ framework and published the results of the first climate stress test for the Georgian financial sector. The stress test results revealed potential losses related to climate risks but also noted the high level of capitalization of the banking sector and its resilience to such risks.

It is worth noting that within the framework of the first Sustainable Finance Roadmap and Action Plan, all defined measures across four main areas were successfully implemented by the end of 2024. The publication of the second Sustainable Finance Roadmap and Action Plan is planned for the first half of 2025.

To promote financial stability, and in accordance with a decision taken by the Financial Stability Committee in May 2023, the NBG implemented the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for systemic banks starting from 2024. Agreements on own funds or liabilities that are fully or partially regulated by foreign legislation are only considered eligible for MREL purposes if they include a contractual condition on the use of the resolution tool for writing down or converting the relevant bank's liabilities for recapitalization. Accordingly, starting from December 2023, it became mandatory

for commercial banks to include this condition in their capital instrument agreements, and the requirement for other liabilities was determined starting from 1 April 2024.

Furthermore, based on the legislative amendments related to the Resolution Fund approved by the Parliament of Georgia in December 2023, the NBG developed relevant by-laws during 2024. Following public consultations the *“Regulation on the Creation, Administration, and Investment of the Resolution Fund, the Criteria for Imposing an Advance Contribution to the Resolution Fund, and the Implementation of the Advance Contribution”* was developed. Commercial banks began to implement advance contributions to the Resolution Fund in accordance with this regulation from 2025.

As in previous years, the NBG published the 2024 edition of its Supervisory Strategy⁸ for 2023-2025. The NBG's supervisory priorities remained unchanged in this strategy, while information on the tasks already completed and work underway was reflected in detail in the annual update. The annual strategy document placed special emphasis on the main tasks planned for the next 12-18 months and on the changes made to the action plan. In 2024, the NBG conducted its activities in line with the following supervisory priorities:

- ◆ Improving the financial sector risk management framework and proactively responding to results.
- ◆ Promoting competition in the financial sector.
- ◆ Encouraging financial innovations and developing supervisory technologies.
- ◆ Approximation to international standards.
- ◆ Strengthening the NBG's supervisory function and increasing transparency.

The *“Counterparty Credit Risk Management Regulation”* was enacted in January 2025 (with the work on this having been completed in 2024).

4. ESG Risk Radar for Georgia - Assessing Climate-Related and Other ESG Risks. See: <https://bit.ly/4aVhB5g>

5. See: <https://bit.ly/4jXeYUu>

6. Climate-Related Risk Radar for Economic Sectors in Georgia. See: <https://nbg.gov.ge/en/page/esg-guidelines>

7. Climate Stress Test. See: <https://bit.ly/3QfnW1P>

8. Supervisory Strategy 2023-2025. See: <https://nbg.gov.ge/page/sazedamkhedvelo-strategia>

This regulation is based on the Counterparty Risk Management Framework established by the Basel Committee on Banking Supervision and Regulation (EC) No. 575/2013 of the European Parliament and of the Council, dated 26 June 2013. The new regulation aims to more accurately reflect and manage the risks associated with the growing volume of derivatives in the Georgian banking sector. Notably, it shifts from a principles-based approach to a risk-based approach in derivatives management. Under this new framework, banks can adjust the required capital based on the security of transactions and the credit ratings of counterparties. The regulation allows banks to use three approaches to calculate counterparty risk-weighted assets, depending on the proportion of derivatives in their assets: standardized, simplified standardized, and simple risk position approaches. The development of this regulation involved extensive consultations with the sector and the Bankers' Association, and banks were provided with over a year to implement the new model.

Additionally, in 2024, an updated *"Regulation on the Procedure for Determining Systemic Risk in Georgian Banks"* was approved. The update aimed to align the approaches for determining systemic risk with those of the European Banking Association (EBA) while addressing specific challenges within the Georgian banking sector. Key changes to the regulation include the addition of an indicator for derivatives concluded on unorganized markets to the complexity criterion, and an equal distribution of weights among the indicators within the criteria. To foster competition and mitigate market concentration, a 2% rate was added to the 40% deposit share limit. A maximum systemic buffer limit of 5% was also introduced.

As of 31 December 2024, the total loan portfolio of the banking system reached GEL 62.5 billion, with an annual growth rate of 17.1%, excluding exchange rate effects. The composition of the loan portfolio saw slight changes, with an increase in the corporate segment's share and a decrease in the micro and small and medium segments.

The loan portfolio remains diversified by sector. By the end of December 2024, economically vulnerable sectors (real estate development, real estate

management, hotels and tourism, restaurants and catering, and car dealers) accounted for 18.2% of the portfolio, which was a 0.5 percentage point increase from the previous year.

The quality of the retail loan portfolio improved over the year, with a decrease observed in the share of non-performing loans. This improvement is attributed to the portfolio growth of mortgage loans and both the portfolio growth in consumer loans and the reduction in non-performing consumer loans. The expected credit loss ratio for most retail products (besides overdrafts, instant installments, and student loans) has decreased due to portfolio write-offs and growth.

During 2024, the annual average GEL exchange rate against the USD and EUR depreciated compared to the previous year, primarily due to short-term factors. Banks maintained stable foreign exchange positions, complying with the 20% limit set by the NBG for the total cumulative position of all currencies. At the end of 2024, the ratio of the total cumulative foreign exchange position to regulatory capital was 0.2%.

Dollarization in the Georgian banking system remains high, posing a significant currency risk. The NBG has thus continued its supervisory efforts to enhance currency risk management approaches. In 2024, increased lending activity led to significant growth in both net interest income and the operational efficiency of banks.

Throughout 2024, the volume of liquid assets relative to total assets remained stable compared to the previous year, with banks maintaining adequate liquidity buffers. Liquid assets accounted for approximately 19% of total assets and 30.4% of non-bank deposits. The liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) both stayed well above the minimum requirement of 100%, reaching 131% and 128%, respectively, by the end of the year. The NBG has been actively collaborating with commercial banks to assess and enhance operational and cyber risk management processes. This includes verifying compliance with the NBG's Operational Risk Management Framework, with a particular

focus on ensuring that commercial banks fully implement business continuity plans across various scenarios, including outsourcing processes such as cloud services.

The NBG places significant emphasis on evaluating relevant companies and products when outsourcing relationships are initiated by commercial banks. It also prioritizes the monitoring and periodic reassessment of outsourcing processes through a planned and risk-based approach.

In 2024, the NBG's Operational Risk Department focused on digital banks and microbanks, the latter reflecting a new supervisory entity. Through active involvement with the sector, the department supports the safe and sustainable development of digital banking in Georgia, continuing to oversee the implementation of the Operational Risk Management Framework with digital and microbanks.

Over the past year, operational risk supervision has been actively focused on studying and assessing operational and cyber risks related to open banking, digital banking, remote identification, and electronic signatures in the banking sector. Open banking is rapidly developing in Georgia, introducing new opportunities for innovation in the financial sector. The Operational Risk Department is actively involved in this process, ensuring the identification and management of related risks.

The NBG is committed to raising awareness of operational risks in the Georgian banking sector, expanding operational risk management, and developing relevant supervisory principles. In this regard, recommendations on implementing operational risk management practices and assessments are being shared to promote the digitalization of non-bank financial institutions, startups, and financial technology companies.

During 2024, the NBG conducted an audit of the cybersecurity practices of commercial banks and significant third parties. Key areas for improvement included formalizing and increasing the efficiency of processes ensuring cyber and information security, strengthening risk management practices (especially

concerning third-party risks), and enhancing human resources with appropriate competencies.

Periodic implementation of information systems audits and penetration tests is crucial for the cyber and information security of the financial sector. The NBG places great importance on conducting appropriate sectoral tests and audits, and on ensuring quality control. To this end, "Guidelines for the Audit of the Information Systems and Cybersecurity Management Framework in Commercial Banks" were approved in 2022.

The NBG closely monitors developments in the banking sector to ensure that any identified cyberattacks are promptly communicated across the entire sector. Quarterly reports on cyber incidents help track the dynamics and trends of such incidents. In 2024, as in previous years, significant incidents included phishing attacks and system outages, while Distributed Denial of Service (DDoS) attacks continued to be recorded in the banking sector.

The NBG is also attentive to technological innovations in the financial sector, particularly those related to cyber and information security challenges. The increased use of cloud outsourcing services has led to the development and approval of requirements for financial organizations using these services.

In line with the "Supervisory Framework for Combating Money Laundering and the Financing of Terrorism", the NBG implemented specific measures within the 2024 Risk-Based Supervisory Strategy. These measures involved remotely identifying and assessing both sector-wide risks and those for individual financial institutions. Supervisory actions in 2024 included comprehensive and thematic inspections, special controls, and rapid on-site inspections. Efforts were also made to develop and refine the supervisory framework for virtual asset service providers, including the creation of legal acts and the evaluation of registration applications. Compliance with international sanctions regimes was a key focus. Over the course of the year, the Money Laundering Inspection and Supervision Department collaborated with various international organizations to share experiences.

The timely and measured reforms implemented by the NBG in the regulation and supervision of the non-banking financial sector have ensured its stable development, resilience to crises, and dynamic growth. The wide regional coverage and diverse customer base of this sector underscore its significant role in the country's financial system. Through the development of systems and processes, the non-banking financial sector has quickly adapted to the dynamic regulatory environment. By offering innovative products and services, it has fostered active competition, increased efficiency, and attracted greater investor interest.

The non-banking sector is diverse, encompassing both small, single-product-oriented organizations and large entities with broad profiles. This diversity is also reflected in their financing structures. High regional coverage ensures access to financial services in areas where commercial banks are scarce, thereby supporting regional economic development, job creation, and increased financial inclusion.

As of 31 December 2024, the non-banking financial sector comprises 31 microfinance organizations across 418 locations, 158 lending entities in 296 locations, 505 currency exchange points in 713 locations, and one credit union. Notably, two microfinance organizations have recently obtained microbank licenses – one at the end of 2024 and the other at the beginning of 2025.

The total assets of the non-banking financial sector account for 3% of the financial sector, amounting to GEL 2.9 billion, with an annual growth rate of 8%. Despite this relatively small share of total assets, the sector plays a significant role in employment and the provision of financial services: employing 22% of the total financial sector workforce and operating 57% of branches.

Throughout 2024, the inspection process of non-banking institutions was actively conducted alongside remote supervision to ensure compliance with applicable legislation and the accuracy of reporting data.

Given the stable growth of the microfinance sector and the acceptable level of risk, the maximum microcredit amount (which had first been established in 2017) was revised. Legislative amendments will increase this amount from GEL 100,000 to GEL 200,000 starting in 2025. This adjustment aims to better meet the growing needs of small businesses, thereby contributing to the sector's further development and growth.

Additionally, changes to current regulations are planned to ensure effective and sound corporate governance and a smooth operating environment for microfinance organizations. These changes will enhance risk management, transparency, accountability, and sustainable development, aligning requirements with the scale and complexity of microfinance organizations.

As in previous years, protecting consumer rights remained a priority for the NBG in 2024. The current legislative framework was improved, with significant changes being made to the "Regulation on Protecting Consumer Rights when Providing Services by Financial Organizations". Consultations and workshops were held with the financial sector to introduce best international practices. The NBG continued to monitor compliance with legislative requirements through use of methods such as the mystery shopper survey and strengthened its market behavior supervision. Furthermore, a World Bank technical support project was launched to promote and strengthen competition, with its completion planned for 2025.

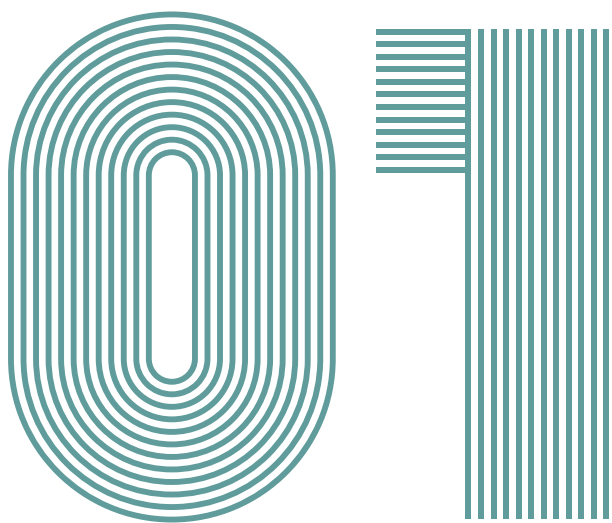
Recent legislative changes in Georgia have enhanced the supervisory powers of the NBG over registered payment service providers. These changes have also established a framework for registering and supervising new entities, specifically virtual asset service providers, in terms of combating money laundering and terrorist financing (AML/CFT).

The strategic priorities for supervising payment service providers include strengthening prudential supervision, fostering competition in the sector,

enhancing the risk management framework, and promoting financial innovation. In pursuit of these goals, the NBG monitors and studies international practices and trends, such as the draft of the new Payment Services Directive (PSD 3), which was announced in the European Union in 2024. This directive was developed in response to the challenges posed by financial technologies and digital assets, aiming to create a safe and inclusive financial environment for all market participants, including traditional banks and fintech companies. The new regulation has the potential to set a global standard for financial regulation, benefiting industries and consumers with safer, more transparent, and innovative financial services.

The market for virtual asset service providers represents a new supervisory sector, both in Georgia and globally. In 2024, after establishing the supervisory framework, the NBG gradually began registering virtual asset service providers that met the registration requirements. The next phase involves monitoring these entities, conducting AML/CFT supervision, and developing a regulatory framework in line with international best practices. This includes the European Union's Markets in Crypto Assets Regulation (MiCAR), as well as the guidelines issued by the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) for EU member states regarding crypto assets and crypto asset service providers. The NBG is actively studying and monitoring the implementation of these documents and their impact on the market.





MACROECONOMIC
ENVIRONMENT

1.1. GLOBAL ECONOMY

The global economy experienced moderate growth in 2024, reaching 3.2% by January 2025, according to the International Monetary Fund (IMF)⁹. During the year, inflation remained a significant challenge, prompting central banks to extend the easing of their tight monetary policies, which, along with the decline in inflation, led to a slowdown in economic growth. Geopolitical tensions, particularly the ongoing wars in Ukraine and the Middle East, continued to pose significant challenges to the stability of supply chains, reducing investor confidence and putting additional pressure on global economic growth. Economic performance varied significantly across regions in the year, with advanced economies experiencing moderate growth while emerging and developing economies faced structural economic challenges, rising external debt, and limited access to resources.

In 2024, the food price index decreased by 2% on average compared to the previous year. The international price of Brent oil averaged about USD 80.5 per barrel, which is 2% lower than in 2023. According to the IMF, global inflation was 5.7% in 2024¹⁰.

The economic situation in the eurozone and the United Kingdom developed differently over 2024. The eurozone faced significant economic challenges, with activity growing by only 0.8%. This slower growth rate was mainly due to prolonged weakness observed in the manufacturing sector, especially in large economies such as Germany and Italy. The IMF emphasized the need to expand public investment in infrastructure projects and green technologies to increase productivity and competitiveness in the region. Germany's economy contracted by 0.2%

amid a deterioration in the manufacturing sector and high energy costs¹¹. Economic activity was also weak in Italy, with economic growth forecast at 0.6%¹², mainly due to reduced production and exports. The French economy grew by 1.1%, with a significant contribution made by the Olympic Games held in the summer. Spain experienced high economic activity with real economy growth of 3.1%¹³, driven by strong external demand from increased tourism and robust domestic demand. Greece also saw significant economic growth of 2.3%, boosted by the tourism sector and increased fiscal sustainability. Annual inflation in the eurozone declined to an average of 2.4%, and the European Central Bank (ECB) reduced interest rates several times during the year.

In the United Kingdom, the economy grew by 0.9% in 2024, as per the IMF's estimate, which was primarily due to increased investment and consumer spending against the backdrop of declining inflation. Annual inflation averaged 2.5%, and the Bank of England began to exit its tight monetary policy, further supporting economic activity. However, growth in the second half of the year was negatively impacted by reduced international trade, rising labor costs, and a slight decline in business sentiment.

The US economy saw a significant recovery in 2024, with growth reaching 2.8%, as reported by the IMF. This growth was largely fueled by high consumer spending, supported by a strong labor market and wage growth. By the end of the year, a substantial trade deficit was recorded, mainly due to increased imports. Inflation declined in the first half of 2024 but began to rise thereafter, averaging 3% annually. Given the uncertainty surrounding inflation and economic growth, the Federal Reserve adopted a cautious approach, reducing the federal funds rate to a range of 4.25-4.5%.

9. WEO, January 2025 update.

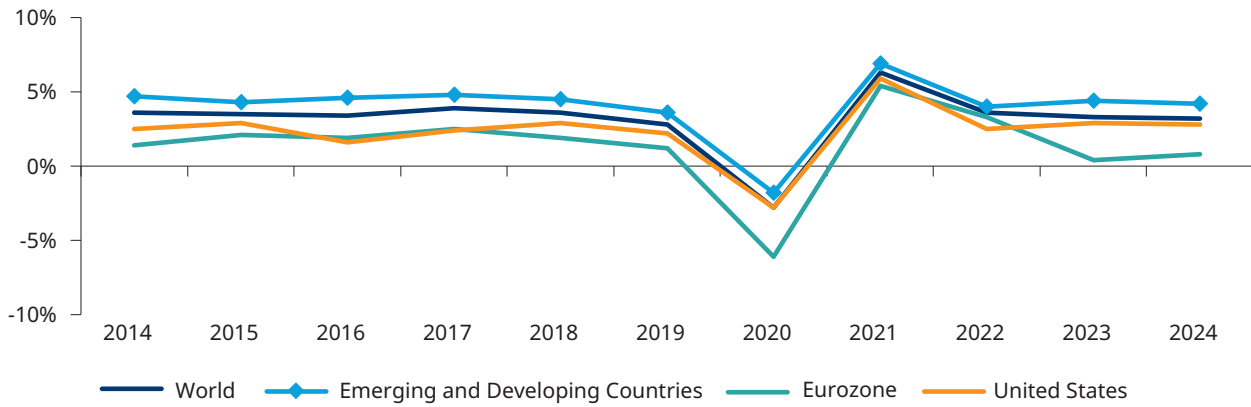
10. WEO, January 2025 update.

11. WEO, January 2025 update.

12. WEO, January 2025 update.

13. WEO, January 2025 update.

DIAGRAM 1.1 REAL GDP GROWTH IN THE WORLD

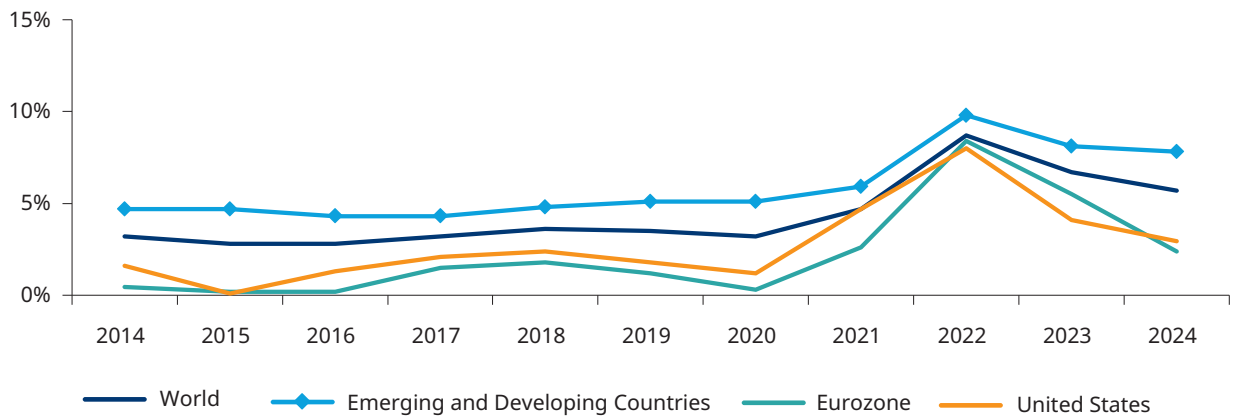


Source: IMF

Emerging and developing economies faced significant challenges in 2024, including exchange rate volatility, rising debt service costs, and unstable political environments. The pace of economic activity in Türkiye slowed as a result of high inflation and the resulting increase in the cost of living, which were due to the depreciation of the Turkish lira. This also

made it difficult to maintain a balance between fiscal/monetary stability and economic growth. However, at the same time, the labor market improved somewhat, which supported consumer spending. According to the IMF, Türkiye’s real economy grew by 3% in 2024, while inflation averaged 45%¹⁴.

DIAGRAM 1.2 CPI INFLATION IN THE WORLD



Source: IMF

14. WEO, October 2024.

In 2024, the Russian economy grew by 3.8%, which was primarily driven by increased defense spending and military-industrial production¹⁵. This growth was largely fueled by significant fiscal spending, reflecting the economy's growing reliance on defense-related activities. However, the Russian economy faced significant challenges, including high inflation rates and labor shortages. In response to rising inflation expectations, the Central Bank of the Russian Federation tightened its monetary policy rate several times. Additionally, the business environment, investment volume, and the external sector remained weak due to Western sanctions. The annual inflation rate averaged 8.5%.

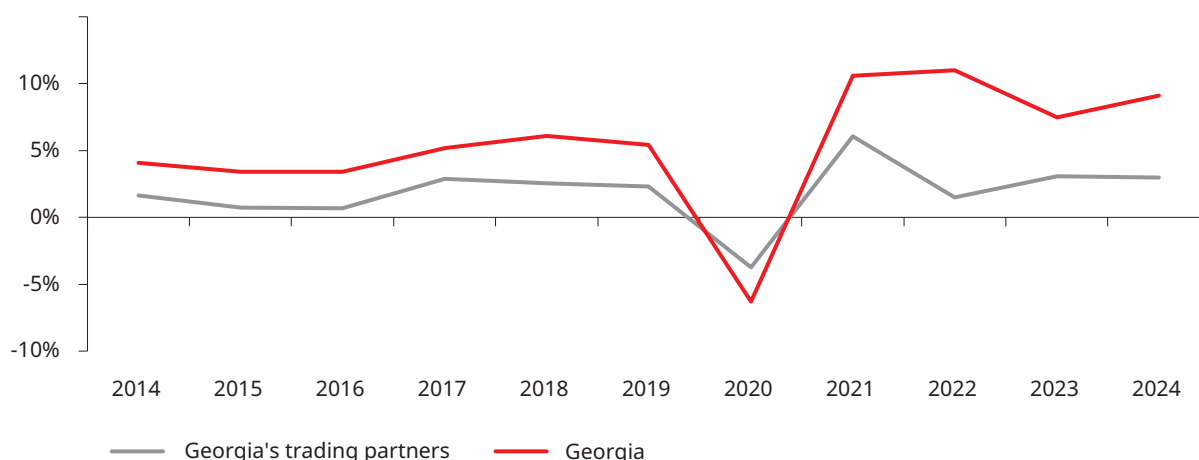
The war waged by Russia continues to have a severe impact on Ukraine, both socially and economically. Many critical infrastructure facilities have been destroyed, reducing the economy's potential. According to the IMF, Ukraine's real economic growth in 2024 was 3%, with an average inflation rate of 6.5%¹⁶. It is important to note that in the context of the war, the civilized part of the world, including Georgia, supports Ukraine.

In 2024, Armenia's economic growth rate slowed to 6%, according to the IMF¹⁷. This deceleration was a result of reduced external demand, which led to a decrease in the volume of exports and other foreign inflows. The annual inflation rate remained low, contributing to the easing of monetary policy by the Central Bank of Armenia, with average annual inflation of 0.3%.

In Azerbaijan, economic activity was moderate in 2024, reaching 3.2% according to the IMF¹⁸. This growth was supported by both improved growth rates in the non-oil sector, where industrial production increased, and the recovery of the oil sector. The annual inflation rate remained low, averaging 2.2%.

Taken as a whole, the economies of Georgia's trading partners grew by an average of 3% in 2024, which was similar to the growth rate in 2023. In contrast, Georgia experienced significant economic growth, with real GDP increasing by 9.4% in 2024, following the high growth rate of 7.5% in 2023 (see Diagram 1.3). Additionally, inflation in Georgia averaged 1.1% in 2024.

DIAGRAM 1.3 REAL GDP GROWTH IN GEORGIA AND THE WEIGHTED AVERAGE GROWTH OF TRADING PARTNER COUNTRIES



Sources: IMF, NBG calculations

15. WEO, January 2025 update.

16. WEO, October 2024.

17. WEO, October 2024.

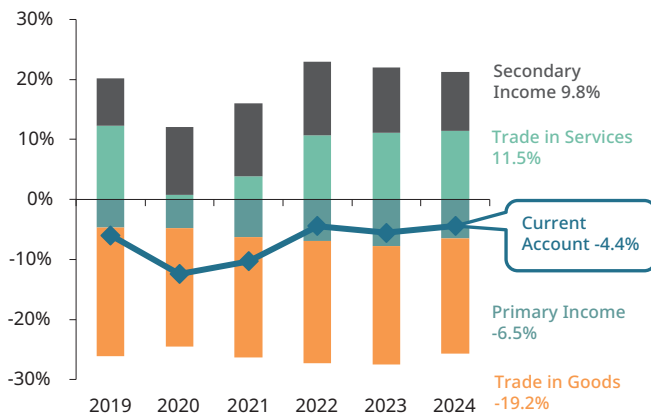
18. WEO, October 2024.

The central banks of most of Georgia's trading partners cut their monetary policy rates several times in 2024. In particular, the US Federal Reserve System lowered the federal funds rate to a range of 4.25-4.5%, while the European Central Bank lowered the deposit facility rate to 3%. At their last meeting of 2024, the Central Bank of the Republic of Türkiye decided to reduce the monetary policy rate to 47.5%. The Central Bank of the Russian Federation increased its monetary policy rate to 21%.

1.2 EXTERNAL SECTOR AND BALANCE OF PAYMENTS

In 2024, the current account balance improved compared to the previous year and amounted to -4.4% of GDP (see Diagram 1.4). This was largely due to the improvement in the ratio of the goods trade deficit to GDP. At the same time, revenues from service exports continued to grow. In particular, Georgia's role as a Middle Corridor country has recently increased, which has enhanced international transport and given even greater importance to the transportation sector. Revenues from travel thus increased on an annual basis. Also, the significantly increased level of revenues from computer and information services that was observed in previous periods remained at a high level in 2024 (see Diagram 1.5).

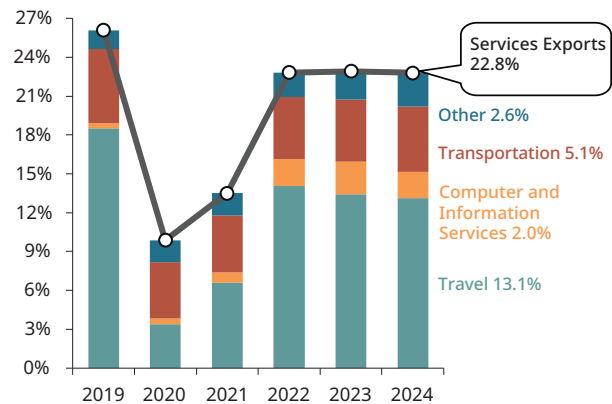
DIAGRAM 1.4 CURRENT ACCOUNT COMPONENTS TO GDP



Source: NBG

Trade in goods is traditionally the most deficit-laden part of the current account. The trade balance deteriorated in the first half of 2024 (see Diagram 1.6). In particular, exports of intermediate goods declined due to weak demand for copper in the

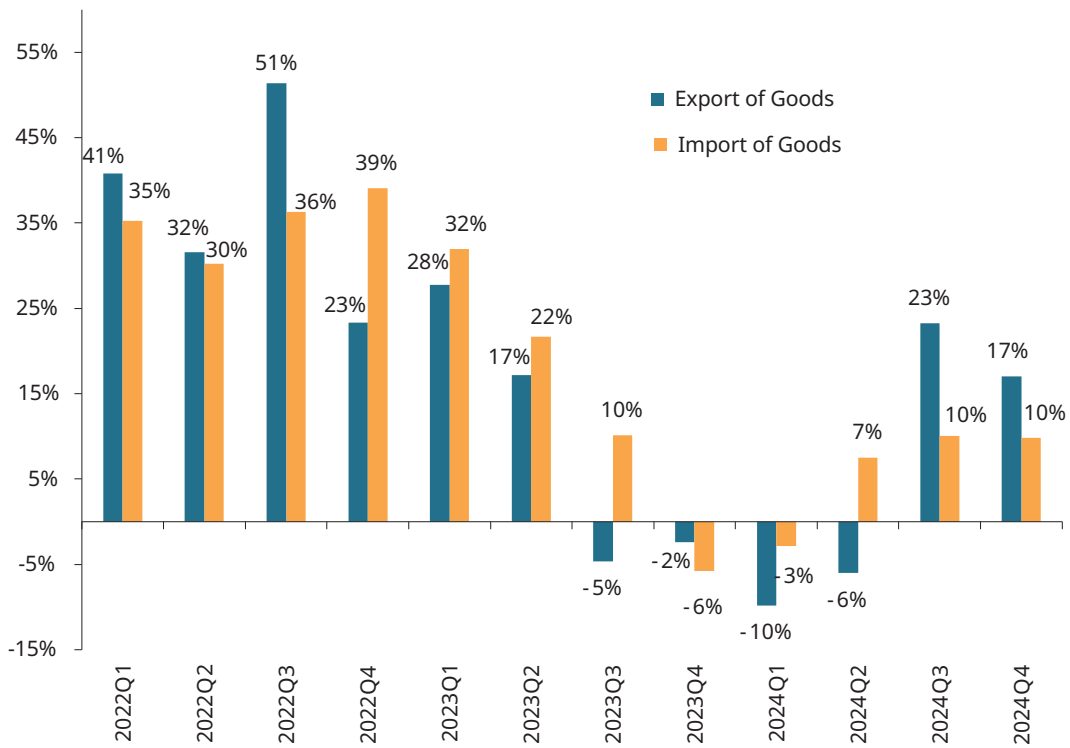
DIAGRAM 1.5 SERVICE EXPORT COMPONENTS TO GDP



Source: NBG

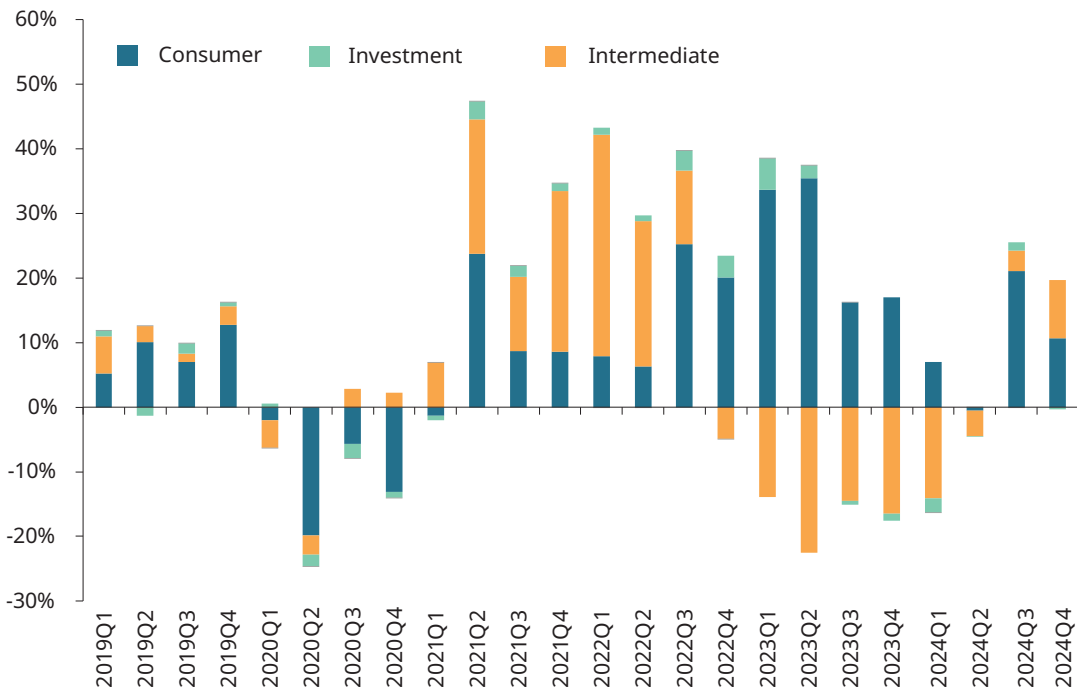
Chinese market and low prices for ferro-alloys in the international market (see Diagram 1.7). However, in the second half of the year, domestic merchandise export earnings increased year on year, partly reflecting the base effect from the previous year.

DIAGRAM 1.6 ANNUAL CHANGE IN GOODS EXPORTS AND IMPORTS



Source: NBG

DIAGRAM 1.7 DECOMPOSITION OF THE ANNUAL CHANGE IN GOODS EXPORTS BY CATEGORY



Source: NBG

Exports of Georgia's main commodities – nuts, wine and water – increased steadily throughout the year. It is also worth noting that in the second half of the year, re-exports of motor cars that had

been imported in previous periods were carried out, mainly to Kyrgyzstan and Kazakhstan (see Table 1.1), as a result of which export revenues increased more than expected.

TABLE 1.1 EXPORT STRUCTURE FOR 2024 BY TOP 5 COUNTRIES AND PRODUCTS

Top 5 goods	(million USD)	Top 5 Countries	(million USD)
Motor cars	2,426.8	Kyrgyzstan	1,287.4
Spirituous beverages and natural wines	610.8	Kazakhstan	859.9
Ferro-alloys	322.2	Azerbaijan	724.5
Mineral and fresh waters	302.9	Russia	681.5
Ores and concentrates	237.5	Armenia	617.5

Source: GeoStat

As a result of high economic activity, imports were also strong during the year; however, due to the base effect, negative growth was recorded in the first half of the year. This was mainly due to the influence of car imports as a large number of automobiles were imported during 2023, and a large share of their sales for re-export was realized in 2024 (see Diagram 1.6).

As in previous years, among regional countries, Türkiye was the leader in terms of imports to Georgia (see Table 1.2), mainly due to the influence of imports of medicaments and petroleum and petroleum oils. Such imports, classified as consumer goods, made a positive contribution to the growth of imports over 2024 (see Diagram 1.8).

TABLE 1.2 IMPORT STRUCTURE FOR 2024 BY TOP 5 COUNTRIES AND PRODUCTS

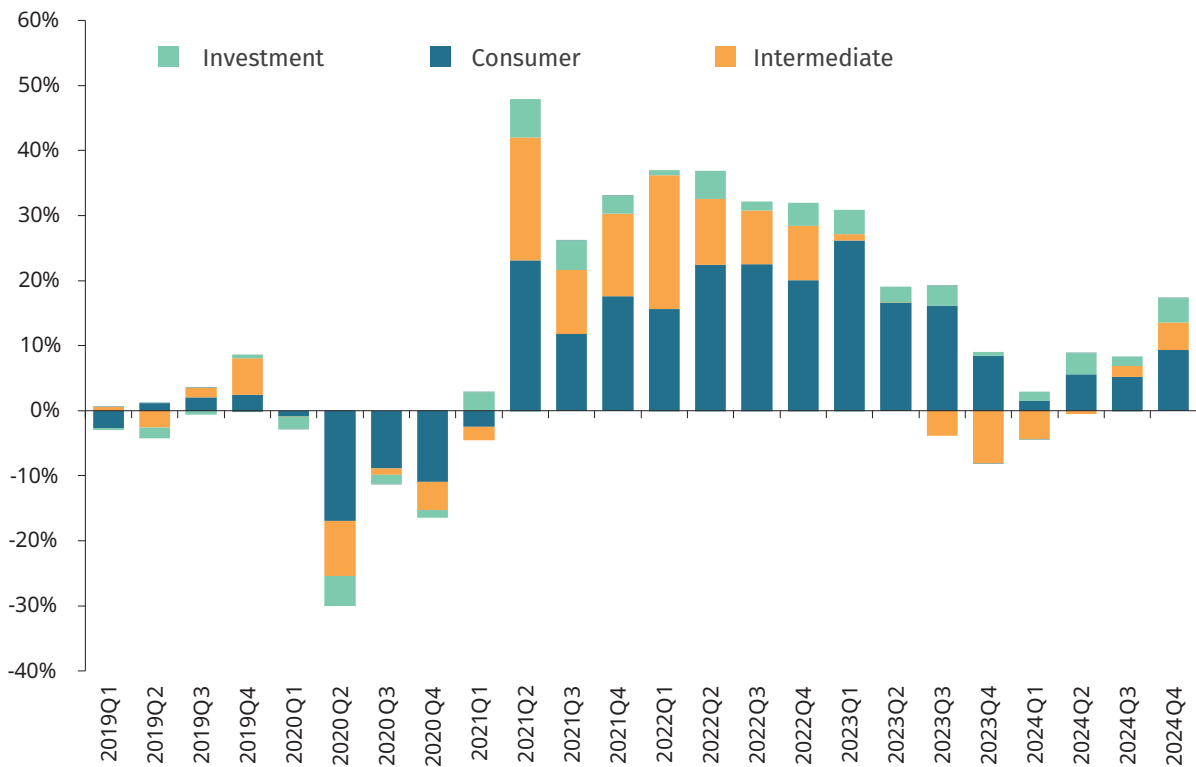
Top 5 goods	(million USD)	Top 5 Countries	(million USD)
Motor Cars	3,511.3	Türkiye	2,773.0
Petroleum and petroleum oils	1,303.0	USA	2,069.8
Medicaments	623.1	Russia	1,849.8
Petroleum gases	435.5	China	1,612.5
Telephones	332.6	Germany	1,323.4

Source: GeoStat

It is noteworthy that there was a strong growth in imports, excluding cars or motor cars throughout

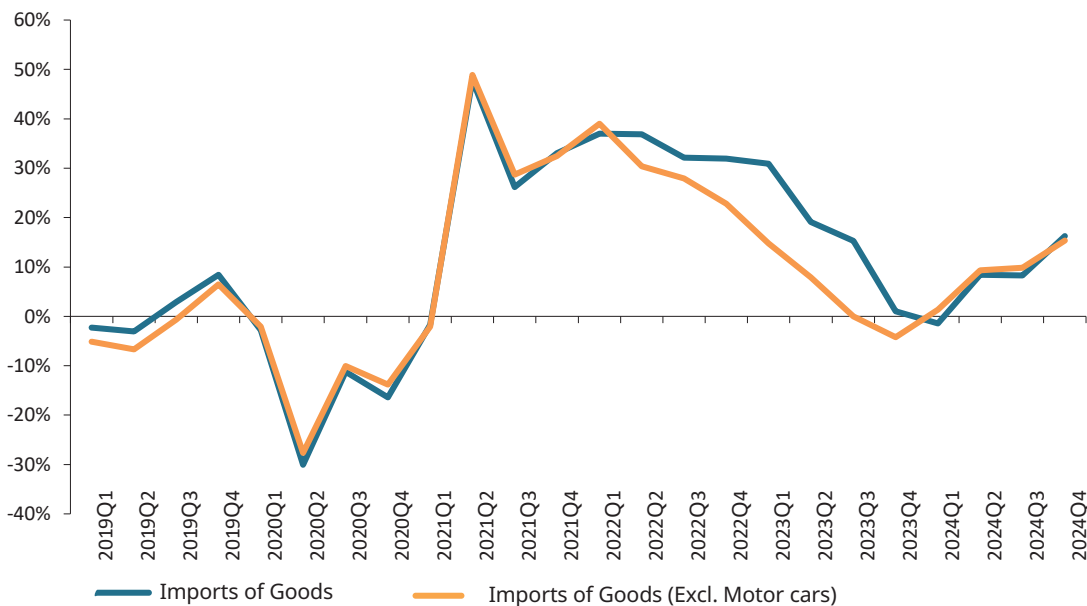
the year, as illustrated in Diagram 1.9. This trend also reflects the impact of robust consumption.

DIAGRAM 1.8 DECOMPOSITION OF THE ANNUAL CHANGE IN IMPORTS OF GOODS BY CATEGORY



Source: GeoStat

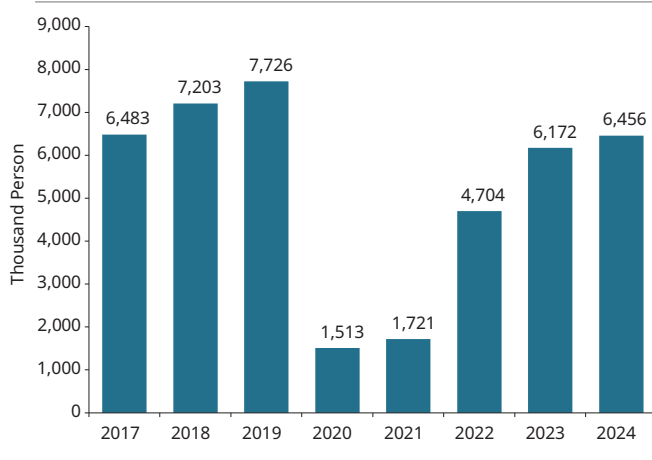
DIAGRAM 1.9 ANNUAL GROWTH OF REGISTERED IMPORTS OF GOODS



Source: GeoStat

In 2024, the post-pandemic trend of increasing international tourist arrivals continued, as reported by the Georgian National Tourism Administration (GNTA) (see Diagram 1.10). This, in turn, boosted travel revenues, which saw a 7.3% annual increase. While the number of tourists from the European Union and the associated growth of revenues remained stable, there was an increase in tourists from other countries such as Israel, Saudi Arabia and Iran.

DIAGRAM 1.10 VISITS BY INTERNATIONAL VISITORS

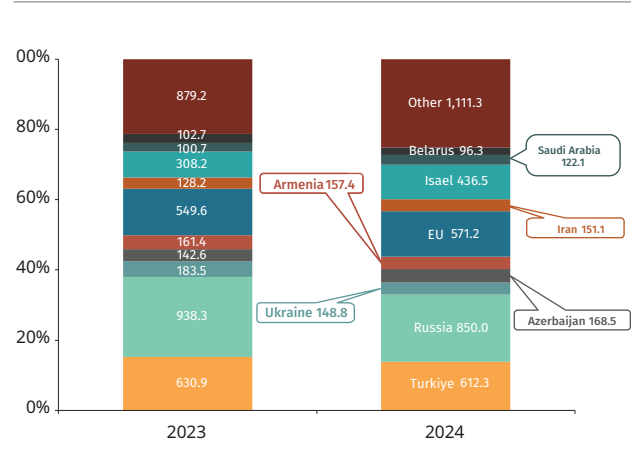


Source: Georgian National Tourism Administration

In 2024, instant money transfers decreased by 18.9% year on year, primarily due to a significant 64.6% decrease in transfers from Russia. However, it is

Following Russia’s invasion of Ukraine in 2022, a significant number of migrants entered Georgia from Russia, Belarus, and Ukraine. The impact of the base effect of this migration on the current account balance has since diminished as the number of citizens from these countries in Georgia has started to decrease. Travel revenues from these countries thus declined during 2024 (see Diagram 1.11).

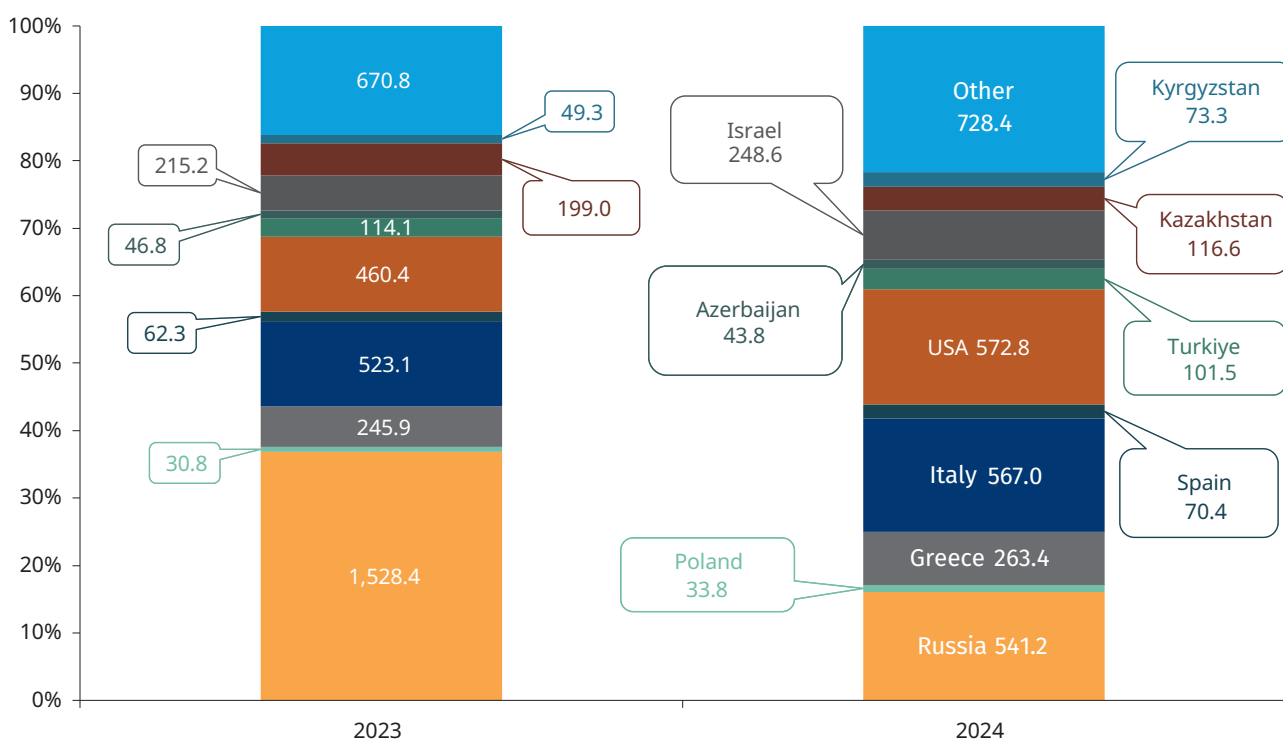
DIAGRAM 1.11 TRAVEL REVENUES



Source: NBG

noteworthy that transfers from the USA, Italy, Israel, and Greece all saw a significant increase during the year (see Diagram 1.12).

DIAGRAM 1.12 INSTANT MONEY TRANSFERS BY COUNTRY

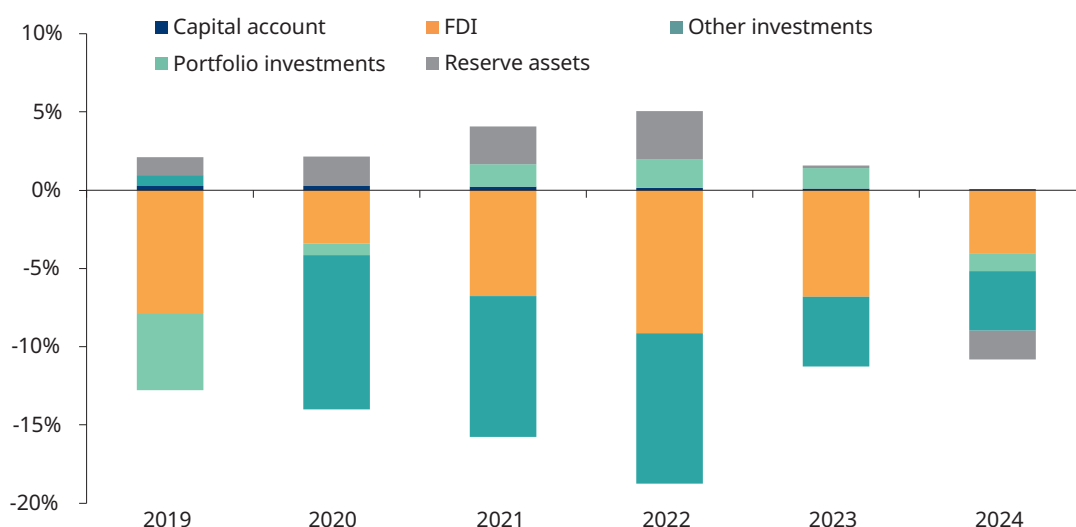


Source: NBG

In 2024, as in previous years, net foreign direct investment (FDI) remained a key source of financing the current account deficit (see Diagram 1.13). FDI inflows to Georgia totaled USD 1.4 billion, which is equivalent to 4% of GDP. The annual decline in FDI was mostly driven by reductions in equity and reinvested earnings. Its low rate is also related to a decrease in liabilities to investors. The majority of FDI was directed toward the manufacturing,

energy, trade, and real estate sectors. Net portfolio investment inflows reached USD 382 million in 2024, with the non-banking private sector accounting for the largest share. In 2024, the decline in the contribution of other investments to the financing of the current account deficit continued on an annual basis. In terms of inflows, the main part of the increase in liabilities was due to loans attracted by both the government and the private (non-banking) sector.

DIAGRAM 1.13 SOURCES OF FINANCING THE CURRENT ACCOUNT DEFICIT (PERCENT OF GDP)



Source: NBG

In 2024, official international reserves decreased by USD 561 million, amounting to USD 4,448.6 million. Throughout the year, international reserves were bolstered by loans and grants secured by the government from international organizations and foreign governments, as well as interest income from the reserves and an increase in the price of gold. Additionally, since December 2024, the upper limit of the reserve requirement on short-term foreign currency liabilities attracted by commercial banks increased by 5 PP, further augmenting the volume of foreign exchange reserves by the end of the year. However, the international reserves were reduced by the government's foreign exchange expenditures and interventions carried out by the National Bank of Georgia.

At the beginning of 2024, favorable conditions in the foreign exchange market allowed the National Bank of Georgia to purchase foreign currency through interventions. Later, due to changing market conditions, it became necessary to supply foreign currency to the market to neutralize one-time excess fluctuations in the foreign exchange market.

In total, during 2024, the net volume of foreign currency supplied to the market through foreign exchange interventions carried out by the NBG amounted to USD 434.8 million. Of this amount, USD 382.1 million was supplied through seven foreign exchange auctions, and the remaining USD 52.65 million was supplied as a result of the net difference in purchase/sale volumes based on rules-based BMatch interventions. International reserves serve as a crucial buffer for the country to protect itself from external shocks. Thus, both their expenditure and replenishment during favorable periods are part of a continuous process.

According to the IMF's ARA¹⁹ reserve adequacy assessment, Georgia's international reserves were estimated to be around 83% by the end of 2024. This level is below the recommended range of 100 to 150% required to insure against external and liquidity shocks under the aforementioned methodology. However, according to another adequacy measure, the import coverage ratio of international reserves was 3.5 months by the end of 2024, which exceeds the minimum recommended level of 3 months.

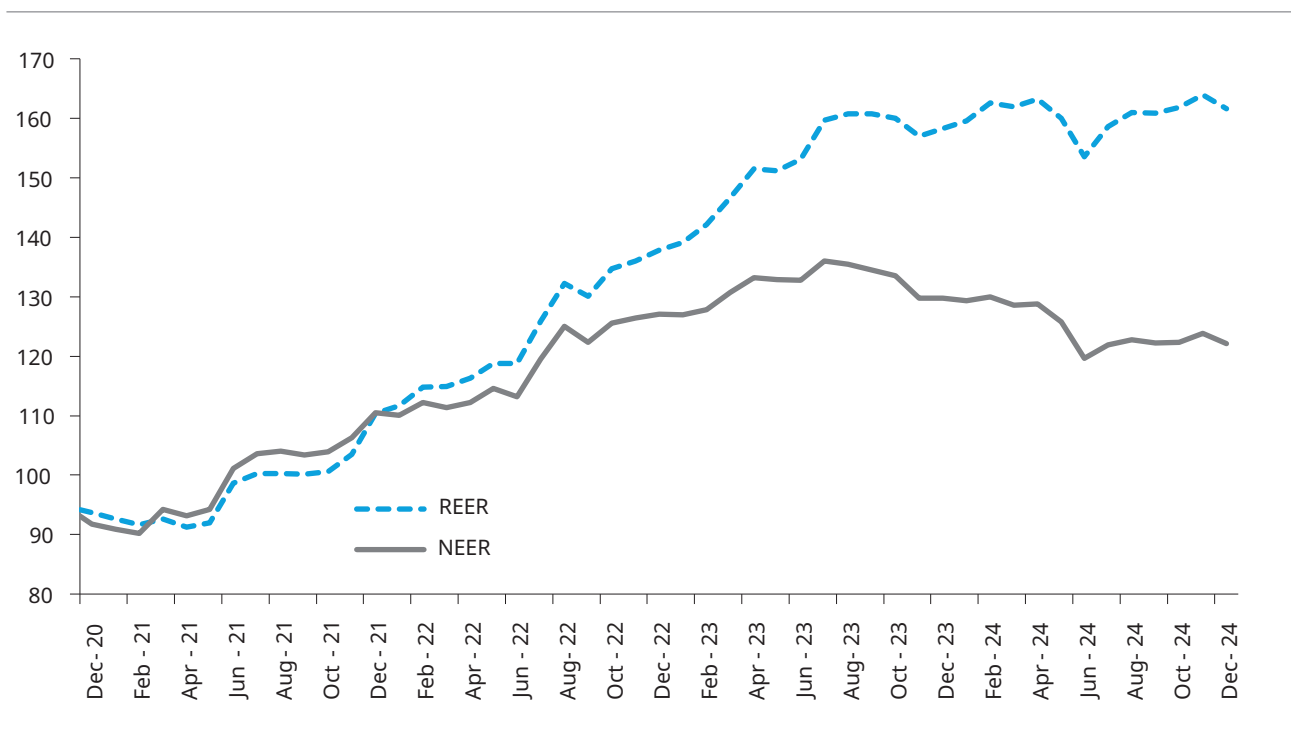
19. For detailed information, refer to: <https://www.imf.org/external/np/spr/ara/>

It is worth noting that monetary gold was added to the international reserves during the year. The National Bank of Georgia has purchased USD 500 million worth of monetary gold in March 2024. As of December 2024, as a result of an increase in value, the share of gold in the international foreign exchange reserves stood at 13.5%, an equivalent of USD 598.7 million.

In 2024, the real effective exchange rate depreciated due to both low inflation relative to trading

partners and the nominal effective exchange rate. According to the latest estimates by the NBG (Monetary Policy Report, Q1 2025), the real effective exchange rate is approaching its equilibrium level. Since the beginning of 2024, the nominal effective exchange rate had been strengthening, although a depreciation was observed since the second half of the year (see Diagram 1.14). On average, the real effective exchange rate depreciated by 5.4% annually, while the nominal effective exchange rate appreciated by 4.8%.

DIAGRAM 1.14 INDICES OF THE REAL AND NOMINAL EFFECTIVE EXCHANGE RATES OF GEL (JAN.2020=100)



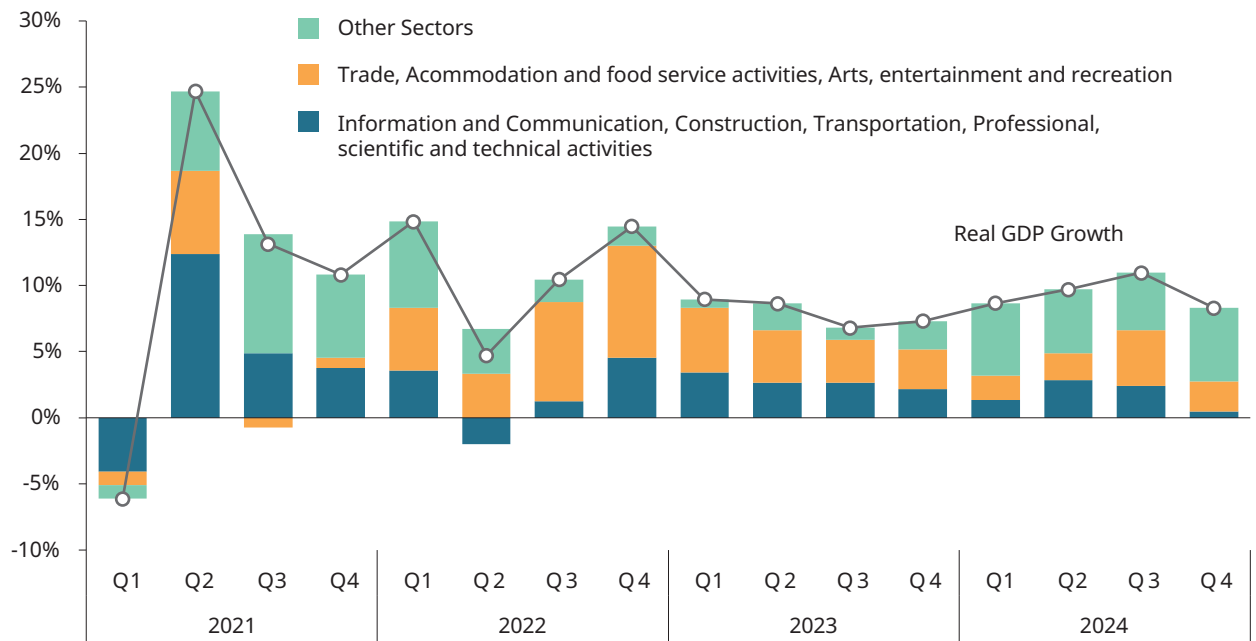
Source: NBG

1.3 ECONOMIC GROWTH

In 2024, Georgia experienced a notable increase in its real gross domestic product (GDP), with preliminary data indicating growth of 9.4% compared to the previous year. This significant economic expansion is indicative of underlying structural changes within the economy. Specifically, sectors known for their

high labor productivity and potential to enhance the country's long-term economic capabilities maintained a substantial contribution. For instance, the information and communication, transportation, and construction sectors contributed a collective 2.6 PP to the overall economic growth (see Diagram 1.15). It is particularly noteworthy that both private and public infrastructure projects were highly active within the construction sector.

DIAGRAM 1.15 REAL GDP GROWTH BY SECTOR (SHARE IN GROWTH)



Sources: GeoStat, NBG

On the other hand, high economic activity was also driven by strong aggregate demand, which was ultimately reflected in the high growth of individual service sectors. Among them, high activity was observed in the accommodation, trade, and

entertainment and recreation sectors, the total contribution of which was within 1.8 pp. The higher contribution made by the education sector is also worth noting, which increased real GDP through both cyclical and fundamental factors (see Table 1.3).

TABLE 1.3 GDP BY SECTOR

	Real Growth					Share in Growth (pp)				
	2024Q1	2024Q2	2024Q3	2024Q4	2024	2024Q1	2024Q2	2024Q3	2024Q4	2024
Agriculture, forestry and fish farming	-1.0%	6.8%	2.0%	9.4%	4.4%	-0.1	0.5	0.1	0.4	0.3
Mining industry	-6.4%	-3.4%	13.5%	22.5%	7.4%	0.0	0.0	0.1	0.2	0.1
Manufacturing industry	-0.7%	6.9%	1.2%	1.1%	2.1%	-0.1	0.6	0.1	0.1	0.2
Supply of electricity, gas, steam and air conditioning	-11.8%	-7.4%	-13.6%	0.8%	-8.3%	-0.4	-0.2	-0.3	0.0	-0.2
Water supply; Sewerage, waste management and pollution control	14.4%	8.6%	3.4%	10.7%	9.0%	0.1	0.1	0.0	0.1	0.1
Construction	8.2%	9.2%	30.9%	7.4%	14.2%	0.5	0.6	2.0	0.6	0.9
Wholesale and retail trade; repair of cars and motorcycles	5.9%	11.3%	11.0%	-0.2%	6.7%	0.7	1.6	1.5	-0.1	0.9
Transport and warehousing	8.4%	13.2%	9.8%	3.0%	8.3%	0.4	0.7	0.5	0.2	0.4
Accommodation and catering	3.8%	23.4%	5.4%	1.8%	8.1%	0.1	0.7	0.2	0.1	0.3
Information and communication	16.7%	15.7%	32.8%	29.7%	24.3%	0.9	0.8	1.6	1.5	1.3
Finance and insurance	15.0%	13.9%	22.9%	8.2%	14.9%	0.7	0.6	1.0	0.3	0.6
Real estate	17.5%	0.8%	-4.9%	-2.3%	1.7%	1.8	0.1	-0.4	-0.2	0.2
Professional, scientific and technical work	17.3%	12.6%	12.0%	15.0%	14.1%	0.3	0.2	0.2	0.3	0.3
Administrative and support services	2.7%	21.4%	24.0%	19.3%	17.8%	0.0	0.2	0.2	0.2	0.2
State governance and defense; Mandatory social security	18.2%	18.5%	14.7%	19.9%	17.9%	1.2	1.1	0.8	1.1	1.0
Education	22.5%	22.2%	35.6%	36.2%	29.1%	1.1	1.0	1.3	1.6	1.2
Health and social services activities	-2.4%	0.6%	8.5%	23.6%	7.5%	-0.1	0.0	0.3	0.7	0.3
Art, entertainment and recreation	14.2%	14.0%	22.3%	14.9%	16.4%	0.5	0.5	0.7	0.5	0.6
Other services	-12.8%	-1.3%	9.8%	6.0%	1.1%	-0.1	0.0	0.1	0.1	0.0
Activities of households as employers; production of undifferentiated goods and services by households for their own consumption	7.5%	17.3%	-5.8%	-4.5%	4.1%	0.0	0.0	0.0	0.0	0.0
(+) Taxes on products	8.1%	5.8%	7.2%	6.4%	6.8%	1.1	0.8	1.0	0.8	0.9
(-) Subsidies on products	4.7%	12.1%	11.5%	9.8%	10.2%	0.0	-0.1	0.0	0.0	0.0
GDP	8.7%	9.7%	11.0%	8.3%	9.4%	8.7	9.7	11.0	8.3	9.4
Of these:										
Agriculture	-1.0%	6.8%	2.0%	9.4%	4.4%	-0.1	0.5	0.1	0.4	0.3
Industries	0.7%	2.8%	7.1%	8.5%	4.9%	0.1	1.0	1.9	0.9	1.0
Services	9.6%	13.1%	14.2%	12.2%	12.3%	8.7	8.2	8.9	7.0	8.1

Sources: GeoStat, NBG calculations

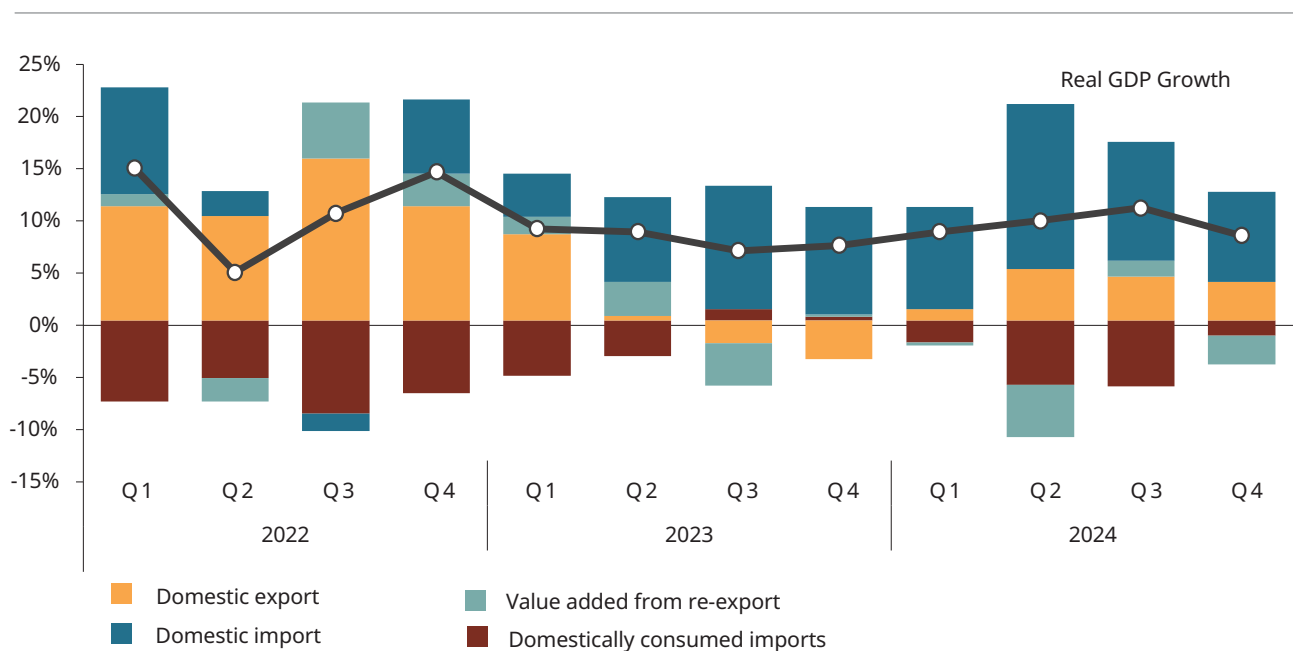
DEMAND

In 2024, the primary catalyst for real GDP growth was domestic demand, often referred to as absorption, which encompasses both final consumption and investment. Preliminary estimates indicate that final consumption alone contributed 10.9 PP to the overall growth. The significant role of consumption was also evident in the robust expansion of the service sector. This surge in consumption was largely fueled by heightened credit activity and an increase in real income, set against the backdrop of monetary policy normalization. The observed rise in wages can be attributed to both enhanced labor productivity and adjustments for past inflation. One notable factor in 2024 was that, unlike in previous years, the contribution of investment to economic growth diminished, accounting for just 0.5 PP. This decline

reflects increased uncertainty and, to some extent, the base effect from the previous year.

In contrast to domestic demand, foreign demand had a less pronounced impact on growth in 2024. While exports of both goods and services continued to positively influence economic growth – with travel receipts rising by 7.3% annually and goods exports increasing by 7.8% – strong domestic consumption was partially counterbalanced by imports of goods and services, given the relatively stable exchange rate of the Georgian lari. Additionally, it is worth noting that the value added from re-exports also positively contributed to growth in 2024 (see Diagram 1.16). Considering these factors, net exports contributed a negative 2.0 PP to economic growth.

DIAGRAM 1.16 REAL GDP GROWTH BY EXPENDITURES (SHARE IN GROWTH)



Sources: GeoStat, NBG calculations

Domestic demand includes expenditure on final consumption and gross capital formation (absorption).

Value added from re-exports refers to the income from re-exports minus imports intended for re-export.

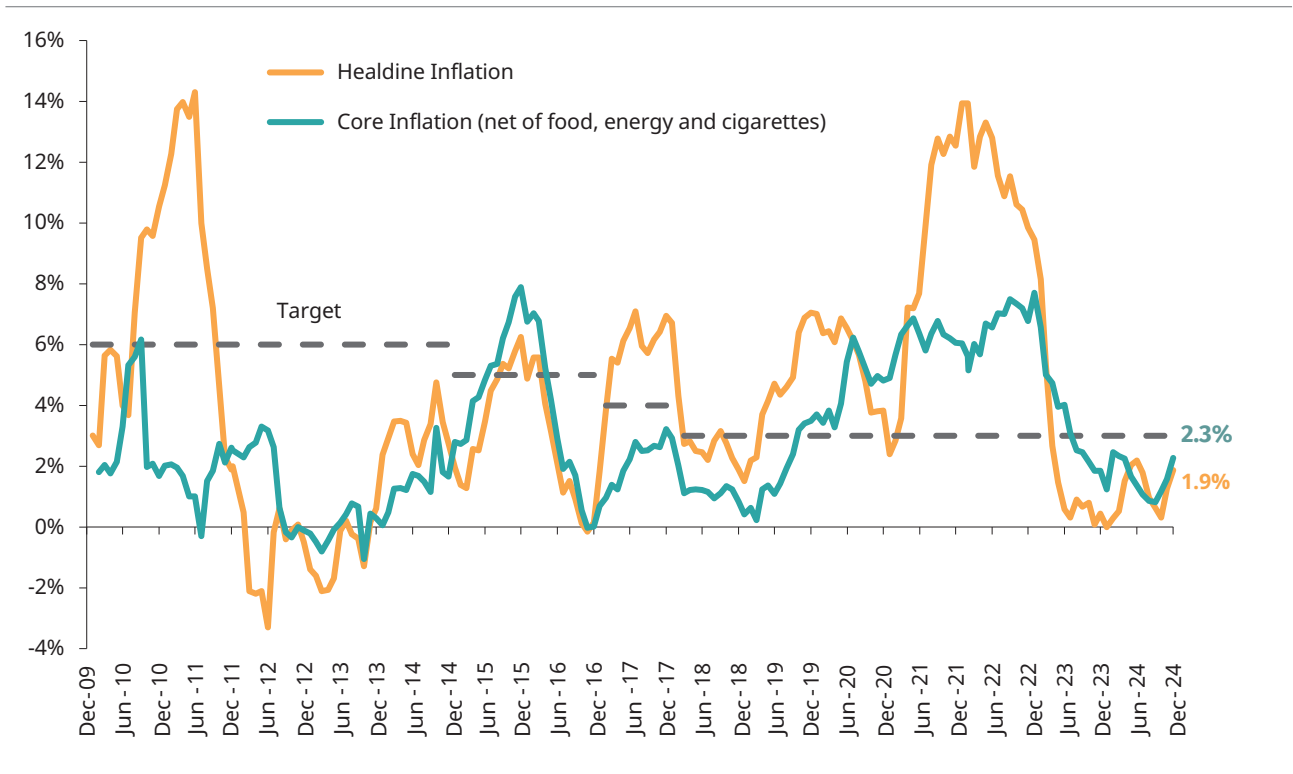
Domestically consumed imports include imports excluding products intended for re-export.

1.4 CHANGE IN CONSUMER PRICES

Throughout 2024, Georgia maintained a stable and low inflation rate. The average annual inflation rate was 1.1%, which is notably below the target rate of 3%. Similarly, core inflation – which excludes the

more volatile prices of food, energy, and cigarettes from the consumer basket – also remained under the 3% target, with an average annual rate of 1.6% (see Diagram 1.17).

DIAGRAM 1.17 HEADLINE AND CORE (EXCLUDING FOOD, ENERGY AND TOBACCO) INFLATION



Source: GeoStat

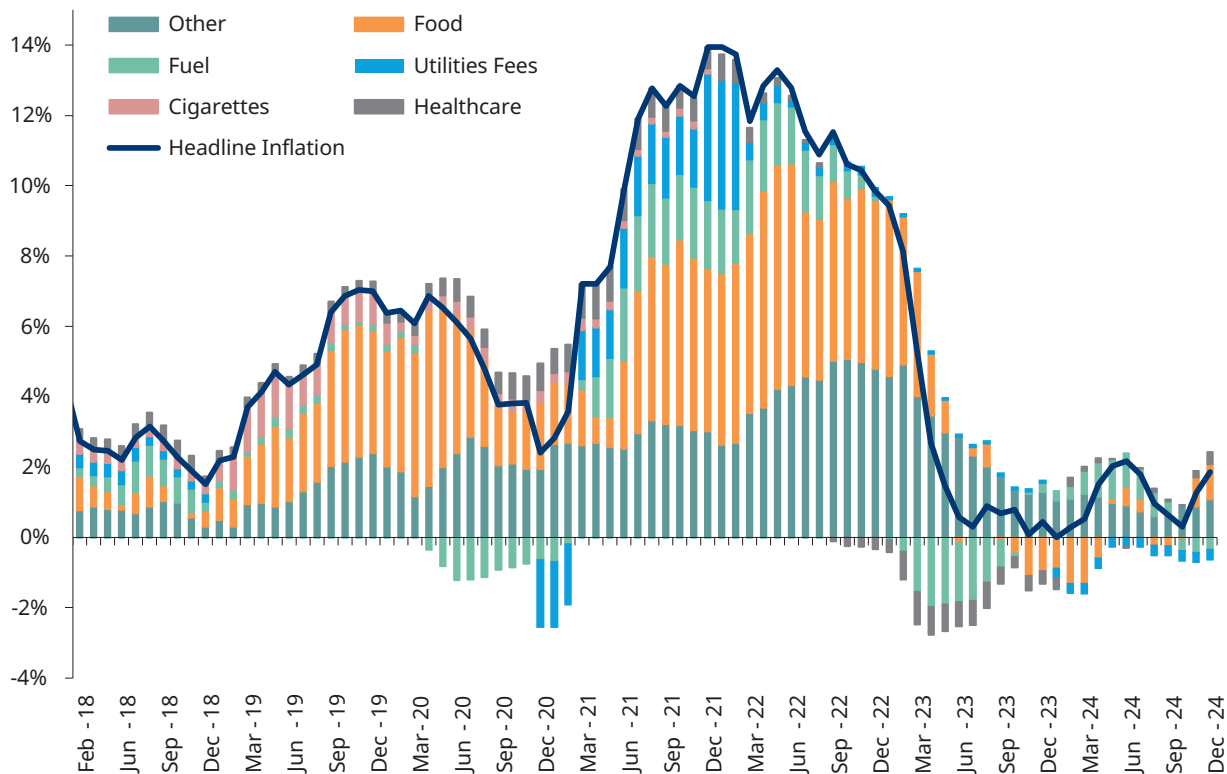
The low inflationary environment in 2024 was largely maintained through a consistent monetary policy, which ensured stability in both long- and short-term inflation expectations. This stability was supported by a combination of domestic and external factors. On the domestic front, improvements in the overall economic potential helped neutralize the inflationary pressures stemming from high aggregate demand. Enhanced productivity led to lower unit labor costs, further reducing inflationary pressures. The relatively stable exchange rate of the Georgian lari and the stabilization of prices on international commodity markets also played crucial roles in keeping inflation

low. However, starting from the second half of 2024, rising international food raw material prices began to exert upward pressure on domestic food inflation. In the first half of 2024, food – which constitutes the largest segment of the consumer basket – primarily had a downward effect on inflation. This trend was largely due to the base effect, as food prices had experienced high inflation in the first half of 2023. However, as this base effect waned and prices of certain foods began to rise, the contribution of food to inflation turned positive in the latter half of the year. This shift also reflected the impact of increasing international food prices. Fuel prices contributed

positively to inflation during the first three quarters of the year, averaging a 0.7 percentage point increase. However, as global oil prices declined towards the end of the year, local fuel prices also decreased, resulting in a negative contribution to

inflation that averaged -0.4 PP. Throughout the year, utility bills – affected by reductions in electricity costs – had a negative contribution to inflation, averaging -0.3 PP. The volatility of inflation for other products remained low, averaging 0.9% (see Diagram 1.18).

DIAGRAM 1.18 SHARE OF CORE COMPONENTS IN INFLATION

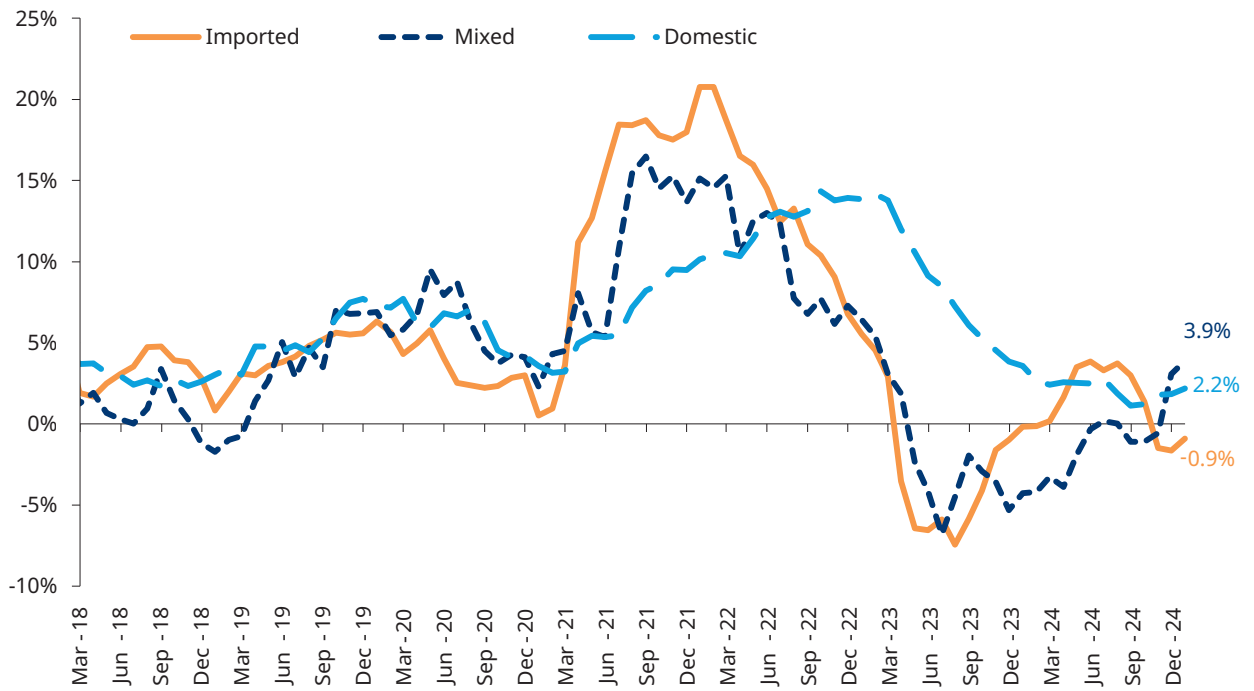


Sources: GeoStat, NBG calculations

It is important to highlight that the stabilization of long-term inflation expectations was bolstered by indicators of sticky price inflation, specifically service and domestic price inflation. Sticky price inflation saw a notable increase following the pandemic and the Russia-Ukraine war, which was driven by robust aggregate demand and disruptions in supply chains. However, due to adopting an appropriate monetary policy response to these shocks, sticky price inflation measures exhibited a downward trend in 2024. Notably, service inflation decreased to 2.3%. Given

that services are a component of domestic inflation, the decline in service inflation also contributed to a broader reduction in domestic inflation, which averaged 2.1% for the year. Mixed and imported inflation rates were even lower, averaging -0.8% and 1.4% respectively. The low levels of mixed and imported inflation were associated with the strong exchange rate position of the Georgian lari and the relative stability of international commodity markets (see Diagram 1.19).

DIAGRAM 1.19 INFLATION OF IMPORTED AND LOCAL GOODS



Source: GeoStat

TABLE 1.4 INFLATION INDICATORS BY INDIVIDUAL COMPONENTS, THEIR WEIGHT IN THE CONSUMER BASKET AND IMPACT ON INFLATION

	Weights for 2024	Dec.24/Dec.23		2024 average/2023 average	
		inflation	share	inflation	share
Total	100.0%	1.9%	1.9%	1.1%	1.1%
Food and Non-Alcoholic Beverages	33.7%	3.6%	1.2%	-0.1%	0.0%
Food	30.9%	3.3%	1.0%	-0.5%	-0.2%
Bread and Bakery	6.1%	0.3%	0.0%	-4.1%	-0.3%
Meat and Meat Products	7.0%	1.3%	0.1%	2.1%	0.1%
Fish Products	0.5%	4.8%	0.0%	0.6%	0.0%
Milk, Cheese, and Eggs	6.9%	-0.6%	0.0%	-2.6%	-0.2%
Oil and Fats	2.6%	10.1%	0.3%	-7.3%	-0.2%
Fruits, Grapes	1.6%	-0.7%	0.0%	19.4%	0.3%
Vegetables, Melons, Potatoes and other Tubers	3.4%	15.7%	0.5%	-3.5%	-0.1%
Sugar, Jams, Honey, Syrups, Chocolate, Pastry	2.2%	6.9%	0.2%	2.8%	0.1%
Other Food Products	0.7%	1.9%	0.0%	1.2%	0.0%
Non-alcoholic Beverages	2.9%	6.7%	0.2%	4.7%	0.1%
Alcoholic Beverages, Tobacco	6.9%	5.9%	0.4%	4.4%	0.3%
Clothing and Footwear	4.0%	-1.2%	0.0%	-2.4%	-0.1%
Housing, Water, Electricity, Gas and other Fuels	9.0%	-3.2%	-0.3%	-2.5%	-0.2%
Furnishings, Household Equipment and Maintenance	5.2%	1.1%	0.1%	-1.9%	-0.1%
Healthcare	9.4%	3.7%	0.3%	0.7%	0.1%
Transport	12.3%	-1.4%	-0.2%	5.5%	0.6%
Communication	3.6%	-12.7%	-0.5%	-6.8%	-0.3%
Recreation and Culture	3.1%	-0.1%	0.0%	-1.4%	0.0%
Education	4.4%	5.1%	0.2%	3.9%	0.2%
Hotels, Cafes and Restaurants	3.1%	7.7%	0.3%	7.1%	0.2%
Miscellaneous Goods and Services	5.3%	6.4%	0.3%	6.3%	0.3%
Consumer goods	63.6%	2.2%	1.4%	0.7%	0.4%
Average consumer goods	7.1%	-1.5%	-0.1%	-2.5%	-0.2%
Durable goods	4.9%	0.0%	0.0%	-1.2%	-0.1%
Service	24.4%	2.3%	0.6%	3.6%	0.9%

Source: GeoStat





MONETARY AND
EXCHANGE RATE POLICY

2.1 MONETARY POLICY

According to Article 3 of the Organic Law of Georgia "On the National Bank of Georgia", the primary objective of the National Bank of Georgia is to ensure price stability²⁰. Price stability implies a level of inflation over the medium term that is optimal for high and sustainable economic growth in the long term.

To ensure price stability, the National Bank of Georgia implements monetary policy under an inflation-targeting regime, which is widely recognized as the best international practice. This regime involves setting a predetermined inflation target rate, with monetary policy conducted to ensure that inflation remains close to this target in the medium term. Short-term deviations from the target rate may occur due to exogenous factors²¹. As monetary policy is a tool for influencing demand, central banks typically only respond to demand shocks, as addressing supply-side shocks – such as increases in excise taxes, global raw material prices, or international transportation costs – can prove costly for the economy. Such responses may lead to fluctuations in economic growth and, over the long term, a decrease in employment. The exception to this is when a supply shock is so significant or prolonged that it impacts inflation expectations. Under the inflation-targeting framework, the NBG achieves its inflation target by adjusting its primary monetary policy instrument – the monetary policy rate (or refinancing rate). Decisions regarding changes to this rate and its future trajectory are made based on an analysis of the macroeconomic environment, inflation forecasting, a review of the current financial market situation, an assessment of macroeconomic risks affecting inflation, and an evaluation of inflation expectations. If the forecasted inflation rate exceeds the target level, the NBG tightens monetary policy; conversely, if the forecasted rate is below the target,

it loosens monetary policy. As monetary policy instruments and their transmission mechanisms develop, the public expenditure required to achieve price stability also decreases. Therefore, the NBG is continually focused on enhancing monetary policy instruments and improving the effectiveness of the monetary policy transmission mechanism.

The NBG implements monetary policy in line with the Main Directions of the Monetary and Exchange Rate Policy²², developed by the Bank and approved by the Parliament of Georgia²². Since 2018, the target inflation rate has been set at 3%. This rate is considered sufficiently low to avoid negatively impacting the decisions of economic agents, but not so low as to impede economic growth. The optimal level of inflation depends on various long-term economic factors and the specific characteristics of the country's economy. Typically, inflation targets in developed countries range from 1 to 2%, while in developing countries they range from 2 to 4%.

The year 2024 began with inflation below the target rate. Thanks to the NBG's monetary policy, the stabilization of inflation that started in 2023 was maintained throughout 2024. Throughout the year, inflation remained below the 3% target, averaging 1.1%. This low inflation environment was largely driven by domestic economic factors. The NBG's consistent monetary policy helped stabilize long-term inflation expectations. Inflation for domestically produced goods and services, which tends to be relatively rigid and a good indicator of long-term inflation expectations, normalized around the 3% target. This indicator remained below the target throughout the year, averaging at 2.1% in 2024.

Structural changes to the economy also contributed to maintaining low inflation. Economic activity in 2024 was robust, with preliminary data indicating a growth rate of 9.5%. This high economic growth was driven by improvements in the overall potential of

20. Organic Law "On the National Bank of Georgia", Article 3, paragraph 1.

21. Exogenous shocks refer to external changes independent of monetary policy.

22. Resolution of the Parliament of Georgia "On the Main Directions of the Monetary and Foreign Exchange Policy of Georgia for 2023-2025", paragraph 1.

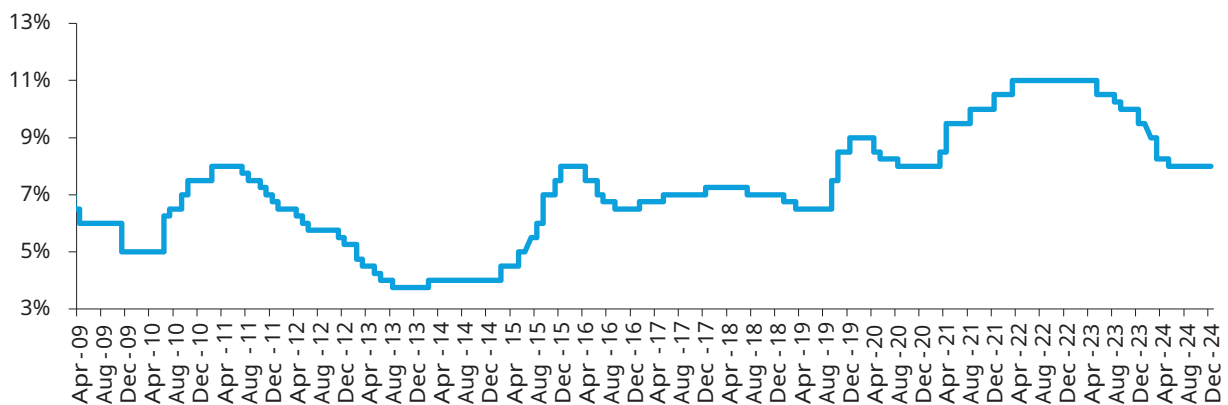
the economy. In the post-pandemic period, sectors characterized by relatively high labor productivity, such as information and communication, construction, and transportation, saw significant growth. This growth contributed to the long-term potential of the economy and helped neutralize pressure from aggregate demand. The reduction in electricity tariffs at the beginning of 2024 was an additional factor contributing to low inflation.

Despite these positive domestic trends, uncertainty due to global events remained high in 2024. As a small open economy, Georgia is affected by global price changes. Geopolitical and global challenges caused price fluctuations in international commodity markets. Adverse weather conditions reduced yields, posing a risk of rising food commodity prices, although this was partially offset by weaker aggregate demand in leading economies. Oil prices began to decline towards the end of the year, which helped reduce imported inflation. However, tensions in the Red Sea at the end of 2023 disrupted supply chains, putting upward pressure on transportation

costs. Consequently, inflationary risks from the international market remained high throughout 2024, increasing the risks of price increases for certain imported products.

Given these domestic economic trends and global risks, the NBG adopted a cautious approach and continued to gradually ease its tight monetary policy stance. The policy pursued by the NBG contributed to the normalization of inflation expectations and helped maintain inflation within the target range. Domestically produced goods and core inflation remained low throughout the year. In 2024, the monetary policy rate decreased by a total of 1.5 PP to 8.0% (see Diagram 2.1). The consistent adjustment of the monetary policy rate, along with the strength of the pass-through to the economy under the existing monetary policy framework, successfully ensured price stability in Georgia. Despite the strong external economic shocks of recent years, inflation approached the target level as a result of the measures undertaken by the National Bank of Georgia.

DIAGRAM 2.1 MONETARY POLICY RATE

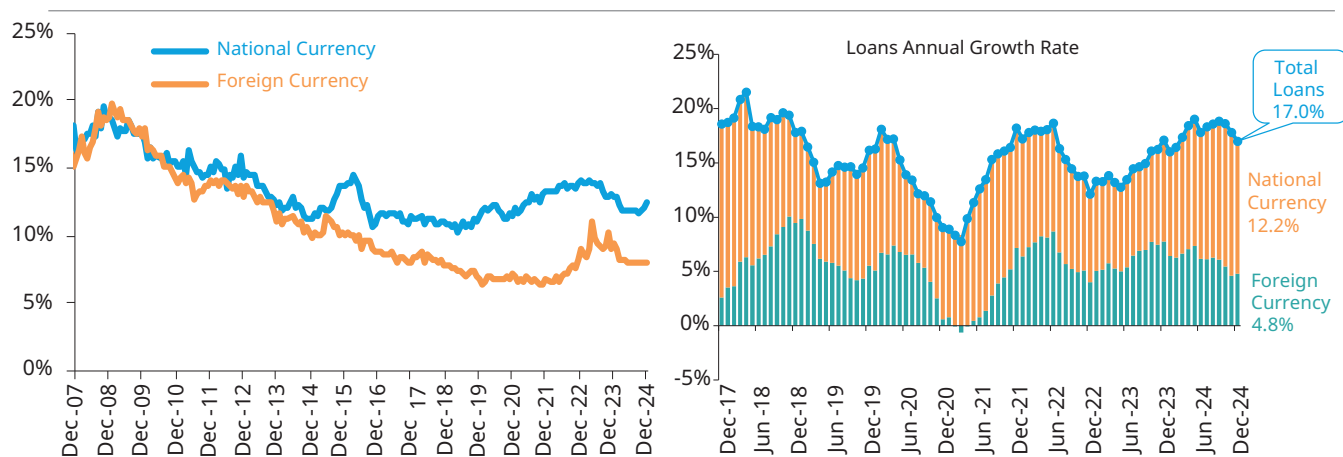


Source: NBG

One of the primary mechanisms for transmitting monetary policy is the credit channel. Under an accommodative monetary policy, market interest rates remain low, thereby strengthening incentives for lending and stimulating aggregate demand. In

the context of the normalization of monetary policy in 2024, credit activity accelerated, reflecting the easing of financial conditions by the banking sector. This growth in credit activity was largely driven by an increase in lending in the national currency.

DIAGRAM 2.2 INTEREST RATE SPREAD AND LENDING ACTIVITY (ANNUAL GROWTH RATE OF LOANS BY CURRENCY)



Source: NBG

Under the inflation-targeting framework, the operational objective of the National Bank of Georgia is to manage short-term interest rates to ensure price stability. For monetary policy to be effective, it is crucial that changes in the policy rate are reflected in the interbank interest rate and ultimately impact the real economy. This management of short-term interest rates is achieved through the liquidity management framework.

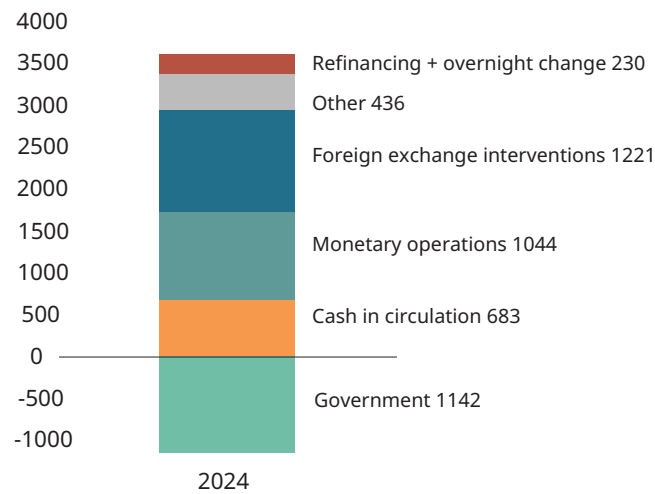
Within the operational framework of monetary policy, the National Bank of Georgia employs both liquidity-providing and liquidity-absorbing instruments. The primary tool for managing the liquidity of the banking sector is refinancing loans, which are the main instrument for providing liquidity. The National Bank of Georgia supplies relatively longer-term liquid funds to the financial sector through one-month open market instruments and government securities operations in the secondary market. Since the second half of 2023, the NBG has not provided liquidity through secondary market operations. To effectively manage short-term interest rates, the NBG also utilizes standing instruments, such as overnight loans and overnight deposits. Additionally, the NBG has certificates of deposit as a liquidity-absorbing instrument. These instruments allow the NBG to balance the demand and supply of liquidity in the financial system, ensuring that interest rates are formed close to the monetary policy rate. This approach enables the NBG to effectively manage market interest rates. Interest rates in the interbank market are formed close to

the monetary policy rate, and market interest rates also follow the trajectory of the monetary policy rate, ultimately determining the strength of monetary policy transmission.

Throughout 2024, the NBG continued to issue 3-month certificates of deposit to form the short-term part of the yield curve. Through these operations, the National Bank maintained the balance of certificates of deposit at a minimum level, within GEL 60-80 million.

In 2024, banks actively used refinancing loans to manage liquidity and balance fluctuations arising from other sources of liquidity supply. Compared to the previous year, the volume of refinancing loans increased by the end of 2024. Several factors influenced the volume of refinancing loans throughout the year (see Diagram 2.3). Strong economic growth led to an increased demand for cash. In the second half of the year, the NBG sold foreign currency using foreign exchange auctions and the rule-based bilateral intervention mechanism (BMatch), reducing the market's supply of lari through this instrument and increasing the demand for refinancing loans. Fiscal consolidation also had a significant upward impact on liquidity demand. Although the increased demand for liquidity was initially balanced by a higher level of refinancing loans, given the continued demand for a high level of liquidity, the NBG reactivated the use of the one-month open market instrument in November 2024.

DIAGRAM 2.3 FACTORS AFFECTING THE ANNUAL CHANGE IN REFINANCING LOANS

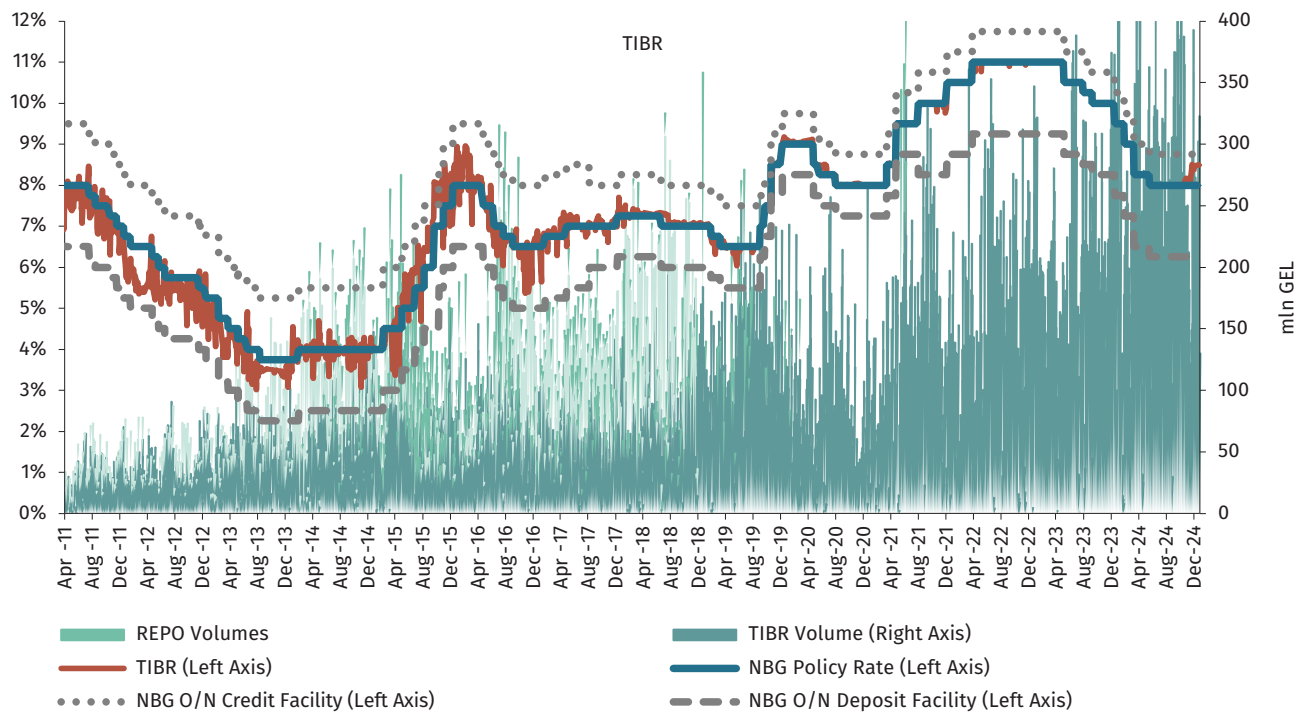


Source: NBG

Through use of the instruments described above, the NBG provided the financial sector with various short-term liquidity instruments as needed. Within this liquidity framework, short-term interest rates

are set close to the monetary policy rate (see Diagram 2.4), which are ultimately reflected in market interest rates.

DIAGRAM 2.4 INTERBANK MONEY MARKET



Source: NBG

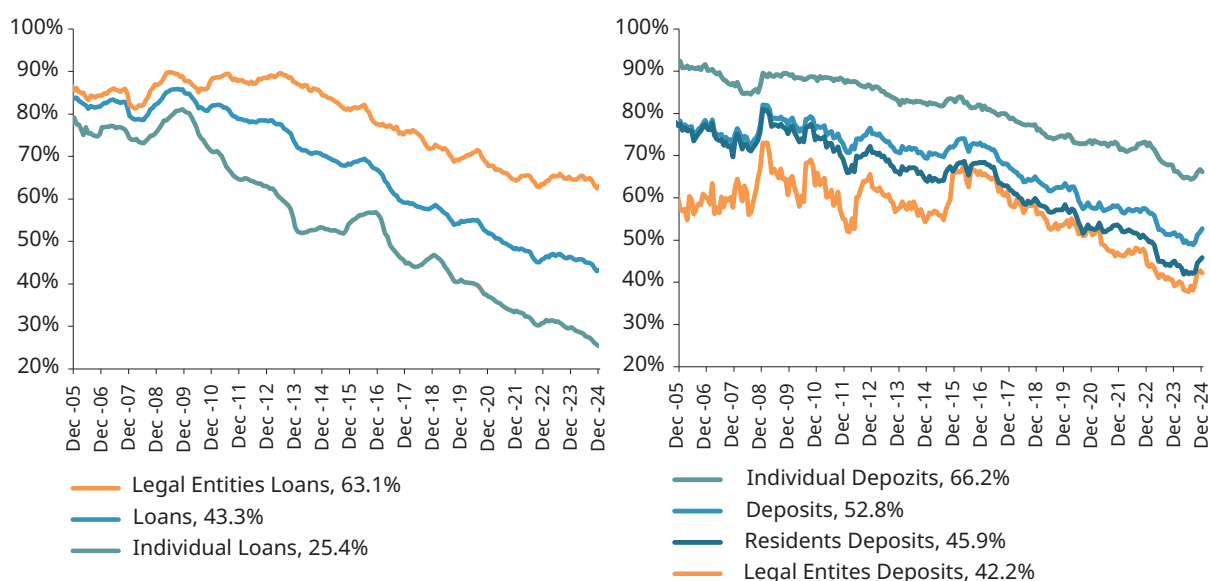
To strengthen the transmission of monetary policy to the economy and enhance financial stability, promoting larization (de-dollarization) is a long-term objective of the National Bank of Georgia. Encouraging larization is essential for reducing macro-financial risks in the country and increasing its resilience to external vulnerabilities. This is one of the priorities of the National Bank of Georgia and reforms in this direction are being implemented in stages.

Larization measures continued actively in 2024. Throughout the year, the trend of the larization of loans persisted, and the dollarization of loans decreased. To further mitigate the risks associated with the dollarization of loans, the NBG increased the limit of unhedged foreign currency loans, first from GEL 200,000 to GEL 300,000 starting on 1 January 2024, and then again to GEL 400,000 GEL from 1 May. Foreign currency-denominated loans, which are mostly offered with variable interest rates, are accompanied by interest rate and exchange rate risks. These risks become particularly noteworthy given the high share of unhedged borrowers in

foreign currency and the increased volatility in the exchange rates of regional currencies. Neutralizing such risks was the primary reason for the imposition of the additional requirements on foreign currency loans.

As expected, these measures resulted in an increase in the larization of loans. To assess the impact of the steps taken towards larization in more detail, it is interesting to consider the dynamics of the dollarization of loans and deposits. The dollarization of loans amounted to 43.3% in December 2024, which was 3.0 PP less than in the same period in 2023. Meanwhile, the dollarization of deposits decreased in the first half of 2024 and even fell below the 50% mark; however, this began to increase from the second half of the year, and the dollarization of deposits, excluding the effect of the exchange rate, ultimately rose by 1.0 percentage point and amounted to 52.8%. The dollarization of residents' deposits increased by 0.9 PP to 45.9%, while the dollarization of deposits of individuals decreased by 0.1 percentage point to 66.2%.

DIAGRAM 2.5 BANKING SECTOR DOLLARIZATION (EXCLUDING THE EXCHANGE RATE EFFECT)



Source: NBG

2.2 MONETARY POLICY INSTRUMENTS

The decisions of the Monetary Policy Committee (MPC) – whether to tighten, ease, or leave monetary policy unchanged – are implemented through monetary operations. The primary goal of these operations is to maintain the short-term interest rate of the interbank money market close to the policy rate. To achieve this, the National Bank of Georgia employs various instruments, including refinancing loans, one-month open market instruments, certificates of deposit, open market operations, government securities, overnight loans and deposits, and minimum reserve requirements. The interbank deposit/credit market is a crucial segment of the money market where banks trade short-term liquidity. This market is of significant interest to the National Bank of Georgia, as it plays a vital role in the functioning of the monetary policy transmission mechanism. The NBG influences interest rates through the monetary policy rate and the use of monetary policy instruments.

The TIBR (Tbilisi Interbank Rate) money market index serves as a "benchmark" for overnight interest rates. It is based on actual transactions conducted in the interbank money market, which enhances the reliability of the index. The involvement of the NBG in the process of collecting information and calculating the index further ensures its reliability. To develop its use as a "benchmark" for medium- and long-term instruments in the market, especially in lari variable-rate instruments, the National Bank of Georgia began publishing TIBR money market term indices (term rates) based on the TIBR index on 14 March 2019. These term rates provide a more effective means of managing interest rate risks. In a market economy, financial instruments have interest rates (coupons, percentages) of different maturities, such as a month, a quarter, six months, and a year. Financial risks arising from rate fluctuations require appropriate maturity hedging mechanisms and suitable maturity indices for pricing. Such indices rely on transparent methodologies, and market participants trust these indices as an independent source.

The methodology for calculating the TIBR Index and TIBR term rates includes procedures for calculating and publishing the indices. The methodology was developed in close cooperation with money market participants and with the assistance of the European Bank for Reconstruction and Development (EBRD). It also includes procedures for data control and methodology review. TIBR indices are published daily at 9 am on the official website of the National Bank of Georgia.

In 2024, the volume of transactions in the national currency on the interbank market increased by 31.95% compared to the previous year, amounting to GEL 61.82 billion. In response to changes in the monetary policy rate of the National Bank of Georgia, interbank interest rates also changed in 2024, moving close to the monetary policy interest rate. Within the framework of the decisions of the Monetary Policy Committee and based on the short-term liquidity forecast in the banking system, the National Bank of Georgia determined the volumes of weekly refinancing loans and one-month open market instruments. The NBG managed these processes to ensure that the average interest rate fixed at auction was maintained close to the monetary policy rate.

2.2.1. REFINANCING LOANS

Throughout 2024, the National Bank of Georgia utilized the refinancing loan instrument on a weekly basis to provide the banking system with short-term liquidity. The primary objective of this instrument is to ensure adequate liquidity within the banking system. Refinancing loans offer the banking sector reliable and low-risk access to short-term liquidity, which positively impacts the money market and financial stability. Specifically, these loans help reduce the liquidity risks associated with the lari in the money market and decrease the volatility of market interest rates, as evidenced by the dynamics of TIBR interest rates over the past decade. As the sole provider of short-term liquidity in the GEL market, the NBG can achieve the appropriate interest rate in the interbank market through the refinancing instrument. The interest rate on refinancing loans issued through auctions is based on the monetary policy rate of the National Bank of Georgia.

In 2024, the collateral base for monetary operations included the following: certificates of deposit of the National Bank of Georgia, securities of the Government of Georgia, debt securities denominated in GEL issued by international financial institutions, debt securities denominated in GEL issued by legal entities, and loan assets of commercial banks. The NBG established relevant criteria for each type of loan collateral, including minimum volume, residual maturity, and currency. Throughout 2024, commercial banks utilized each type of collateral to conduct monetary operations with the National Bank of Georgia.

2.2.2. ONE-MONTH OPEN MARKET INSTRUMENT

Like other monetary instruments, the one-month open market instrument is designed to manage short-term interest rates in the interbank market. This practice aligns with best international standards and follows the recommendations of the International Monetary Fund's Technical Assistance Mission.

The Liquidity Forecasting Group assesses the short-term liquidity deficit in the banking system on both a weekly and monthly basis. Based on these assessments, an auction is announced for a specific volume of the one-month open market instrument. The minimum interest rate for this instrument at the auction is determined by the monetary policy rate. The collateral base for this instrument is the same as for refinancing loans.

2.2.3. OVERNIGHT LOANS AND OVERNIGHT DEPOSITS

In 2024, the National Bank of Georgia continued to implement an interest rate corridor in the interbank market to foster money market development, stabilize interbank interest rates, and boost market activity. In alignment with global best practices, this approach establishes a stable framework for interbank market interest rates.

The interest rate corridor is structured around deviations from the monetary policy rate, setting

upper and lower interest rate limits. The upper limit of the corridor determines the interest rate for the National Bank of Georgia's overnight loans, while the lower limit sets the rate for overnight deposits. Specifically, the monetary policy interest rate corridor was set at 2.5 PP. The interest rate for overnight loans was defined as the monetary policy rate plus 0.75 PP, and the interest rate for overnight deposits was set at the monetary policy rate minus 1.75 PP. This ensured that interbank deposits remained more attractive to commercial banks than overnight deposits with the National Bank of Georgia.

By employing this interest rate corridor, the National Bank of Georgia effectively reduced excessive volatility in interbank interest rates, promoting convergence with the monetary policy rate.

Overnight loans from the National Bank of Georgia provided the banking sector with rapid access to liquidity, though at a premium over market interest rates. These loans had the same collateral base as refinancing loans.

Additionally, the overnight deposit instrument allowed commercial banks to place surplus liquidity in the national currency into a correspondent account with the National Bank of Georgia at the end of the business day. This liquidity was then returned to the correspondent account at the beginning of the next business day. This instrument played a crucial role in stabilizing interest rates within the interbank market.

2.2.4. SECURITIES

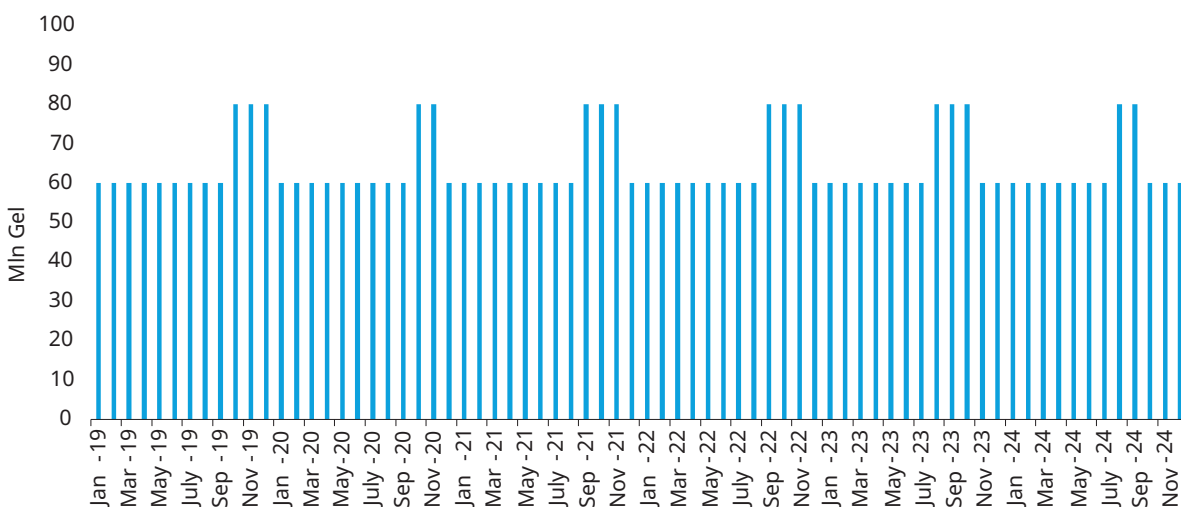
In 2024, the National Bank of Georgia introduced 3-month certificates of deposit, while the Government of Georgia issued Treasury securities with varying residual maturities of 6 months, 1, 3, 5, 7, and 10 years. These financial instruments were highly sought after by commercial banks, contributing to the establishment of a stable yield curve for the Georgian lari. This yield curve is crucial as it offers valuable insights into the interest rates across different maturities and reflects the expectations of participants in the financial market.

CERTIFICATES OF DEPOSIT

In 2024, the National Bank of Georgia introduced 3-month certificates of deposit, which became a popular and effective tool for short-term liquidity management within the banking sector. Throughout the year, 13 auctions were held, and commercial

banks fully purchased the certificates of deposit offered at each auction. Over the course of the year, certificates of deposit with a total nominal value of GEL 260 million were placed and the same amount was repaid. As of 31 December 2024, three commercial banks held GEL 60 million worth of the certificates of deposit in circulation.

DIAGRAM 2.6 DYNAMICS OF THE CERTIFICATES OF DEPOSIT PORTFOLIO, 2019-2024



Source: NBG

GOVERNMENT BONDS

As of 31 December 2024, the National Bank of Georgia held government bonds with a nominal value of GEL 152 million, which were not used for open market operations during the year.

the National Bank of Georgia using the multiple price method, and are executed using the Bloomberg system auction platform. Commercial banks licensed by the National Bank of Georgia can participate in the auctions, as can any legal entity and individual operating through such commercial banks.

TREASURY BILLS AND TREASURY BONDS

The increase in the volume of Treasury bills and Treasury bonds issued by the Ministry of Finance of Georgia was important for promoting the development of the lari money market. In 2024, the Ministry of Finance of Georgia issued discount securities – in the form of Treasury bills with residual maturities of 6 months and 1 year – and coupon securities – in the form of Treasury bonds with residual maturities of 3, 5, 7, and 10 years. These securities were issued in the national currency in a dematerialized form. The nominal value of one security is GEL 1,000. The sale of Treasury bills and bonds is carried out through auctions organized by

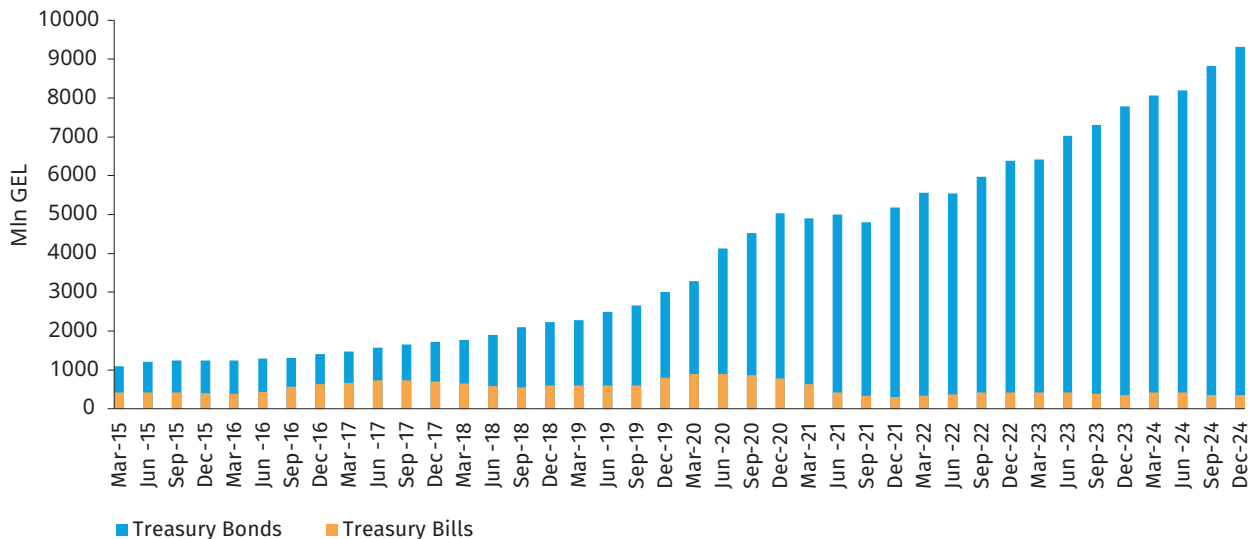
In 2024, 72 auctions of Treasury securities were held, through which securities with a nominal value of GEL 3.65 billion were placed. As of 31 December 2024, Treasury securities in circulation with a nominal value of GEL 9.7 billion were owned by 12 commercial banks, the NBG, as well as non-bank investors. Non-bank investors owned Treasury securities with a nominal value of GEL 1.398 billion.

It is worth noting that the volume of Treasury securities circulating in the market is still small compared to the size of the economy. To increase market liquidity, the Georgian government began issuing 2-, 5-, and 10-year benchmark bonds in 2018.

This led to an increase in the issuance of Treasury securities, which has helped reduce currency risks

arising from external debt taken to finance the deficit.

DIAGRAM 2.7 DYNAMICS OF THE TREASURY BILLS AND TREASURY BONDS PORTFOLIO, 2015-2024

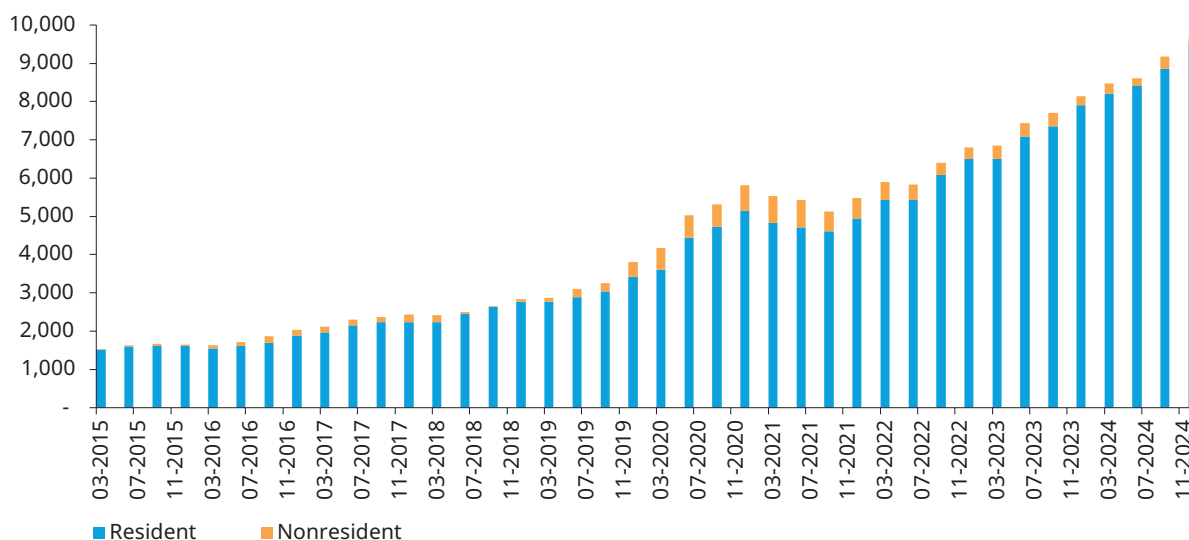


Source: NBG

Treasury securities are mainly held by residents, accounting for a portfolio of GEL 9.520 billion as of 31 December 2024. The portfolio of Treasury

securities held by non-residents amounted to GEL 152.9 million as of 31 December 2024.

DIAGRAM 2.8 TREASURY BILLS AND TREASURY BONDS PORTFOLIO DYNAMICS BY OWNERSHIP, 2015-2024



Source: NBG

To enhance the secondary securities market, the National Bank of Georgia continued to support and ensure the full functionality of the Georgian Securities Settlement System (GSSS) and various integrated systems that have been developed through the bank's own material and intellectual investments in order to meet modern requirements. Notably, the interbank repo market, established at the initiative of the National Bank of Georgia and with the agreement of commercial banks, operates based on a framework agreement for repo transactions that aligns with international practices. A repo transaction involves the sale of securities with a commitment to repurchase the same or equivalent securities under pre-agreed terms.

In 2024, banks used the Bloomberg trading system and the GSSS to execute repo transactions. Through these systems, commercial banks conducted 30 repo transactions involving Treasury securities with a nominal value of GEL 2,092.5 million.

Current practices and the existing infrastructure in the securities market provide a solid foundation for a further activation of the secondary securities market – a development that is expected to enhance market liquidity.

PROGRESS OF THE PRIMARY DEALER SYSTEM PILOT PROGRAM FOR SECURITIES MARKET DEVELOPMENT

The development of the Treasury securities market is a strategic priority for advancing Georgia's financial market and managing government debt. Over recent years, the volume of the securities market has been steadily increasing. Since 2018, the issuance of "benchmark" bonds has commenced, which has been accompanied by a steady increase in volumes.

To transition to a new phase of securities market development, expand the investor base, and stimulate the secondary market, the National Bank of Georgia and the Ministry of Finance of Georgia deemed it appropriate to establish the institution of a primary dealer, a proven concept in international practice. Primary dealers can serve as crucial intermediaries in the securities market, bridging the

divide between the Ministry of Finance of Georgia – as the issuer of Treasury securities – and investors. A well-developed market for government securities will, in turn, foster growth of the country's capital market. Primary dealers will diversify the investor base and enhance the liquidity of the secondary market by regularly updating prices and providing the necessary trading and settlement infrastructure.

With technical assistance from the International Monetary Fund and the World Bank, the National Bank of Georgia and the Ministry of Finance of Georgia have been actively involved in developing the Primary Dealer Pilot Program in recent years. A Memorandum of Understanding was collaboratively prepared and discussed with market participants. Eventually, six commercial banks operating in Georgia expressed their willingness to participate in the Primary Dealer Pilot Program, and Memoranda of Understanding were signed with them. The pilot program was launched in November 2020, with an initial indicative operational period of at least 1 to 1.5 years. The progress of the pilot program is periodically evaluated and, as it continues to evolve, the results will be summarized, and future development plans will be outlined. During 2024, four commercial banks continued to participate in the primary dealer pilot program.

2.2.5. MINIMUM RESERVE REQUIREMENTS

Through use of the minimum reserve requirement instrument, the National Bank of Georgia establishes a foundation for the effective implementation of other monetary policy tools. Recently, the minimum reserve requirements for funds attracted in the Georgian lari have remained unchanged. For funds attracted in foreign currency, the reserve requirements were within the range of 10-20% until December 2024. From December 2024 onwards, these requirements were adjusted to the range of 10-25%, depending on the dollarization coefficient of deposits for each commercial bank. Specifically, the higher the dollarization of a bank's deposits, the higher the reserve requirement for that bank. Additionally, funds borrowed in the national currency with a maturity exceeding one year and in foreign currency with a maturity exceeding two years are exempt from reserve requirements.

During 2024, the National Bank of Georgia applied interest to the minimum reserves placed by commercial banks in the national currency at the current monetary policy rate for the respective period. Until 19 December 2024, the National Bank of Georgia accrued 0% interest on the minimum reserves placed in foreign currency by commercial banks. After that date, the interest rate on balances in reserve accounts in US dollars that exceeded the balance calculated under the minimum reserve rule in effect until that date was set at 50 basis points below the policy rate of the US Federal Reserve System or its upper limit (if applicable). Meanwhile, the interest rate on balances in reserve accounts in euros that exceeded the balance calculated under the minimum reserve rule in effect until that date was set at 50 basis points below the deposit rate of the European Central Bank.

2.2.6. DEVELOPMENT OF THE GEORGIAN SECURITIES SETTLEMENT SYSTEM

The Securities Settlement System at the National Bank of Georgia has been operational since 2010. This modern, high-tech, fast, and secure electronic system manages and operates state securities, ensuring the smooth functioning of securities issued by the Ministry of Finance of Georgia and the National Bank of Georgia.

An updated Georgian Securities Settlement System (GSSS) was launched on 3 December 2018 and continued to successfully operate in 2024. The new system offers high-quality services to both local and international participants in the financial market, handling both state and private securities. Transactions have become faster, more cost-effective, convenient, and fully protected. This project exemplifies successful cooperation between the NBG and the private financial sector. The GSSS is innovative, incorporating modern approaches such as effective liquidity management mechanisms, partial payments, offset of reverse transactions (based on net settlement principles), automatic pledging, and flexible mechanisms for intraday loans. Brokerage companies, along with commercial banks, are involved in GSSS, providing them with new opportunities. The system is integrated with both the

stock exchange and Bloomberg trading platforms, ensuring the automation of the entire trading and settlement cycle. As a result, transactions are settled within minutes of their execution. With the introduction of the new system, current procedures and settlement rules have been updated to align with internationally recognized principles. Investors' securities are more reliably protected, and their conversion into cash (through sale, pledging, or repo operations) has become easier and more convenient when necessary. This undoubtedly enhances the attractiveness of the Georgian capital market for both local and foreign investors.

The updated GSSS also facilitated the inclusion of the Central Depository of Georgian Securities, providing services to all participants in the Georgian securities market and registering and settling all types of securities (including bonds and shares issued by private companies). The issuance, maturity, purchase and sale, repo, coupon, and dividend settlement operations of private securities registered in this system are fully automated, as is their pledging at the National Bank of Georgia or among professional market participants.

The updated GSSS has increased the interest of foreign financial institutions and investors in Georgian financial markets, as the infrastructure of the local securities market has become more reliable and modern.

2.3. EXCHANGE RATE POLICY AND INTERNATIONAL RESERVES MANAGEMENT

EXCHANGE RATE POLICY

Georgia, as a small open economy, operates under a floating exchange rate regime. In this system, the exchange rate is determined by market supply and demand, as well as fundamental macroeconomic factors.

A floating exchange rate is the optimal currency regime for Georgia. According to the principle of the

"impossible trinity", a floating exchange rate regime is essential for maintaining inflation targeting and free capital mobility. Free capital mobility is crucial as it fosters productivity growth and, consequently, long-term economic growth. Additionally, having an independent monetary policy allows the country to respond to its unique economic cycles. An independent monetary policy is particularly suitable for Georgia, as its economic cycles do not align with those of developed countries. This independence helps mitigate economic fluctuations caused by the business cycle, leading to more stable inflation and employment, which are prerequisites for long-term economic growth and improving the well-being of the population.

During 2024, foreign exchange interventions were conducted to replenish international foreign exchange reserves and neutralize excessive exchange rate fluctuations. The National Bank of Georgia employs two types of interventions: rule-based interventions through the BMatch platform and discretionary interventions in the form of foreign exchange auctions.

International foreign exchange reserves are a crucial guarantor of the country's macroeconomic stability. Therefore, the National Bank focuses on accumulating international reserves whenever foreign exchange market conditions permit. In January-April, July-August, and November-December 2024, favorable market conditions allowed the NBG to purchase foreign currency and replenish the reserves. Conversely, in May-June and September-

October, net foreign exchange sales operations took place. During these periods, large one-time transactions and short-term expectations caused excessive exchange rate fluctuations. Although the fundamental macroeconomic factors shaping the exchange rate were strong, uncertainty led to expectations differing from these fundamental factors, resulting in large individual transactions purchasing foreign currency. Additionally, transactions such as dividend payments created short-term pressure on the exchange rate. These factors only affected short-term fluctuations, and the exchange rate eventually returned to the dynamics determined by the fundamental factors.

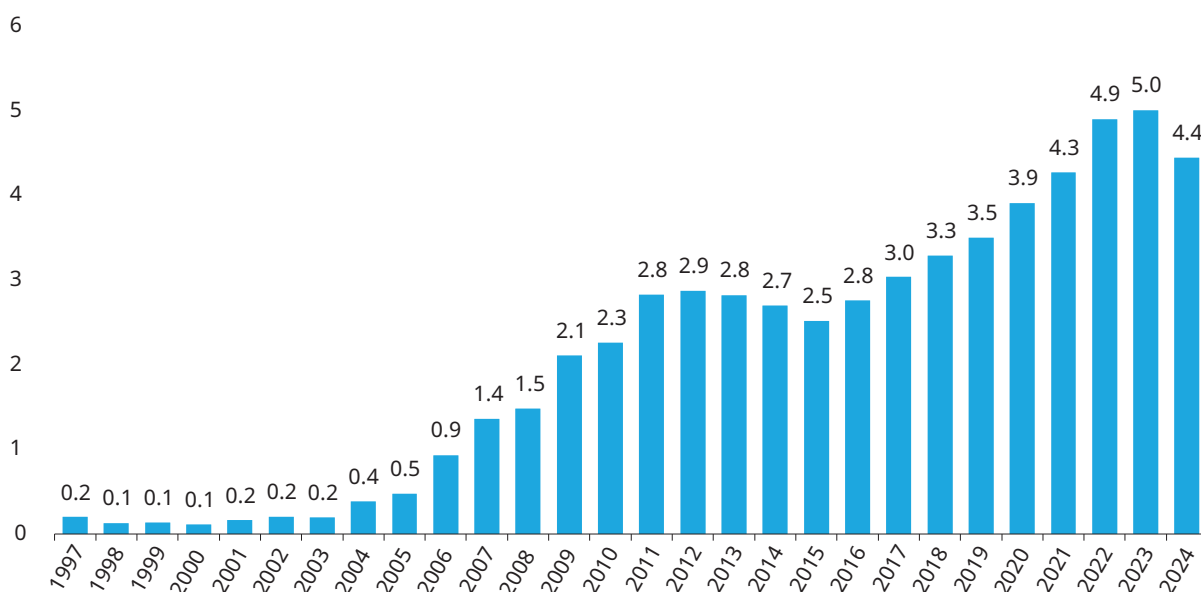
During 2024, the NBG's net sales through the BMatch platform amounted to USD 52.65 million. Through foreign exchange auctions, the NBG sold USD 382.1 million. Thus, in 2024, the NBG's net sales with these instruments totaled USD 434.75 million.

The nominal exchange rate of the Georgian lari depreciated by an average of 4.8% annually during the reporting period, while the real effective exchange rate depreciated by an average of 5.4% annually.

INTERNATIONAL RESERVES MANAGEMENT

In 2024, the total international reserves of the National Bank of Georgia decreased by USD 561.1 million compared to the previous year and amounted to USD 4.45 billion as of 31 December 2024 (see Diagram 2.9)

DIAGRAM 2.9 OFFICIAL INTERNATIONAL RESERVES, 1997-2024 (MILLION USD, YEAR END)



Source: NBG

The dynamics of the National Bank of Georgia’s international reserves in 2024 were influenced by several key factors, including foreign exchange interventions by the National Bank of Georgia, the debt service and foreign exchange expenses of the Government of Georgia, credits and grants received from international organizations, and changes in balances on reserve accounts. During 2024, the NBG was a net seller in the foreign exchange market, with net sales through foreign exchange auctions and the Bloomberg BMatch platform totaling USD 434.75 million. Concurrently, the state’s external debt service and foreign exchange expenses amounted to approximately USD 1,530.1 million. Throughout 2024, the state received approximately USD 216.3 million in grants and loans in foreign currency from international financial organizations and donor states to finance various programs and projects. Additionally, at the end of 2024, changes in the volume of funds attracted by commercial banks in foreign currency, which are protected by minimum reserve requirements, led to an increase in the NBG’s international reserves by approximately USD 322 million. Considering these factors, the NBG’s reserves decreased by USD 561 million in 2024.

During the year, the National Bank of Georgia maintained a conservative investment policy focused on reducing credit risks. The international reserves were invested in government Treasury bonds of the USA, eurozone countries, and Canada; highly liquid securities of state agencies; supranational financial institutions of these countries; and international banking institutions with high credit ratings. In 2024, the income from managing the international reserves of the National Bank of Georgia amounted to GEL 413.10 million. The decrease in interest rates in the financial markets during 2024 led to an increase in the prices of bonds in the NBG portfolio, positively impacting the income received from international reserves. Alongside the decrease in interest rates, capital gains on bonds significantly contributed to the increase in the NBG’s income.

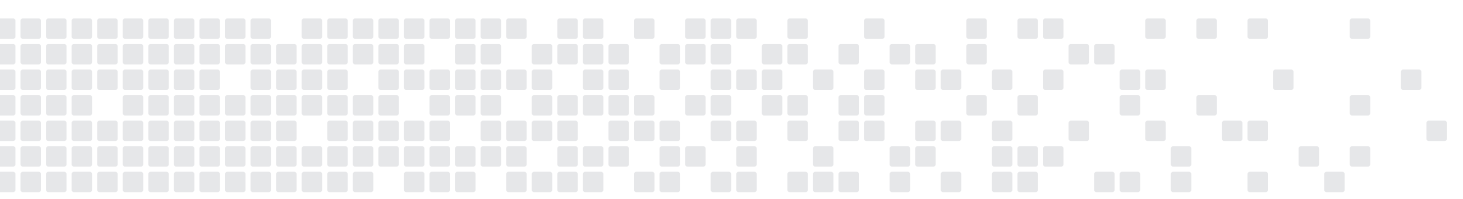
In 2024, the National Bank of Georgia added monetary gold bars to its reserve assets, which was an important step towards diversifying and strengthening the stability of the international reserves. Gold is historically recognized as a safe asset that retains its value over the long term and protects reserves from the uncertainty of global

financial markets and inflationary risks. By adding monetary gold, the National Bank of Georgia has improved the structure and diversification of the international reserves, reducing dependence on specific foreign currencies and international financial markets, and providing long-term benefits in terms of both financial stability and the country's economic security.

Throughout the year, the National Bank of Georgia continued its cooperation with the World Bank within the framework of the Sovereign Investment Partnership Program. The NBG became a member of this program in 2009, which provides technical support for the further development of international reserves management at the National Bank of

Georgia, the creation of relevant infrastructure, the accumulation of knowledge, and the sharing of experience by the World Bank in the areas of portfolio and risk management, settlement, accounting, legal affairs, and information technology.

During 2024, the cooperation between the National Bank of Georgia and the Bank for International Settlements (BIS) continued, with the National Bank of Georgia having joined the BIS Investment Pool (BISIP) program at the end of 2014. This program involves the management of funds pooled in a single portfolio from various central banks and international financial institutions. The BISIP program also includes assistance and experience sharing in the field of reserve management.





FINANCIAL STABILITY POLICY

Promoting financial stability as a prerequisite for sustainable economic growth is one of the fundamental goals of the National Bank of Georgia. According to the Organic Law of Georgia "On the National Bank of Georgia", promoting financial stability in the country is the mandate of the NBG, provided that it does not conflict with the fulfillment of the NBG's primary mandate, which is price stability. Financial stability refers to a state in which the financial system can provide services to market participants smoothly under both good and stressed conditions.

To ensure financial stability, the National Bank of Georgia implements macroprudential policy and supervises the financial sector. By identifying, assessing and monitoring systemic risks, the NBG develops a response policy to reduce these risks, thereby contributing to the growth of the financial system's resilience. The Financial Stability Committee, headed by the Governor of the NBG, coordinates macroprudential policy within the framework of the NBG's mandate. The Financial Stability Committee assesses and analyzes systemic risks and ways to reduce them, issues recommendations on the implementation of appropriate macroprudential measures, and coordinates the necessary measures to ensure financial stability.

The main instrument of the NBG's macroprudential policy is the countercyclical capital buffer. Its purpose is to limit, if necessary, excessive lending to the economy that would lead to an increase in systemic risks. The countercyclicality of the buffer contributes to the main goal of macroprudential policy, which is to reduce systemic risks to financial stability. During negative shocks, the countercyclical buffer is intended to support the financial system so that credit to the economy is not significantly restricted, thereby preventing further deterioration in both the financial sector and the overall economy. According to the updated framework²³ for establishing the countercyclical buffer, the neutral rate of the buffer is 1%, which commercial banks

are required to accumulate in stages according to the following schedule: 0.25% by 15 March 2024, 0.5% by 15 March 2025, 0.75% by 15 March 2026, and 1% by 15 March 2027. In addition, in order to ensure a consistent approach, the Financial Stability Committee considered it appropriate to also extend the principle of a gradual accumulation of the countercyclical capital buffer to microbanks.

The Basel Committee considers it appropriate to establish a positive neutral countercyclical buffer to cope with unexpected shocks that are not related to credit activity. Accordingly, the neutral rate should remain positive even under normal credit activity, and the cyclical component of the countercyclical capital buffer should be determined according to the loan growth cycle. The latter, in turn, depends on factors such as the credit-to-GDP ratio and relevant indicators of its deviation from the long-term trend, credit trends, various indicators of the cyclical position of the financial sector, and the characteristics of the country's domestic and external macro-financial environment. In 2024, no need to change the cyclical component of the countercyclical capital buffer was identified.

In addition to the countercyclical buffer, the National Bank of Georgia uses other capital buffers to implement macroprudential policy, which were introduced as part of the approximation to the Basel III framework. The macroprudential policy instruments also include loan service and loan collateral ratios, sectoral risk weights, and other instruments.

The NBG continues to actively work to reduce structural risks caused by the high level of financial dollarization in the economy. Against the background of the measures taken by the NBG, dollarization has significantly decreased, although dollarization and the risks associated with it remain one of the main challenges for the financial sector. Loans denominated in foreign currency, which mostly have variable interest rates, are accompanied

23. In line with the Basel Recommendation, the Financial Stability Committee updated the countercyclical buffer framework in 2022, which includes both neutral and cyclical components. The committee decided to set the neutral rate of the countercyclical buffer at 1% in March 2023.

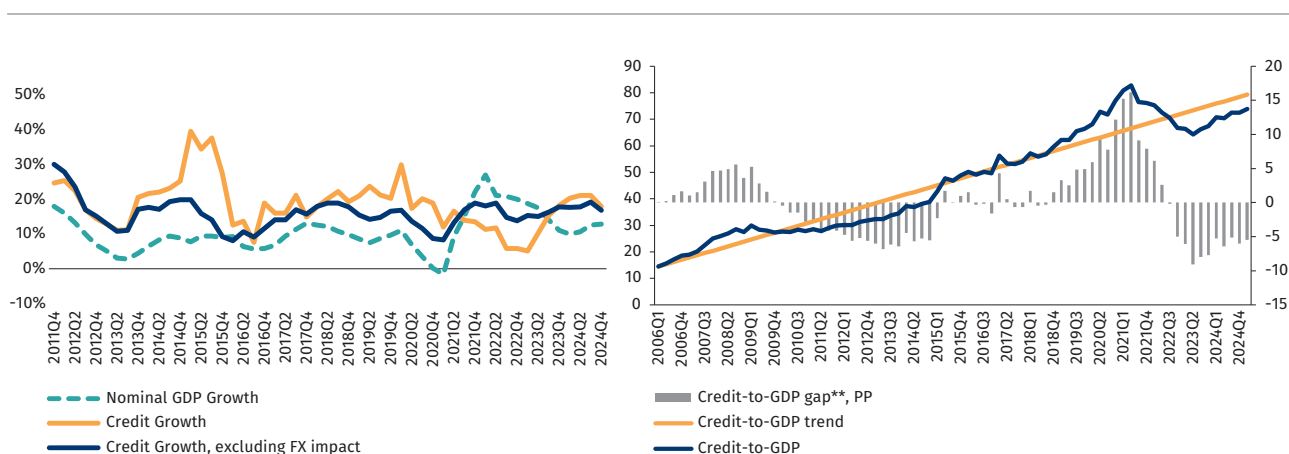
by interest and exchange rate risks. The latter is especially noteworthy in the context of the high share of borrowers that are not hedged in foreign currency and the increased volatility of the exchange rates of regional currencies. The measures taken by the NBG in the direction of de-dollarization serve the precise purpose of mitigating the risks caused by dollarization. The macroeconomic and macrofinancial environment in 2024 created a favorable environment for the continuation of the NBG's long-term de-dollarization policy. The GEL 300,000 limit on unhedged foreign currency loans, which had been in effect since January 2024, was gradually increased according to the decision of the Financial Stability Committee, rising first to GEL 400,000 from 1 May 2024, and then to GEL 500,000 from 1 January 2025. In addition, the NBG is actively monitoring the dynamics of deposit dollarization, the level of which increased in the last quarter of 2024 against the backdrop of uncertainty and contributed to the accumulation of excess foreign currency liquidity in the financial system. In order to prevent this excess liquidity from turning into the dollarization of loans, the Monetary Policy Committee decided to increase the upper limit of the reserve ratio on foreign currency liabilities by 5 PP.

In 2024, the Financial Stability Committee decided to recalibrate the liquidity requirement for foreign currency deposits. Deposits placed by non-resident individuals and legal entities are generally less stable than those placed by residents. Consequently, the NBG sets a higher liquidity requirement for such deposits. In 2023, to mitigate the risks associated with the excessive growth of deposits placed by Russian residents in foreign currency, the National

Bank of Georgia increased the liquidity requirement (outflow rate) on such deposits to 80%. As of 2024, the volume of accounts and deposits of Russian residents has stabilized. Therefore, the Financial Stability Committee decided to set the liquidity requirement for deposits placed by Russian residents in foreign currency in proportion to the liquidity requirement for other non-resident deposits, averaging 40%. Additionally, it recommended that banks regularly analyze the composition of their non-resident deposits and, if necessary, maintain an adequate internal liquidity buffer to mitigate risks associated with such deposits.

The Georgian financial system remains resilient and continues to provide credit to the economy without disruption. As of 2024, banks maintain healthy capital and liquidity ratios, and asset quality has also improved. In December 2024, annual loan growth, excluding the exchange rate effect, amounted to 17%, which was largely driven by the growth of business loans. The strong economic growth in 2024 slowed the pace of the closing of the negative credit-to-GDP gap, although the credit-to-GDP ratio continues to converge with the long-term trend. Compared to the beginning of 2023, the negative credit-to-GDP gap has significantly narrowed, reflecting a certain normalization of high economic growth and sustainable credit activity. Accordingly, no need for banks to change the cyclical component of the countercyclical capital buffer was identified. Additionally, commercial banks will continue to gradually accumulate the neutral component of the countercyclical capital buffer in accordance with the deadlines set by the Financial Stability Committee.

DIAGRAM 3.1 COMPARISON OF CREDIT AND NOMINAL GDP GROWTH RATES



Nominal GDP growth reflects annual GDP growth over the last four quarters.

Loans include the loans issued by banks and microfinance institutions, as well as bonds issued locally by companies.

Credit-to-GDP gap is the deviation of Credit-to-GDP ratio from its long-run trend. The trend is estimated using HP filter in line with the Basel recommendations

Sources: National Bank of Georgia, GeoStat

3.1 DEVELOPMENT OF A FINANCIAL STABILITY FRAMEWORK

The development of a financial stability framework is a crucial aspect of the NBG’s financial stability mandate; and financial stability is one of the fundamental factors for the development of a country’s economy. The relevance of financial stability issues and macroprudential policy have increased globally in recent years. In 2023, heightened financial risks amid globally increased inflation and tightened financial conditions once again underscored the importance of financial stability. A robust and effective financial stability framework ensures the smooth supply of financial resources even during economic downturns and significantly contributes to the rapid recovery of the economy. According to international best practices, comprehensive and in-depth analyses of financial stability are necessary – these involve not only assessing risks in the banking sector but also considering external factors that, as recent years have shown, may be a source of significant risks. Financial stability also takes into account the macro-

financial environment, households, companies, and non-bank institutions.

The National Bank of Georgia is developing and formulating a financial stability policy framework based on the best practices of other central banks, for which the development of analytical capabilities is particularly important. In this regard, the first stage of the process involved the development and implementation of complex financial stability indicators that take into account the specifics of Georgia. These indicators are used to develop cyclical macroprudential policy. Such indicators and the main principles of macroprudential policy implementation are presented in the Macroprudential Policy Strategy, which is published on the NBG’s website²⁴. This strategy aims to improve the bank’s decision-making process, communication, and accountability to the public. Additionally, the National Bank is constantly working on the development of analytical tools that are based on both international experience and country-specific characteristics.

Macrofinancial modeling is an important part of the financial stability analysis framework. The

24. See: <https://www.nbg.gov.ge/index.php?m=738>

National Bank of Georgia is actively working on the development of a macrofinancial model, the purpose of which is to analyze financial and macroeconomic stability risks, generate and analyze macrofinancial scenarios, and conduct macroeconomic stress tests. These are the main cornerstones for the development of appropriate macroprudential policy. The development of the financial system and associated challenges expand the scope for the application of the macrofinancial model and create increasing demand for it. The development and refinement of the macrofinancial model is thus a continuous process, in which technical assistance from partner international organizations gains particular importance.

It is noteworthy that the National Bank of Georgia has gradually transitioned from local reporting standards to International Financial Reporting Standards (IFRS 9). Since July 2023, local standards have been fully replaced by IFRS 9 standards. Taking into account this change, it became advisable to update the existing stress test methodology. As part of the IMF's mission of November 2024, the National Bank thus began work to update the stress test credit risk model to bring it into line with IFRS 9 standards. The second stage of this mission is planned for 2025.

One important aspect of the financial stability framework is increasing transparency and improving communication. To enhance public awareness of the financial stability policy, the National Bank of Georgia's website is constantly updated with financial stability-related information. Specifically, it provides details on the macroprudential policy instruments, the tasks of the Financial Stability Committee, the calendar of the committee's meetings, statements and decisions made by the committee, issues related to IFRS 9²⁵, and information on the sustainable finance framework.

The NBG promotes the effective preparation of financial statements by financial institutions in accordance with IFRS 9. To ensure the transparent, consistent, and efficient production of financial

statements by financial companies, and to assure their comparability, the National Bank of Georgia develops risk scenarios of the macroeconomic and financial environment for the purposes of IFRS 9 and regularly publishes a quantitative assessment²⁶ of macroeconomic trends that can subsequently be used by financial institutions to assess expected credit losses. For the purposes of IFRS 9, the macroeconomic forecast scenarios are based on a macro-financial model and also take into account additional analysis and expert assessments. It should be noted that the presented scenarios are countercyclical in nature, which helps smooth out possible financial cycles. In 2024, in the context of external challenges, such as the escalation of regional geo-political conflicts and the tightening of global trade and financial conditions, the National Bank of Georgia published two forecast scenario updates to provide financial institutions with timely macroeconomic forecast information. This enabled financial companies to promptly reflect forward-looking macroeconomic information in their estimates of expected credit losses.

Maintaining a sustainable financial system, which involves the management of social and environmental risks, is crucial for financial stability and is also an important factor contributing to broader sustainable development goals. The National Bank of Georgia has been a member of the Sustainable Banking and Finance Network (SBFN) since September 2017 and is actively working on the development of a sustainable financing framework.

In 2024, the National Bank of Georgia actively continued to implement the measures outlined in the Sustainable Finance Roadmap. The implementation of all measures defined in the first roadmap and its action plan was scheduled for completion by the end of 2024. In 2025, the NBG will publish a second Sustainable Finance Roadmap, which will outline a further action plan and measures to be implemented over the next few years. The main goal of the roadmap is to create a reliable, predictable, and stable regulatory framework that will prepare

25. International Financial Reporting Standards (IFRS 9).

26. <https://nbg.gov.ge/en/financial-stability/ifrs9-macroeconomic-scenarios>

the market for the transition to sustainable finance.

A significant milestone was achieved in April 2024 when the NBG advanced from the "Advancing" to the "Consolidating" level in the SBFN's 6-tier assessment system that reflects the progress made by SBFN member countries towards sustainable finance²⁷. Georgia is one of only three member countries that was able to achieve such significant progress. This advancement is a result of the steps taken by the NBG towards the development of a sustainable finance framework.

In accordance with the requirement set by the Corporate Governance Code, in 2024, commercial banks disclosed Environmental, Social and Governance (ESG) information using the NBG's template for the fourth time. The templates completed by financial institutions from 2021 to 2024 are published on the NBG's website. Banks conduct this reporting annually, which, in turn, contributes to the provision of information on ESG issues to investors and other stakeholders.

In October 2024, the National Bank of Georgia published its fourth Sustainable Finance Report²⁸. The report provides an overview of the current trends, policies implemented, and plans in Georgia towards sustainable finance. In particular, the steps taken by the National Bank are analyzed, current and upcoming projects are described, and the information submitted by commercial banks in their ESG forms is summarized. The report also presents trends in the issuance of green and sustainable bonds in Georgia and, in general, developments in the capital market towards sustainable finance.

Within the framework of the sustainable finance framework, in 2022, the National Bank of Georgia approved the Sustainable Finance Taxonomy²⁹ and

the "Regulation on Classification and Reporting of Loans According to the Taxonomy" (the Taxonomy Regulation)³⁰. From 1 January 2023, banks became required to submit monthly green loan reports to the NBG using the monthly green loan reporting form specified in the Taxonomy Regulation. Additionally, in accordance with the regulation, information related to green, social, and sustainable loans must be disclosed in the ESG reporting and disclosure form of the Pillar 3 annual report. To ensure the accuracy of these reports and prevent "greenwashing" (classifying a non-green project or product as green), in 2024 the NBG conducted its first assessment of the loan portfolio that had been submitted in December 2023. According to the results, no significant violations were identified, and no cases of "greenwashing" occurred.

As part of the Sustainable Finance Framework, in 2024, the National Bank of Georgia, in cooperation with DSIK, developed an ESG Risk Radar³¹. This report builds on and significantly improves the methodology of the 2022 Climate Risk Radar³² and includes a more detailed and transparent assessment of ESG risks. The report uses the ESG Scorecard, which has been specifically designed for the economic sectors of Georgia and assesses the vulnerability of the financial sector both at the level of individual financial institutions and the broader financial system. In addition to assessing climate-related risks, the updated methodology also takes into account other ESG risks, such as biodiversity loss and potential human rights violations.

Additionally, as part of the ESG Guidelines³³, the NBG, with the support of DSIK, has developed an ESG Due Diligence Tool. This tool is based on the principle of dual materiality and varies in scope and depth based on the initial categorization of a loan. Such a multi-level approach provides a detailed assessment that

27. 2024 Global Progress Report, Sustainable Finance Report, see: <https://www.sbfnetwork.org/global-progress-brief-2024/>

28. "2024 Sustainable Finance Report". იბილი: <https://bit.ly/4hXh8C5>

29. Sustainable Finance Taxonomy, see: <https://nbg.gov.ge/page/მდგრადი-დაფინანსების-ტაქსონომია>

30. See: <https://nbg.gov.ge/legal-acts/acts>

31. ESG Risk Radar for Georgia - Assessing Climate-Related and Other ESG Risks, see: <https://bit.ly/4aVhB5g>

32. Climate-related Risk Radar for Georgian Economic Sectors, see: <https://bit.ly/4jXeYUu>

33. ESG Guidelines, see: <https://nbg.gov.ge/en/page/esg-guidelines>

is tailored to the specific characteristics and risk exposure of different transaction categories. The ESG risk ratings and the corresponding allocation to risk categories are subsequently used in the ESG risk management process.

In 2024, the National Bank of Georgia, with the financial support of the European Investment Bank (EIB) and in cooperation with international experts from EconLab, developed a climate stress test framework³⁴ and published the results of the first climate stress test for the Georgian financial sector. This framework adopts an integrated approach that combines several analytical modules for a comprehensive assessment of climate-related risks. The climate stress test framework employs a "top-down" approach, based on the current stress test methodology of the NBG, and combines various satellite models and tools. The framework includes both physical and transition risks, providing a holistic perspective on the challenges related to climate change. The framework also uses the NGFS climate scenarios as a source to ensure compliance with international standards for stress tests. In assessing climate-related vulnerability, the framework evaluates risks at both the household and corporate portfolio levels and includes the following modules: (i) an acute physical climate risk module; (ii) a transition risk and chronic physical risk module; (iii) a corporate sector stress test module; and (iv) a household sector stress test module. Each of these modules are interconnected and serve as a single framework for assessing potential economic disruptions and financial stability risks resulting from climate change. The stress test results revealed potential losses related to the realization of climate risks but also noted the high level of capitalization of the banking sector and its resilience to these risks. The stress test results are available on the NBG's website.

In March 2024, the National Bank of Georgia hosted the fifth Sustainable Finance Forum in collaboration with the International Finance Corporation (IFC) and the Sustainable Banking and Finance Network (SBFN), with support from the Swiss State Secretariat for Economic Affairs (SECO). The forum attracted

over 200 participants from 15 countries, including high-ranking representatives of the EU and SBFN member states and central banks, as well as representatives from local financial institutions, international organizations, universities, and other private and public sector stakeholders. The forum focused on existing experiences in developing a sustainable finance framework. Participants also discussed recent developments and challenges in this area, particularly in developing countries. The discussions covered topics such as the management of ESG and climate-related risks by regulators and market participants, the role of taxonomies in ensuring sustainable finance, and the importance of disclosure and transparency.

In September 2024, the National Bank of Georgia, in collaboration with the European Bank for Reconstruction and Development (EBRD), hosted a two-day workshop on the Women Entrepreneurs' Finance Code. The aim of the code is to support the collection of gender-disaggregated data on small- and medium-sized enterprises (SMEs) and to promote its use for the formulation of inclusive policies. The workshop was attended by representatives of the financial sector, public institutions, and other key stakeholders. Based on the collected data, a new SME/WSME Dashboard was developed. With the support of the EBRD, the NBG will continue to work on strengthening the dashboard and aligning it with the needs of the financial sector and SMEs, with the ultimate goal of strengthening gender equality and financial inclusion in Georgia.

To improve coordination and information sharing on sustainable finance issues, the NBG has established an Inter-agency Coordination Council on Sustainable Finance. The members of the council include representatives from the National Bank of Georgia, the Ministry of Finance, the Ministry of Economy and Sustainable Development, the Ministry of Environment Protection and Agriculture, and the Accounting, Reporting and Audit Supervision Service. The main task of the council is to coordinate and share information among its members on existing and planned regulatory policies and activities in

34. "Climate stress test". See: <https://bit.ly/3QfnW1P>

Georgia related to sustainable finance. To achieve these goals, the council is authorized to establish thematic working groups, which will ensure effective inter-agency coordination in the analysis of sustainable finance issues and the development of technical documents. The first meeting of the council is planned for the first half of 2025.

The NBG continues to actively develop the sustainable finance framework and implement planned activities in this direction.

3.2 RECOVERY AND RESOLUTION FRAMEWORK

The National Bank of Georgia has been actively working on the implementation of the Commercial Bank Recovery and Resolution Framework (hereinafter the Resolution Framework) since 2021.

Throughout 2024, the NBG continued its active efforts and closely cooperated with the International Monetary Fund and the World Bank in this direction. The World Bank team, as part of their mission, held presentations with relevant staff from the Resolution and Liquidation Department of the NBG and the Deposit Insurance Agency. These presentations focused on the operational soundness of the resolution and the deposit insurance systems framework, and the priorities for the coming years were defined and joint work was planned.

In 2024, each participant in the banking sector prepared recovery plans. These include measures to be implemented by a commercial bank to improve its financial condition, and restore and maintain its critical functions in the event of significant financial difficulties or disruption of critical functions. The NBG examined these documents from the perspective of each bank and, taking into account regulatory rules and international best practice, provided appropriate feedback.

An important element of the recovery plans developed by individual commercial banks is the self-assessment of their critical functions and an assessment of their timely replacement by other

market participants in the event of their termination, taking into account the impact on counterparties and the real economy. The following functions are assessed as critical for the system:

- ◆ Acceptance of deposits
- ◆ Issuance of loans
- ◆ Payment services, cash services, clearing, settlement services, and savings services
- ◆ Activities in the securities market
- ◆ Wholesale funding

The requirements for these plans are regulated by the relevant rule within the Resolution Framework. The focus of the document is on marking indicators for recovery purposes and calibrating their thresholds, determining recovery measures, testing the extent of financial damage and the effectiveness of recovery measure(s) using severe stress scenarios relevant to individual banks, and conducting preparatory work. The document also pays attention to regulating governance issues, the purpose of which is the early detection of deterioration in the financial condition of a bank and its subsequent organized management.

The mandatory categories of the recovery plan indicators include the following:

- ◆ Capital
- ◆ Liquidity
- ◆ Profitability
- ◆ Asset quality

Commercial banks will update their recovery plans annually, and these will be assessed by the NBG. The assessment document will be integrated into the overall risk management framework of the banks.

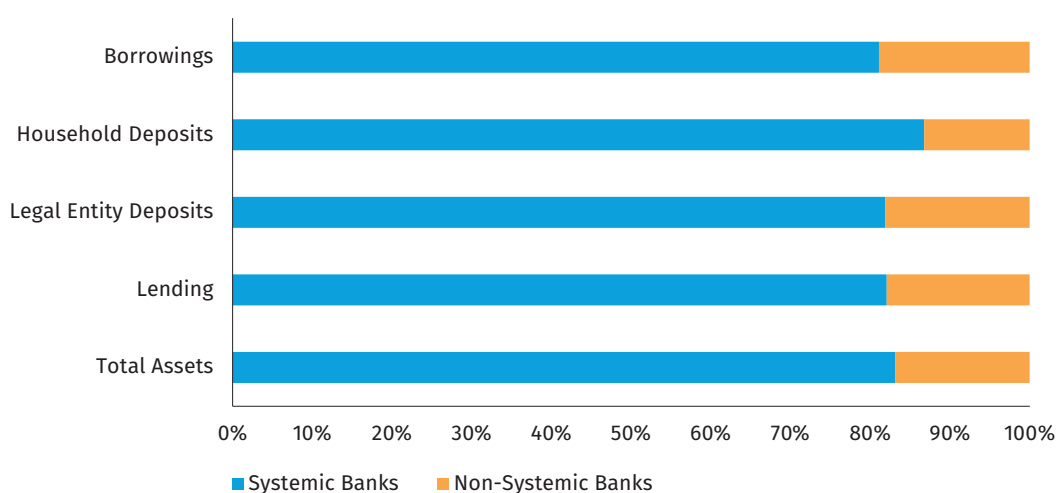
The resolution mechanism, represented by appropriate resolution tools, provides an opportunity to rehabilitate a bank facing a severe financial crisis. It is used when the implementation of recovery measures would be unlikely (or futile) within a reasonable timeframe and is employed in order to avoid a significant negative impact on the stability of the financial sector. Under such circumstances, it is advisable to maintain the functioning (critical

functions) of the financial institution while reducing the need to use taxpayers' funds.

The resolution authority of the NBG includes the individual or combined use of the following resolution tools without the consent of shareholders and/or creditors and without giving prior notice:

- ◆ Merger of a commercial bank
- ◆ Sale of the shares, assets, and/or liabilities of a commercial bank
- ◆ Transfer of the shares, assets, and/or liabilities of a commercial bank to a temporary bank
- ◆ Recapitalization of a commercial bank by issuing new shares
- ◆ Recapitalization of a commercial bank by writing off or converting its liabilities (bail-in)

DIAGRAM 3.2 CONCENTRATION OF SYSTEMIC BANKS IN THE BANKING MARKET (AS OF 31 DECEMBER 2024)



Source: NBG

The composition of the banking sector and the high concentration of systemically important (systemic) banks in the banking market highlight the criticality of their economic functions and the need for robust resolution plans. The National Bank of Georgia has updated the resolution plans for systemic banks. Additionally, on the recommendation of IMF experts, a resolution plan was prepared for one relatively large non-systemic bank. The key elements of the resolution plans include assessment of the resolvability of the resolution and the determination of the preferred resolution strategy, covering aspects such as plan triggers, a qualitative and quantitative analysis of instruments, resolution phases, and the main processes to be undertaken. According to international data, the expansion of resolution capabilities and the operational maintenance of instruments is undergoing development and remains a topical issue even in advanced economies. Important steps have been taken to operationalize the Resolution Framework. In particular, the

National Bank has developed so-called playbooks for the use of resolution tools, taking into account the recommendations of the IMF and the World Bank. The NBG will continue to actively work on these issues in 2025, including in the direction of increasing the quality of resolvability for commercial banks.

In 2024, a meeting of the Resolution Committee, which was established within the bounds of the Resolution Framework, was held according to the established schedule to discuss thematic issues. During 2024, no need for resolution or its early warning signs were identified in the banking sector, nor were there any grounds for the implementation of recovery measures.

In 2021, as part of the Joint Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund and the World Bank in Georgia, recommendations were issued that the

NBG should establish **Minimum Requirements for Own Funds and Eligible Liabilities (MREL)** for systemically important commercial banks under the existing Resolution Framework. This requirement is a percentage obtained by dividing eligible liabilities and capital instruments by regulatory capital and total liabilities.

Additionally, from December 2023, it has become mandatory for commercial banks **to include a contractual condition on the use of resolution instruments for the purpose of recapitalization to write off or convert bank liabilities** in agreements on capital instruments that are fully or partially regulated by foreign legislation. As of 1 April 2024, a similar requirement applies to commercial bank agreements containing liabilities to which the *“Regulation on Approval of the Rule for the Write-Off or Conversion of Commercial Bank Liabilities for the Purpose of Recapitalization of a Commercial Bank Under Resolution”* applies (Decree No. 241/04 of the Governor of the National Bank of Georgia of 29 December 2020). It is worth noting that the inclusion of the condition specified in the above requirement in an agreement does not affect the hierarchy provided by the creditor legislation.

It is also worth noting that the aforementioned regulation is based on common practice envisaged by the European **Bank Recovery and Resolution Directive (BRRD)** framework. The purpose of the requirement is to create a preliminary balance sheet structure for systemic banks in crisis situations that will allow the National Bank of Georgia, within its mandate, to effectively recapitalize a bank under resolution by writing off or converting its liabilities.

The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) rate for systemic commercial banks is set at the following amounts and deadlines:

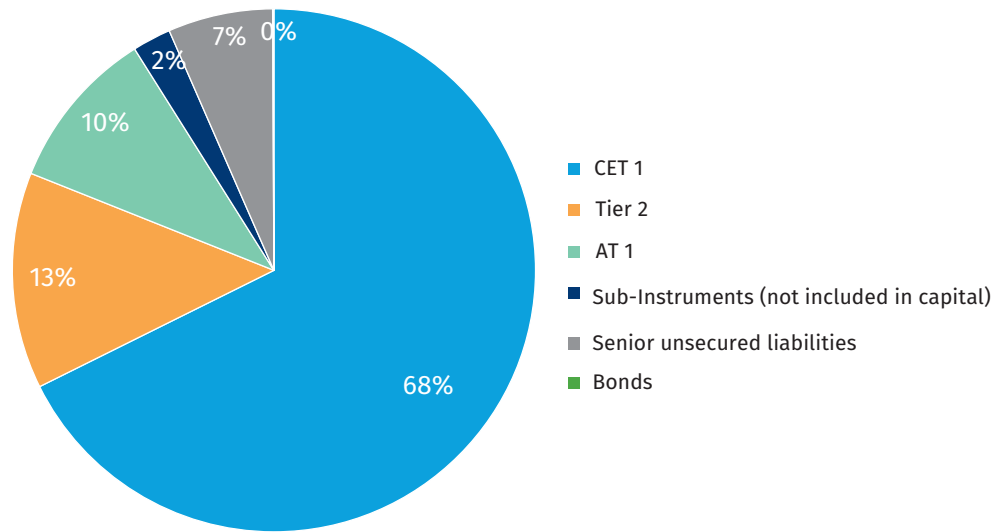
- ◆ 10% from 1 January 2024
- ◆ 15% from 31 December 2025
- ◆ 20% from 31 December 2027

To promote financial stability, the NBG has implemented this requirement for systemic banks starting from 2024. In accordance with the requirement, systemic banks will submit MREL reporting to the National Bank in the appropriate form on a monthly basis. **As of the end of 2024, the MREL adequacy ratios of commercial banks and MREL instruments in the system are as follows:**

GEL

	31/12/2024	31/12/2024	31/12/2024
	TBC	BOG	Liberty
MREL Resources	7,461,723,910	7,167,681,654	611,926,287
Regulatory capital and total liabilities (TLOF)	36,596,101,538	37,340,205,565	4,811,671,210
%	20.39%	19.20%	12.72%

DIAGRAM 3.3 MREL RESOURCES BY INSTRUMENT (AS OF 31 DECEMBER 2024)



Source: NBG

Additionally, in December 2023, the Parliament of Georgia approved legislative amendments related to the Resolution Fund. According to these amendments, commercial banks are required to make advance contributions to the Resolution Fund (ex-ante fund) to achieve the target set by the law, specifically:

- ◆ **Fund target:** 3% of insured deposits.
- ◆ **Contributions:** banks will begin making contributions in 2025.
- ◆ **Timeframe required to achieve the target:** 8 years (which may change if the amount in the fund is used or the deposit insurance limit is increased).
- ◆ **Contribution methodology:** in proportion to the share of commercial banks' assets in the system, taking into account individual risk profiles.

Based on the legislative amendments related to the Resolution Fund, the NBG developed relevant by-laws during 2024. These included, with the involvement of public consultations, the *“Regulation on the Establishment, Administration, and Investment of the Resolution Fund, Criteria for Imposing an Advance Contribution to the Resolution Fund, and the Implementation of the Advance Contribution”*.

This regulation was approved by Decree No. 228/04 of the Governor of the National Bank of Georgia on 2 September 2024. The total advance contribution by the banking sector for 2025 was determined by the Decree of the Governor of the National Bank of Georgia in the amount of **GEL 37,798,407**. This represents one-eighth of 3% of the average volume of insured deposits for the four quarters of 2024, in accordance with the methodology provided for in Annex No. 1 of the aforementioned regulation. Commercial banks began making advance individual contributions to the Resolution Fund in 2025.

The ex-ante fund is administered by the National Bank of Georgia, which, according to law, has the right to transfer the fund for administration to the Deposit Insurance Agency. In the Resolution Fund, in addition to advance contributions by commercial banks, financial resources necessary for obtaining temporary state financing are accumulated (the so-called ex-post fund) and are also utilized for the established purpose. After the resolution regime is completed, and in the case of financial support of the process from the Ministry of Finance, state funds utilized through the Resolution Fund are reimbursed by operating commercial banks under the established conditions and in the proportion determined by the National Bank of Georgia.

3.3 INTERAGENCY COMMITTEE FOR FINANCIAL STABILITY

In order to promote the stable functioning of the financial system, in 2020 a new cooperation platform was established within the framework of the authorities granted by the legislation of Georgia and in compliance with the principle of independence. This platform, known as the Interagency Committee for Financial Stability, ensures the regular exchange of information, development of financial crisis management mechanisms, and effective coordination. The committee is represented by the Minister of Finance, the NBG Governor, the Head of the Deposit Insurance Agency, and the Head of the State Insurance Supervision Service. The committee is chaired by the Minister of Finance of Georgia, and the functions of the secretariat are performed by the NBG. According to the regulations, the committee will hold at least one meeting a year or at the request of the NBG. The main task of the committee is to develop mechanisms for crisis situations and financial crisis management to promote the stable functioning of the financial system.

In 2024, the annual meeting of the Interagency Committee for Financial Stability was held. The members of the committee discussed ways to develop the Resolution Framework and bring it closer to European practice, as well as the steps already taken in this direction. The discussion also touched upon the procedural issues that have been developed or are to be developed jointly across the agencies. Additionally, the members reviewed the legislative amendments related to the Resolution Fund that have already entered into force and the issues to be regulated by joint inter-agency legal acts, including administrative issues. The discussion also covered the resolution and current issues related to the deposit insurance system, as discussed at the conference of the Georgian Deposit Insurance Agency and the International Association of Deposit Insurance (IADI) that was held in Tbilisi on 4 July. Furthermore, the committee members reviewed

the implementation of the recommendations made by the International Monetary Fund and the World Bank and discussed future steps.

3.4 LIQUIDATION OF FINANCIAL INSTITUTIONS

As of 31 December 2024, Georgia's financial sector included 17 commercial banks, 31 microfinance organizations, one credit union, and 34 payment service providers. Throughout 2024, no bank liquidations were initiated, with the last one having concluded in 2019.

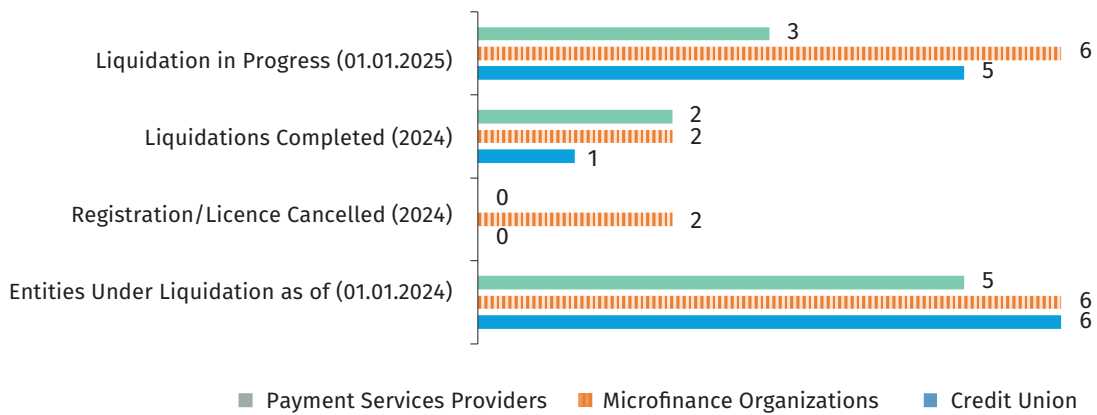
During and after the liquidation of supervised entities, the NBG manages unclaimed creditor funds by recording them in a special account. It ensures that these funds are returned to their rightful owners upon their identification. Additionally, the NBG handles assets discovered following the liquidation of commercial banks. Funds from the sale of these assets are typically distributed among the remaining creditors according to established procedures³⁵. In 2024, the NBG managed proceedings for two newly discovered assets from liquidated banks, one of which had previously distributed partial funds to creditors. These proceedings are set to continue into 2025.

In performing its liquidation functions, the NBG adheres to applicable laws and regulations concerning the supervised entities. Furthermore, under Article 48, Paragraph 16 of the Organic Law of Georgia "On the National Bank of Georgia", the NBG's supervisory authority has been expanded. It is now authorized to allocate funds to cover liquidation costs when a supervised entity lacks sufficient resources, ensuring a smooth liquidation process.

Consequently, in 2024, amendments were made to subordinate legislation, with further revisions planned for 2025. Beyond updating the relevant legal acts, the NBG will develop internal control procedures and technical documents that aim to enhance governance during liquidation, making the process more organized and standardized.

35. In the event that an asset, which was part of a commercial bank's holdings prior to the issuance of an individual administrative-legal act confirming the completion of its liquidation process, is recovered, it will automatically be recognized as an asset of the liquidated commercial bank. Consequently, the NBG gains the authority to manage and dispose of the asset, as stipulated by Article 37, Paragraph 15 of the Law of Georgia "On the Activities of Commercial Banks".

DIAGRAM 3.4 PROGRESS OF LIQUIDATION OF FINANCIAL INSTITUTIONS IN 2024

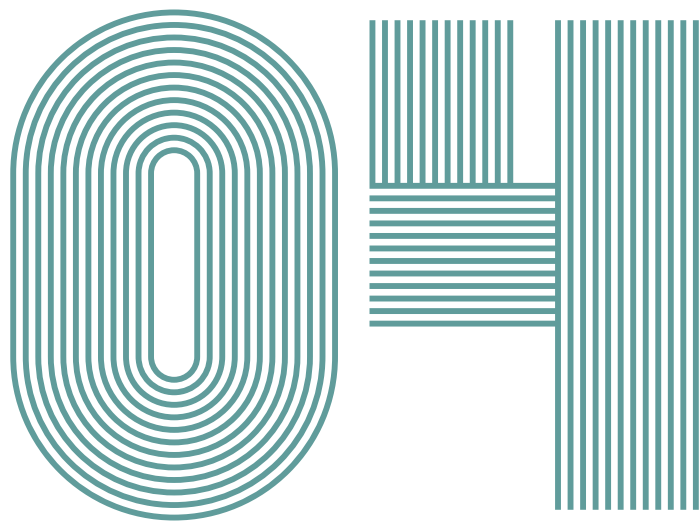


Source: NBG

A package of legislative amendments, co-authored by the NBG, has been developed for the period 2020-2023 and is set to be submitted to Parliament for approval. These amendments target several key laws, including the Organic Law of Georgia “On the National Bank of Georgia”, and the Laws of Georgia “On Microfinance Organizations” and “On Payment System and Payment Services”.

The primary goal of these legislative changes is to broaden the NBG’s authority. This includes the power to legally address issues related to the liquidation, insolvency, and bankruptcy of microfinance organizations and payment service providers. Additionally, the amendments aim to introduce and regulate a temporary administration regime for microfinance organizations.

With these amendments, the NBG will gain exclusive authority to declare microfinance organizations and payment service providers insolvent and/or bankrupt. This change is expected to streamline and enhance the efficiency of the process for satisfying creditors’ claims against these entities. Furthermore, the NBG will be responsible for appointing the liquidators for these supervised entities and the temporary administrators for microfinance organizations, who will then be accountable to the NBG. Upon approval of the draft law, the NBG’s supervisory framework for regulating and overseeing microfinance organizations and payment service providers will be significantly strengthened.



BANKING SUPERVISION

4.1 DEVELOPMENT OF THE SUPERVISORY FRAMEWORK

In 2024, the National Bank of Georgia continued its efforts to refine and develop the supervisory framework through research and methodological activities.

To align with international best practices and EU regulations, the NBG approved the *“Regulation on Publishing Information on Certain Measures Applied by the National Bank of Georgia on the Official Website of the National Bank of Georgia” via Decree No. 99/04 on 18 April 2024.* This regulation aims to enhance transparency in the financial sector and prevent violations of Georgian legislation. It outlines the procedures for publishing information on the NBG’s website regarding measures taken against violations of Georgian laws and the NBG’s written instructions. Specifically, it addresses the publication of sanctions imposed on commercial banks and microbanks, particularly those related to money laundering, consumer rights protection, financial and supervisory technologies, and securities regulations. The regulation also covers the publication of monetary fines imposed on these entities.

The requirements in this regulation are based on relevant European directives, including the Directive of the European Parliament and Council of 26 June 2013, on access to credit institutions’ activities and their prudential supervision (the CRD Directive). The development process of this legal act was highly transparent, involving public consultations and incorporating feedback from interested parties. The regulation is set to take effect on 1 January 2025.

The Organic Law of Georgia “On the National Bank of Georgia” grants the NBG authority to foster a competitive environment in the financial sector. Under this mandate, Decree No. 68/04 of 28 May 2021, *“On Approval of the Procedure for Submission and Consideration of Notifications on Market Analysis and Concentration”*, was adopted. This decree aligns with the principles of the Law

of Georgia “On Competition” and regulates the submission and consideration of notifications on concentrations. Both internationally and in Georgia, it is standard practice for regulatory bodies to receive notifications on transactions involving the alienation of operating assets and to assess them, as such transactions can have effects similar to concentrations. Consequently, an amendment was made to the aforementioned decree in the previous year. This amendment identifies additional transactions subject to notification requirements and outlines procedural issues related to their assessment.

According to the amendment, the NBG will also review transactions where one economic agent acquires the assets of another, provided that the acquiring agent is a commercial bank or microbank and specific balance sheet conditions are met. The assets in question are financial assets, such as credit portfolios (except for written-off portfolios) and other loan-like claims, which are integral to the economic agent’s active business operations and income generation. The amendment also establishes the grounds, deadlines, required documents, and information for submitting relevant notifications to the NBG. It details the review procedure and the consequences of non-compliance, including potential fines. This change was developed through public consultations, involving stakeholders in the process.

In 2024, amendments were made to the regulations governing the banking sector to better align them with the principles and international best practices set by the Basel Committee on Banking Supervision. These changes also aimed to mitigate specific risks identified in practice. The amendments expanded the list of prohibited risk positions for commercial banks and microbanks. Specifically, it was established that commercial banks and microbanks are prohibited from creating risk positions intended to directly or indirectly finance certain transactions. These transactions include the purchase of equity or debt instruments of the same bank or microbank, its shareholders, intermediate owners, beneficial owners with significant shares, controlling persons,

parent companies, or subsidiaries of the bank or its parent companies. In alignment with established practice, this amendment was published on the NBG's website for public consultation, allowing interested parties to provide their opinions and comments.

Within the framework of the Association Agreement between Georgia the European Union and the European Atomic Energy Community and their Member States to fulfill assumed obligations and to approximate with Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002, in 2023 the Parliament of Georgia adopted the Law of Georgia *"On Supplementary Supervision of Regulated Entities in a Financial Conglomerate"*. The law provides that, independently of sectoral supervision regulations, additional supervision of regulated enterprises included in a financial conglomerate may be carried out using separate methods for calculating additional capital adequacy/solvency margin requirements. In addition, the law provides for the authority to issue a legal act on the aforementioned methods. Thus, within the time limits and powers provided for by the law, the National Bank of Georgia, in cooperation with the State Insurance Supervision Service of Georgia, developed and approved the *"Regulation on Calculating Additional Capital Adequacy/Solvency Margin Requirements for Regulated Enterprises Included in a Financial Conglomerate"* by a joint Decree of the Governor of the National Bank of Georgia and the Head of the State Insurance Supervision Service of Georgia. The regulation specifies and further clarifies the methods and components of calculating additional capital adequacy/solvency margin requirements provided for in the Law of Georgia "On Supplementary Supervision of Regulated Entities Included in a Financial Conglomerate" and their components. It is noteworthy that the draft regulation was shared with the Bankers' Association and, in turn, with commercial banks for consultation. During the reporting period, no group operating in Georgia fell within the scope of supplementary supervision required of a financial conglomerate.

Following established practice, the NBG has published the 2024 edition of the 2023-2025 *Supervisory Strategy*. The supervisory priorities of the NBG remained unchanged in the new edition of the strategy, while detailed information on completed tasks and ongoing work was provided in the annual publication. The strategy placed particular emphasis on the main tasks planned for the next 12-18 months and made changes to the action plan. In 2024, the NBG conducted its activities considering the following supervisory priorities:

- ◆ Improving the risk management framework of the financial sector and proactively responding to outcomes.
- ◆ Promoting competition in the financial sector.
- ◆ Encouraging financial innovation and developing supervisory technologies.
- ◆ Alignment with international standards.
- ◆ Strengthening the NBG's supervisory function and increasing transparency.

In 2024, work was completed on the *"Regulation on Counterparty Credit Risk Management"*, which came into force in January 2025. This regulation is based on the counterparty risk management framework established by the Basel Committee on Banking Supervision and the European Parliament and Council Regulation 575/2013 of 26 June 2013, on prudential requirements for credit institutions and investment firms. The new regulation aims to better capture and manage risks formed by the increased volume of derivatives in the Georgian banking sector. Specifically, the introduction of this regulation replaced the principle-based approach to derivatives management with a risk-based approach. Under the new regulation, banks can reduce the required capital for well-collateralized transactions and high credit rating counterparties, and vice versa. Within the framework of the new regulation, banks can use three approaches for calculating assets exposed to counterparty risk depending on the proportion of derivatives to assets: standardized, simplified standardized, and simplified risk position approaches. The work on the new regulation was carried out in consultation with the sector and the Bankers' Association, and banks had more than a year to implement the developed model.

In 2024, an updated regulation on the determination of the systemic importance of Georgian banks was approved. The aim of updating this regulation was to align the approaches for determining systemic importance more closely with those of the European Banking Authority (EBA) and to better reflect the challenges present in the Georgian banking sector. Specifically, to better capture existing challenges, an indicator for derivatives traded on unorganized markets was added to the complexity criteria, and the weights of the indicators within the criteria were evenly distributed. Additionally, considering the high concentration in the Georgian market and in order to promote competition within the banking system, increments of 2% were added to the 40% threshold for deposits, further aiding in mitigating market concentration. A maximum systemic buffer limit of 5% was also introduced.

As in previous years, in 2024 the NBG continued its active work on implementing the recommendations received within the framework of the International Monetary Fund's and World Bank's Financial Sector Assessment Program (FSAP) for the further development and refinement of the NBG's supervisory framework and to ensure alignment with European and other international best standards.

Based on a recommendation received within the FSAP program, the *"Regulation on Decision-Making on Key Issues of Supervision of Banking and Non-Banking Institutions"* was approved in 2024. This regulation aims to define various levels of decision-making related to key issues, list the issues to be considered at each respective level, and specify the rights and responsibilities of the individuals involved in the process. The purpose of defining different levels of decision-making is to ensure that responsibilities are appropriately distributed and that a balanced system of decision-making is maintained, considering the complexity and significance of the issues in the supervisory process. Furthermore, it is noteworthy that the NBG is consistently oriented towards seeking and analyzing international best practice and conducts research activities aimed at further developing the regulatory framework.

4.2. CORPORATE GOVERNANCE AND GROUP STRUCTURE RISK

In 2024, the National Bank of Georgia actively monitored the corporate governance mechanisms implemented in commercial banks to refine and enhance corporate governance standards in the banking sector. This monitoring included observing the activities of governing bodies, ensuring the due fulfillment of their duties, and assessing the compliance of the composition of commercial banks' boards of directors and supervisory boards with the Corporate Governance Code. The evaluation process of commercial banks' supervisory boards involved analyzing their self-assessment documents, with the self-assessment conclusions considered within the General Risk Assessment Program (GRAPE).

In addition to monitoring governing bodies, the NBG actively reviewed lists of material risk-taking individuals, as identified according to the NBG's instructions, to minimize the incentive for excessive risk-taking in commercial banks. This process was crucial for assessing the compliance of remuneration policies with the Corporate Governance Code. Furthermore, the NBG closely monitored the practical implementation of the remuneration requirements set by the code and international best practices in commercial banks, including the roles and functions of their supervisory boards and remuneration committees. Special attention was given to monitoring the methodology of remuneration for control functions in commercial banks.

To improve gender diversity in the supervisory boards and directorates of commercial banks, amendments were made to the "Corporate Governance Code of Commercial Banks" on 24 August 2022, increasing gender diversity requirements. Specifically, by 1 June 2023, banks were required to have at least 33% representation of the underrepresented gender in their supervisory boards, a proportion increasing to at least 40% by 1 June 2025. As of December 2024, the overall representation of women in the supervisory boards of commercial banks was 37%, thereby exceeding the established requirement.

The NBG also focused on assessing the suitability of individuals appointed as administrators in commercial banks against the criteria set by the *“Regulation on the Criteria for the Suitability of Commercial Bank Administrators”*, as approved by the Governor of the National Bank of Georgia under Decree No. 151/04 on 31 October 2022. This involved evaluating both newly appointed administrators and those already in position before the regulation's enactment. This is an ongoing effort.

The assessment of corporate governance and group structure risk in commercial banks is part of the National Bank of Georgia's General Risk Assessment Program. This assessment includes evaluating a bank's ownership structure, investment-related risks, transactions with group members, and the risks associated with the bank's investments and investment activities. The NBG also actively monitors processes in the parent countries of those international banking groups represented in Georgia and assesses significant shareholders. During 2024, the structure of such banking groups was reviewed, including the assessment of the transfer of existing risks to individual banks.

In 2024, several significant changes were made to the structure of banking groups. In March 2024, the Bank of Georgia Group acquired a 90% stake in "Ameriabank", an Armenian commercial bank, with 30% of shares directly owned by Bank of Georgia. Another change in the year saw the Japanese holding company Gojo & Company, Inc. acquire a 16.8% stake in Credo Bank, marking its debut investment in Georgia. Gojo & Company, Inc., which is based in Tokyo, unites companies providing inclusive financial services and operates in 13 countries across Asia and Africa. The company was founded in 2014 to enhance global financial inclusion. This investment in Credo Bank aims to strengthen the bank's initiative to provide accessible financial services, supporting entrepreneurs and their employees. Credo Bank also made an investment in 2024, acquiring a 36% stake in "Kipz.mi", a payment service provider registered in Georgia.

In 2024, the NBG continued to develop a

consolidated supervision framework, as mandated by legislative changes to the Organic Law of Georgia "On the National Bank of Georgia" at the end of 2017. Implementing consolidated supervision, or supervision at the banking group level, significantly contributes to maintaining the stability of the banking sector, allowing assessment of risks from banking groups and related parties and their potential impact on the banking group.

In October 2023, to align with international standards and enhance commercial banks' control and governance standards, the NBG made significant changes to the regulation on managing conflicts of interest. Banks were given a six-month period to comply with the policy/procedure requirements, and throughout 2024, the NBG provided consultations and monitored the fulfillment of these obligations. Transactions conducted by banks with related parties and their compliance with regulatory requirements are part of the assessment of corporate governance and group structure risk in commercial banks.

As of 31 December 2024, the Georgian banking sector consisted of 17 commercial banks and one microbank (with a second microbank, "Crystal", receiving its license in February 2025). During this period, non-resident owners' participation in banks' assets (by beneficial owner) was 88.26% and in equity capital was 87.6%.

4.2.1 THE PROCESS OF LICENSING COMMERCIAL BANKS/MICROBANKS, AND ASSESSING THE SUITABILITY OF ADMINISTRATORS AND SIGNIFICANT SHAREHOLDERS/ACQUIRERS

In 2022-2023, three digital banks received banking licenses: JSC "Hash Bank", JSC "Paysera Bank Georgia" and JSC "Pave Bank Georgia". After obtaining their licenses, these banks initially operated in a test mode. JSC "Paysera Bank Georgia" was granted permission to operate in a real environment in 2023, while JSC "Hash Bank" and JSC "Pave Bank Georgia" received this permission in 2024. Currently, these banks continue to operate under conditional banking licenses and are fulfilling the requirements set by the NBG.

JSC "Hash Bank" aims to function as a digital bank, primarily providing banking services through electronic channels. Its aim is to prepare the market, including both traditional and technology-oriented customers, for the transition to a digital strategy. JSC "Pave Bank Georgia" also aims to operate as a digital bank, intending to integrate financial products with digital assets and programmable accounts. The bank focuses on serving technologically advanced companies. Whereas the business model of JSC "Paysera Bank Georgia" is based on integration with the European Union's financial system, aiming to offer innovative digital products to customers.

In 2023, the Parliament of Georgia passed the Law of Georgia "On the Activities of Microbanks", along with other relevant legislative acts. The aim was to establish a new financial institution characterized by a medium-sized, stable business model and a strong reputation in the financial sector. This initiative sought to promote lending for entrepreneurial and agricultural activities, enhance competition, and reduce interest margins on credit products. Consequently, microbanks were included in the list of entities supervised by the NBG.

Throughout 2023, the NBG developed a regulatory framework for microbanks. This framework addressed crucial issues, such as licensing requirements, and established conditions for the suitability of administrators and the acquisition of significant shares, drawing on existing regulations for commercial banks and aligning these with European and international standards.

In 2023, the NBG actively reviewed and analyzed the information and documentation submitted by applicants for microbank licenses. Based on this review, the NBG issued the first microbank license to JSC "Micro Business Capital" (MBC) on 5 December 2024. Before obtaining its microbank license, JSC "Micro Business Capital" operated as a microfinance organization, primarily focusing on financing small entrepreneurs. After transitioning into a microbank, JSC "Micro Business Capital" aims to continue and expand its financing of small businesses, introduce various new products to the market, and enhance

its competitiveness. By joining the real-time gross settlement (RTGS) system, it aspires to become a stronger player in the financial sector.

In early 2025 a microbank license was also granted to JSC "Crystal." The total assets of the two microbanks on the market amount to GEL 720 million. As both entities had been leading microfinance organizations for years, by gaining microbank licenses these companies have gained the opportunity to significantly reduce costs and improve access to resources in both local and international markets.

The mandate of a licensed microbank, as defined by law, primarily involves lending to the entrepreneurial and agricultural sectors. Additionally, it aims to promote financial inclusion, particularly in the country's regions. This initiative is expected to significantly contribute to the increased competition as outlined in the NBG's Supervisory Strategy for 2023-2025 and thereby advance the national economy.

Throughout 2024, the NBG actively verified the compliance of individuals appointed as bank administrators under the requirements set by the "Regulation on the Suitability Criteria of Administrators of Commercial Banks", as approved by Decree No. 151/04 of the Governor of the National Bank of Georgia on 31 October 2022. During this period, the NBG approved the suitability of 13 administrators.

In another notable development, on 11 October 2024, the Board of the National Bank of Georgia issued Resolution No. 37, amending Resolution No. 10 of 8 April 2015. This amendment led to the creation of a new structural unit within the Supervisory Policy Department of the National Bank of Georgia: the Banking Institutions Licensing Division. Its establishment was driven by the growing interest in licenses for commercial banks and microbanks, as well as an increase in applications from individuals seeking such licenses. Additionally, there was a rise in applications for assessing the suitability of administrators and transactions involving the acquisition of significant shares.

The functions of the newly established Banking Institutions Licensing Department include the following:

- ◆ Participating in the consideration and preparation of proposals for issuing and canceling banking and microbank licenses.
- ◆ Monitoring the fulfillment of requirements specified in written instructions by commercial banks with conditional banking licenses.
- ◆ Assessing and reviewing the suitability of acquirers, owners of significant shares, and administrators of commercial banks and microbanks, and preparing relevant proposals.

4.3 CAPITAL ADEQUACY

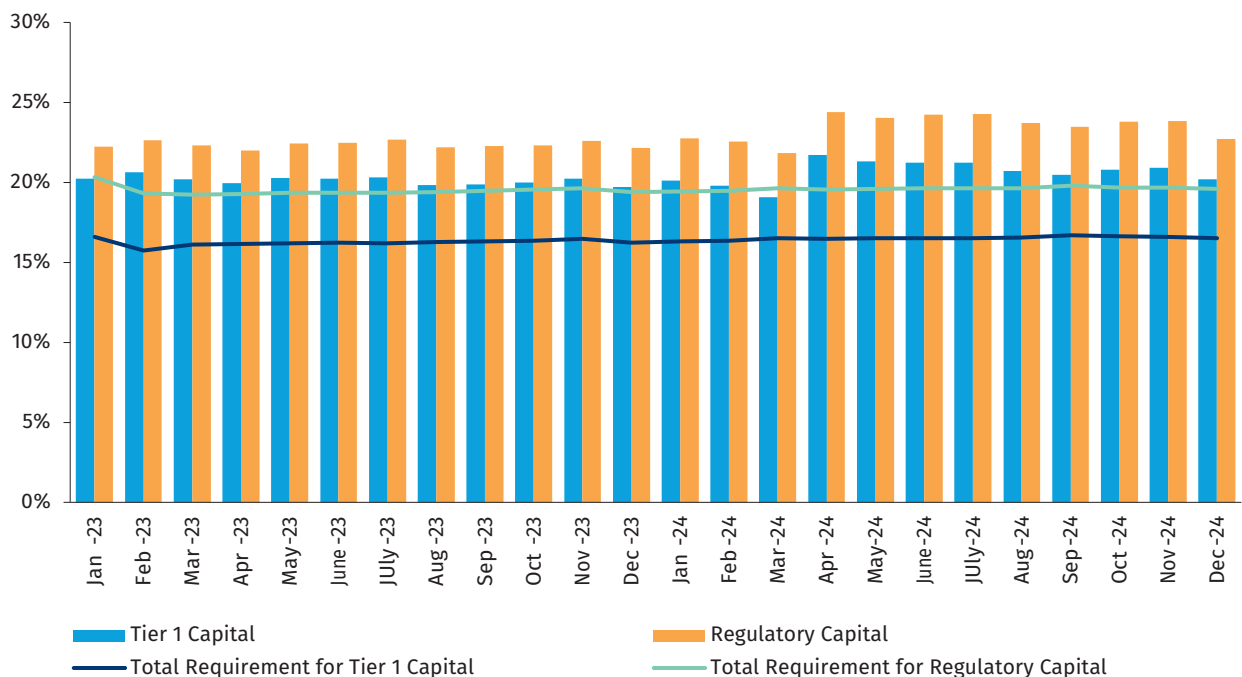
The Georgian banking system maintained an adequate level of capital under the Basel III-based capital adequacy framework by the end of 2024. In November 2022, the Financial Stability Committee of the NBG, considering the recommendations of the Basel Committee on Banking Supervision (BCBS)³⁶,

decided to update the countercyclical buffer framework. This update involves establishing a neutral positive countercyclical buffer to accumulate capital buffers for periods of stress. According to the updated framework, banks were required to set a countercyclical capital buffer rate of 0.25% by 15 March 2024, this will rise to 0.5% by 15 March 2025, 0.75% by 15 March 2026, and 1% by 15 March 2027. As of 31 December 2024, the Tier 1 capital ratio, based on International Financial Accounting Standards (IFRS), was 20.2%, and the regulatory capital ratio was 22.7%. These figures are 3.7 and 3.1 PP, respectively, above the total requirements.

By December 2024, the total profit of the banking system amounted to GEL 3.1 billion, which is GEL 380 million more than the same figure in 2023. Due to the high profit rate, the operational risk positions of banks increased by GEL 1.69 billion in December 2024, leading to an increase in capital ratios by only 0.5 PP.

As of 31 December 2024, the leverage ratio³⁷ remains high at 15.51%, exceeding the requirement by 10.51 PP.

DIAGRAM 4.1 CAPITAL ADEQUACY RATIOS UNDER BASEL III



Source: NBG

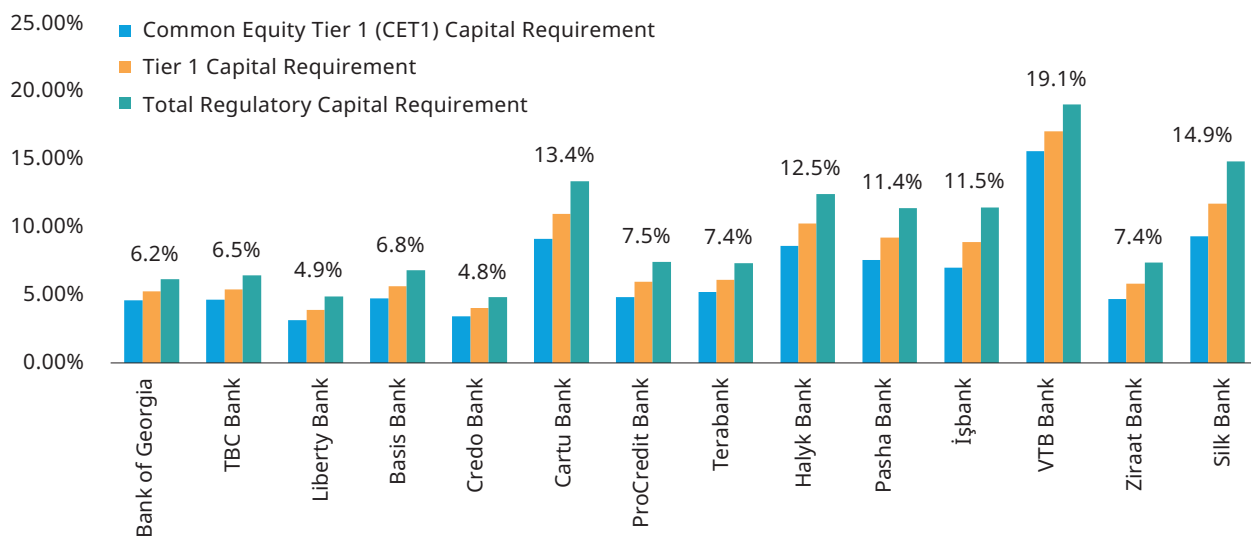
36. Buffer Usability and Cyclicity in the Basel Framework, October 2022, see: <https://www.bis.org/bcbs/publ/d542.pdf>

37. Ratio of capital to assets.

In 2024, banks actively raised capital through the issuance of both Tier 2 and AT1 capital instruments. Notably, five banks issued new additional primary capital instruments during the year. A significant, system-wide increase in the regulatory capital ratio occurred in April 2024, driven by the issuance of substantial volumes of AT1 instruments.

The net GRAPE buffer, which was introduced in 2018, is a tool used within the continuous cycle of risk-based supervision to assess the risk profiles of commercial banks. Each bank's risk profile is evaluated under the GRAPE framework. In March 2024, the NBG revised the net GRAPE buffers once again, setting individual buffer levels ranging from 1.3% to 7.0% of risk-weighted assets.

DIAGRAM 4.2 TOTAL PILLAR 2 REQUIREMENTS BY BANKS AS OF 31 DECEMBER 2024



Source: NBG

4.4 FINANCIAL REPORTING AND TRANSPARENCY

In 2024, the NBG diligently oversaw the quality of supervisory reporting by commercial banks, ensuring it aligned with International Financial Reporting Standards (IFRS). Throughout the year, the bank focused on enhancing the reporting framework to meet IFRS, the European Accounting Framework, and local supervisory requirements. A key initiative in this direction was the commencement of transitioning to the latest FINREP financial reporting taxonomy.

The National Bank of Georgia reviewed the annual audited consolidated financial statements submitted by commercial banks, which assessed compliance with IFRS and the stipulations under the *“Regulation on the Mandatory Audit of Consolidated Financial Statements of Commercial Banks and Disclosure of Information in the Explanatory Notes”*, as approved by Decree No. 284/04 of the Governor of the National Bank of Georgia on 26 December 2018. The NBG provided relevant recommendations based on these assessments, but the submitted statements generally adhered to the specified requirements. As part of this process, in line with the framework for

communication with auditors, the National Bank of Georgia also engaged with the external auditors of commercial banks to discuss the annual reports.

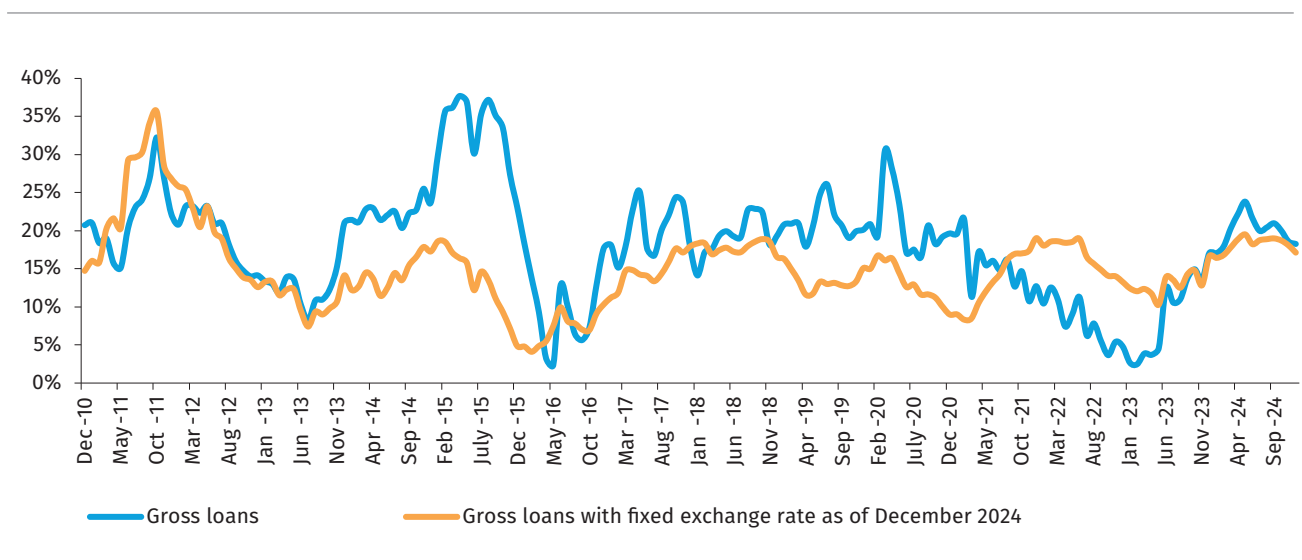
During 2024, both technical and substantive amendments were made to the pertinent decrees concerning the *“Approval of Regulation on the Mandatory Audit of Consolidated Financial Statements of Commercial Banks and Microbanks, as well as the Disclosure of Information in Explanatory*

Notes”. The NBG continued to monitor banks’ compliance with these updated requirements.

4.5 CREDIT RISK

As of 31 December 2024, the total credit portfolio of the banking system reached GEL 62.5 billion and saw annual growth of 17.1%, excluding the effect of the exchange rate (at the rate of the end of 2024)³⁸.

DIAGRAM 4.3 CHANGE IN THE TOTAL LOAN PORTFOLIO COMPARED TO THE PREVIOUS YEAR



Source: NBG

In 2024, the composition of the loan portfolio saw slight changes by segment. Specifically, the corporate segment’s share increased over the year, while the shares of the micro and small and medium segments in the overall portfolio decreased.

Throughout the year, commercial banks reduced their purchases of securities from various corporate clients, but in spite of this reduction, the corporate segment portfolio still experienced growth of 20.3%.

38. The 2024 data in this section do not include information from VTB Bank.

TABLE 4.1 COMPOSITION OF THE LOAN PORTFOLIO (EXCLUDING INTERBANK LOANS) BY SEGMENT, WITHOUT THE EXCHANGE RATE EFFECT (EXCHANGE RATE AS OF END OF 2024)

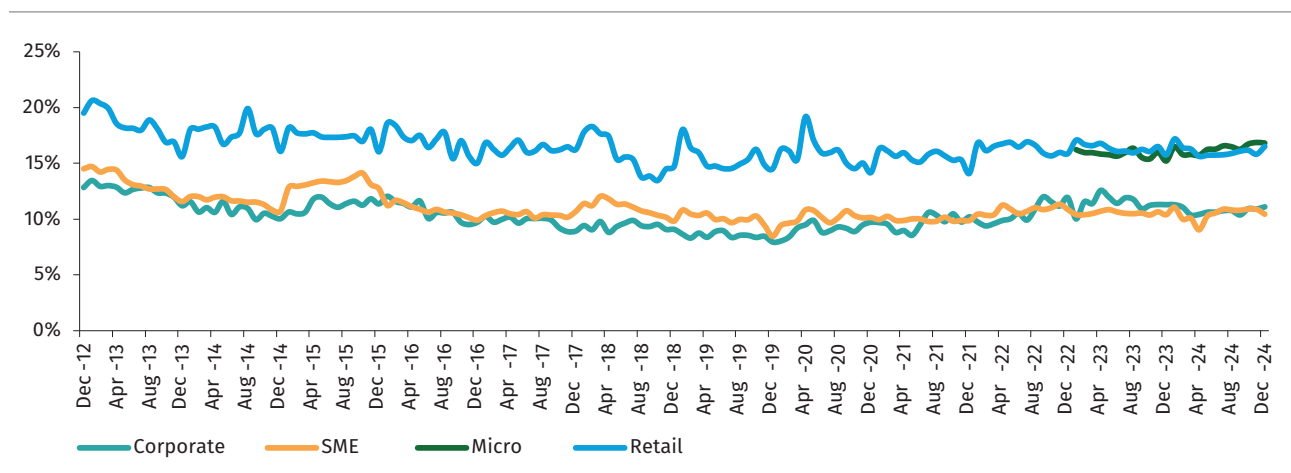
	Dec-23		Dec-24		% change at fixed rate	Change at fixed rate and without reclassification effect %
	Million GEL	% share	Million GEL	% share		
Corporate Segment	18,052	34%	22,130	35%	22.6%	20.7%
SME Segment	8,954	17%	9,943	16%	11.0%	12.3%
Micro Segment	7,163	13%	7,928	13%	10.7%	12.5%
Retail Segment	19,171	36%	22,479	36%	17.3%	17.7%
Total:	53,340	100%	62,480	100%	17.1%	17.1%

Source: NBG

In 2024, foreign currency loans across all segments were issued at higher interest rates compared to 2023. This increase was primarily due to a rise in the currency risk premium on foreign exchange loans

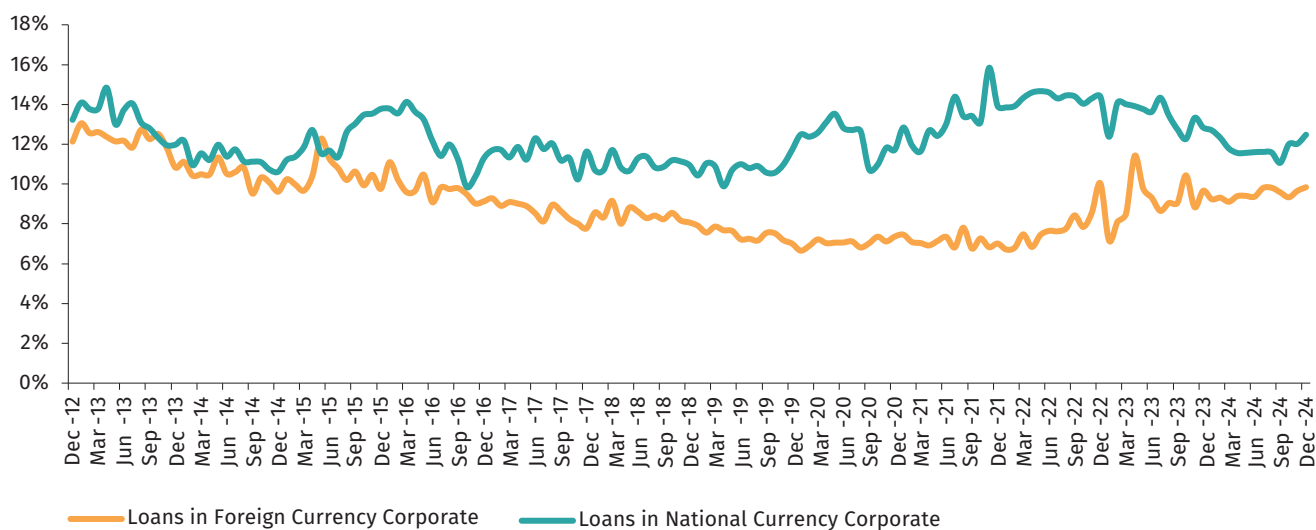
throughout the year. Conversely, interest rates on loans in the national currency decreased compared to the previous year. This reduction was a result of a gradual decline in the NBG refinancing rate in early 2024.

DIAGRAM 4.4 WEIGHTED AVERAGE INTEREST RATES ON LOANS PER SEGMENT



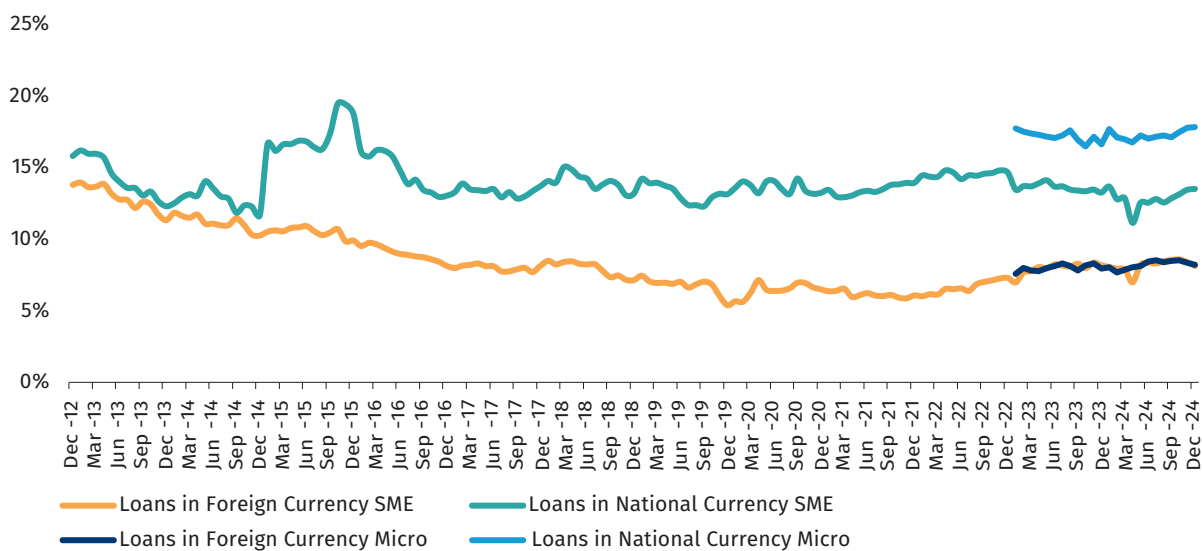
Source: NBG

DIAGRAM 4.5 WEIGHTED AVERAGE INTEREST RATES ON LOANS IN THE CORPORATE SEGMENT



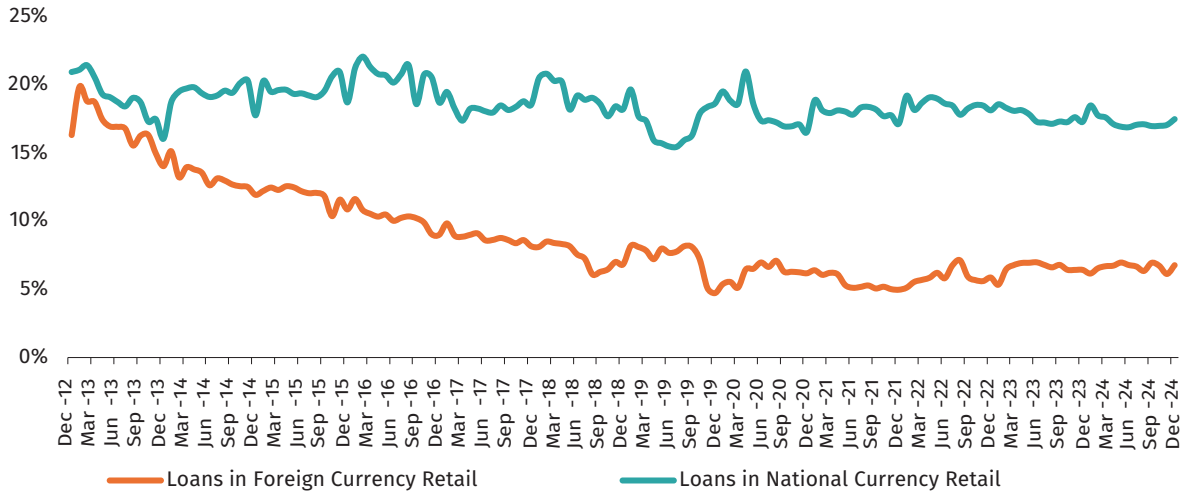
Source: NBG

DIAGRAM 4.6 WEIGHTED AVERAGE INTEREST RATES ON LOANS IN THE MSME SEGMENT



Source: NBG

DIAGRAM 4.7 WEIGHTED AVERAGE INTEREST RATES ON LOANS IN THE RETAIL SEGMENT



Source: NBG

The credit portfolio is diversified in sectoral terms. Notably, as of the end of December 2024, the total share of economically vulnerable sectors – such as real estate development, real estate management, hotels and tourism, restaurants and catering, and car dealerships

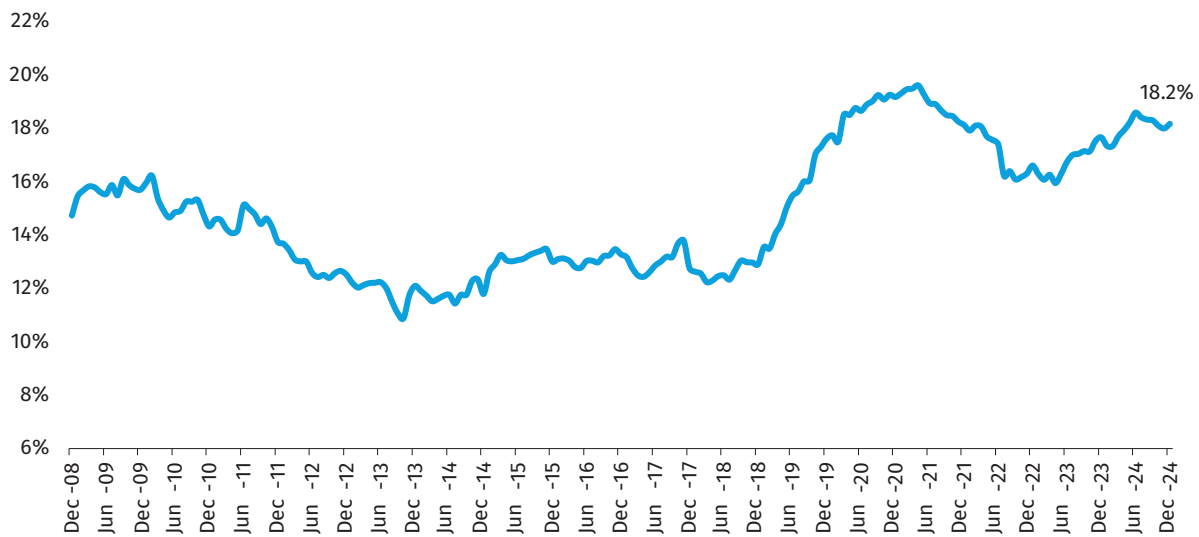
– accounted for 18.2% of the portfolio. This represents an increase of 0.5 PP compared to the same period in December of the previous year, and was primarily driven by the rapid growth of the real estate development sector.

TABLE 4.2 SECTORAL DISTRIBUTION OF THE LOAN PORTFOLIO

Sector (except interbank loans), million GEL	Share in total portfolio	Financial instrument principal	Amortized cost of financial instrument	Expected credit loss	Expected credit loss, %
Government organizations	0.1%	58	58		0.8%
Financial institutions	1.4%	851	856	3	0.3%
Wholesale pawn shop	0.3%	217	218	1	0.5%
Real estate development	6.4%	4,007	4,039	43	1.1%
Real estate management	5.3%	3,317	3,365	31	0.9%
Construction companies (not developers)	1.6%	999	1,018	21	2.0%
procurement, production and trade in construction materials	3.4%	2,097	2,120	24	1.1%
Trade in consumer goods	3.9%	2,449	2,463	19	0.8%
Production of consumer goods	2.9%	1,805	1,829	82	4.5%
Production and trade of durable consumer goods	1.1%	667	671	6	0.9%
Production and trade of footwear, clothing and textiles	1.0%	649	656	6	1.0%
Trade (other)	3.4%	2,122	2,149	44	2.0%
Manufacturing (other)	1.5%	919	928	17	1.8%
Hotels and tourism	4.7%	2,906	2,948	29	1.0%
Restaurants, bars, cafes and fast food establishments	1.4%	852	863	11	1.3%
Heavy industry	1.5%	953	965	23	2.4%
Petrol stations and petrol importers	1.0%	617	621	6	0.9%
Energy	4.1%	2,559	2,587	6	0.2%
Car dealers	0.4%	267	270	1	0.4%
Healthcare	2.1%	1,322	1,333	27	2.0%
Pharmaceuticals	0.3%	178	178	1	0.5%
Telecommunications	0.5%	308	328	19	5.7%
Services	5.7%	3,544	3,575	51	1.4%
Agriculture	5.0%	3,123	3,211	90	2.8%
Other	0.5%	330	342	7	1.9%
Retail products	40.6%	25,363	25,653	485	1.9%
Transportation loans	0.3%	207	209	4	2.0%
Consumer loans	18.9%	11,823	11,866	361	3.0%
Pay Day Loans	0.0%	0	0	.0	18.7%
Instant installments	0.8%	530	533	18	3.4%
Overdrafts	0.1%	73	76	16	21.2%
Credit cards	0.8%	471	481	24	4.9%
Mortgages – purchase of complete real estate	14.7%	9,156	9,333	50	0.5%
Mortgages – construction, purchase of real estate under construction	2.9%	1,796	1,827	4	0.2%
Mortgages – for repairs of real estate	1.5%	952	967	5	0.6%
Retail pawn shop loans	0.6%	347	352	2	0.5%
Student loans	0.0%	8	8	.1	1.7%
Loan portfolio	100.0%	62,480	63,243	1,051	1.7%

Source: NBG

DIAGRAM 4.8 SHARE OF ECONOMICALLY VULNERABLE SECTORS IN THE TOTAL LOAN PORTFOLIO



Source: NBG

In 2024, the growth rate of retail products saw a decline compared to the previous year. While there was growth across most products, payday loans were an exception and showed no increase. Considering the fixed exchange

rate, the primary driver behind the growth of retail products was the rise in mortgages and consumer loans, with the latter experiencing more significant growth than the former.

TABLE 4.3 GROWTH IN RETAIL PRODUCTS, EXCLUDING THE EXCHANGE RATE EFFECT (EXCHANGE RATE AS OF END OF 2024)

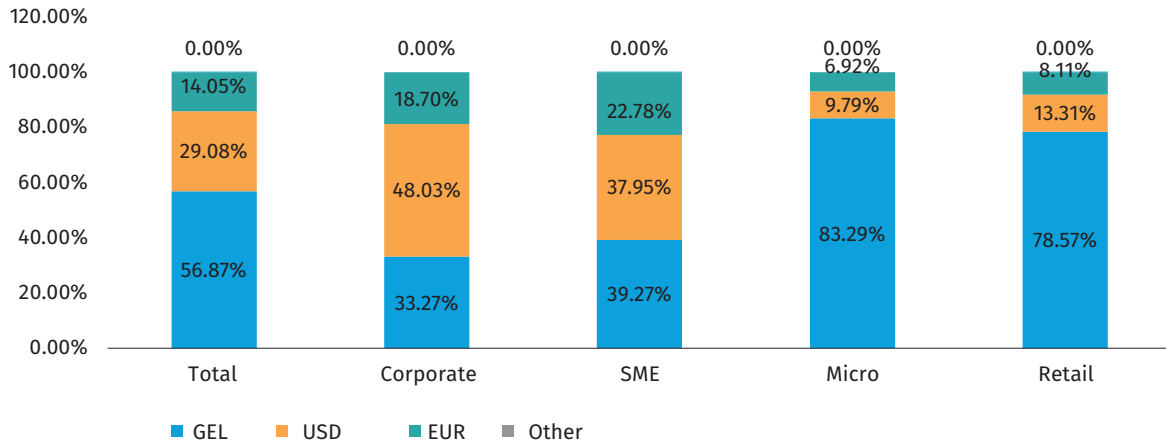
Product	Dec-23		Dec-24		Change % at fixed rate	Change million GEL	Change, % at fixed rate and reclassification
	Million GEL	Share, %	Million GEL	Share, %			
Retail Products	21,864	100%	25,363	100%	16.0%	3,499	16.0%
Transport Loans	186	0.8%	207	0.8%	11.4%	21	11.4%
Consumer Loans	9,538	43.6%	11,823	46.6%	24.0%	2,284	24.0%
Payday Loans	1	0.0%	0	0.0%	-82.9%	-1	-82.9%
Instant Installment	432	2.0%	530	2.1%	22.9%	99	22.9%
Overdrafts	70	0.3%	73	0.3%	3.8%	3	3.8%
Credit Cards	452	2.1%	471	1.9%	4.1%	19	4.1%
Mortgages – purchase of complete real estate	8,395	38.4%	9,156	36.1%	9.1%	761	9.1%
Mortgages – construction, purchase of real estate under construction	1,590	7.3%	1,796	7.1%	13.0%	206	13.0%
Mortgages – real estate for renovation	878	4.0%	952	3.8%	8.5%	74	8.5%
Retail Pawnshop Loans	317	1.5%	347	1.4%	9.5%	30	9.5%
Student Loans	6	0.0%	8	0.0%	33.5%	2	33.5%

Source: NBG

Compared to the previous year, the structure of the retail product portfolio changed slightly, being marked by an increase in the share of consumer loans and a decrease in the share of mortgage loans, specifically those for the

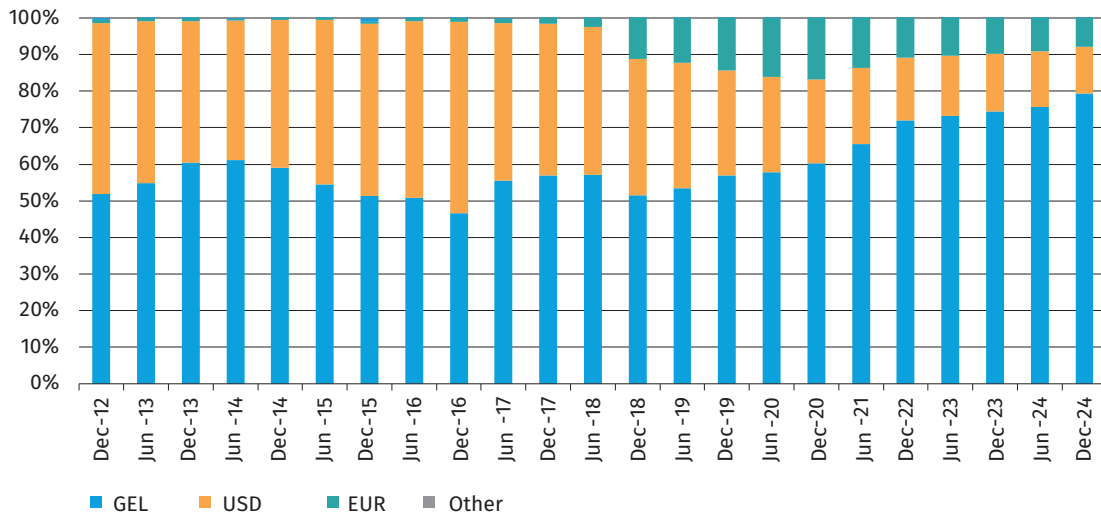
purchase of completed real estate. The decline in the share of mortgage loans can primarily be attributed to the faster growth rate of consumer lending.

DIAGRAM 4.9 SEGMENT BALANCES BY CURRENCY AT THE END OF 2024 (EXCEPT INTERBANK LOANS)



Source: NBG

DIAGRAM 4.10 COMPOSITION OF THE RETAIL PORTFOLIO BY CURRENCY



Source: NBG

By the end of 2024, there was a slight annual improvement in non-performing loans and expected credit losses on the portfolio. This improvement can be attributed to both the enhanced quality of the portfolio and the effect of portfolio growth. It is important to note

that following the transition to IFRS provisioning, banks are now required to maintain an additional CRA buffer on capital. This buffer is necessary to offset the impact of a one-time improvement in portfolio quality.

TABLE 4.4 CLASSIFICATION OF THE LOAN PORTFOLIO BY QUALITY

Category (except interbank loans)	Principal, million GEL	Amortized cost, million GEL	Share	Expected credit loss, %
Credit risk stage 1	58,006	58,549	92.8%	0.5%
Credit risk stage 2	2,918	2,990	4.7%	5.5%
<i>Non-performing loans</i>	1,556	1,704	2.5%	36.4%
Credit risk stage 3	1,447	1,589	2.3%	37.1%
POCI	109	115	0.2%	25.3%
Total:	62,480	63,243	100.0%	1.7%

Source: NBG

TABLE 4.5 PORTFOLIO QUALITY BY SEGMENT, DECEMBER 2024

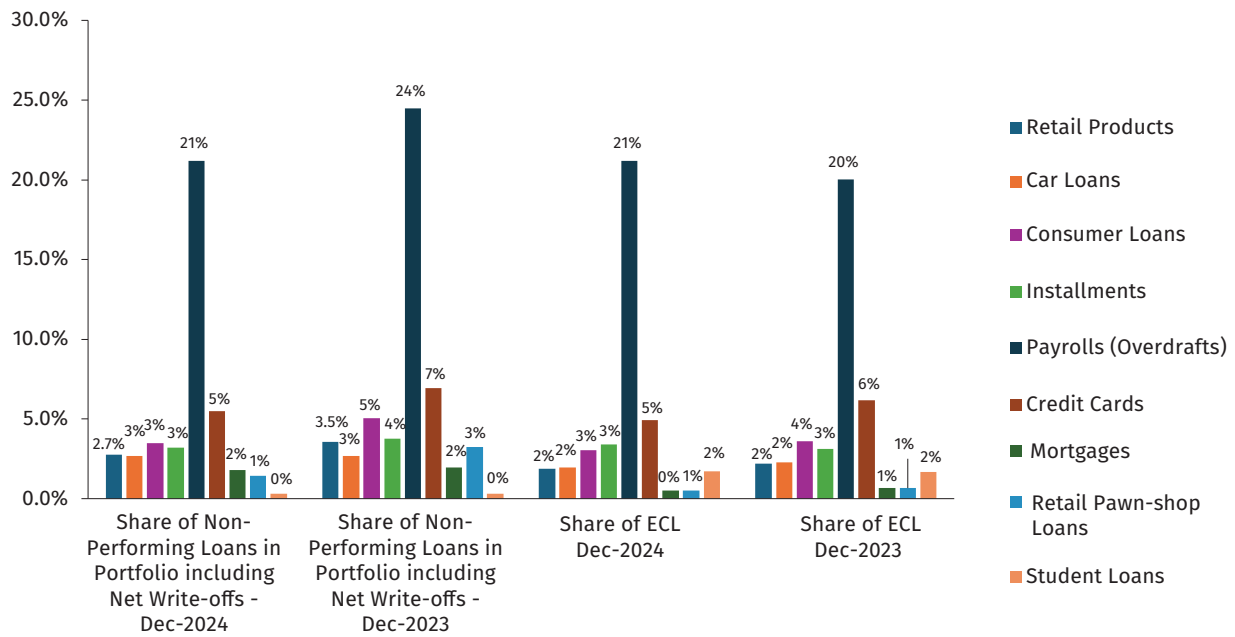
Segment	NPL	ECL, %
Corporate	1.86%	1.11%
Small and medium	5.19%	1.83%
Micro	2.20%	2.37%
Retail	2.03%	1.88%

Source: NBG

In terms of the quality of the retail credit portfolio, there has been a decrease in the share of non-performing loans within the total portfolio. For mortgage loans, this improvement can be attributed to the growth of the portfolio, while for consumer loans, it is due to both portfolio growth and a reduction in the volume of non-

performing loans. Additionally, the percentage share of expected credit losses in the portfolio has decreased for all retail products, with the exception of overdrafts, instant installments, and student loans. This trend takes into account the effects of portfolio write-offs and growth.

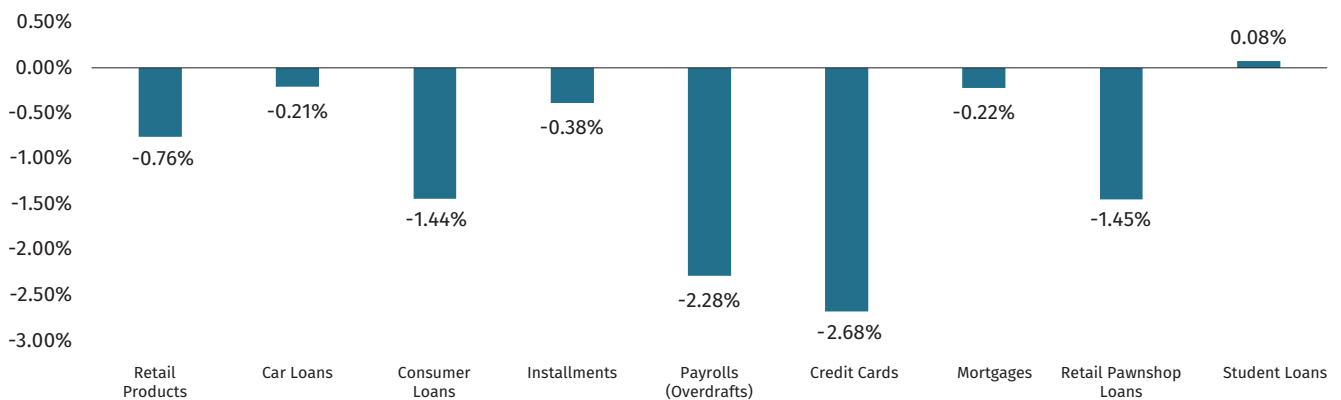
DIAGRAM 4.11 QUALITY OF THE RETAIL PORTFOLIO AND SHARE OF PROVISIONING BY PRODUCT



Source: NBG

In 2024, the cost of credit risk for the retail product portfolio saw a reduction compared to 2023. This decrease was primarily driven by a decline in net write-offs and overall portfolio growth.

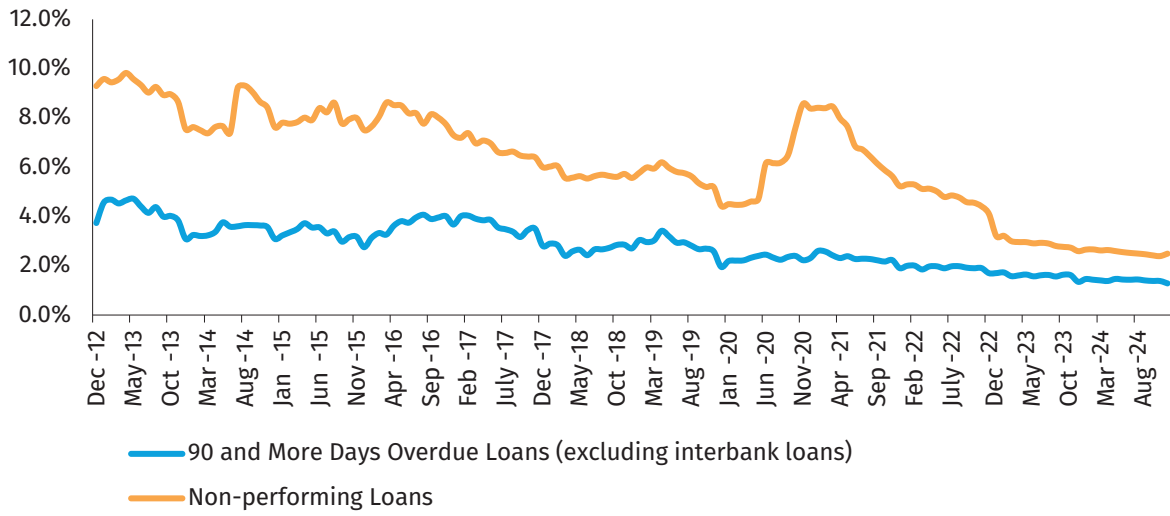
DIAGRAM 4.12 CHANGE IN THE COST OF CREDIT RISK³⁹ (DEC. 2023 - DEC. 2024)



Source: NBG

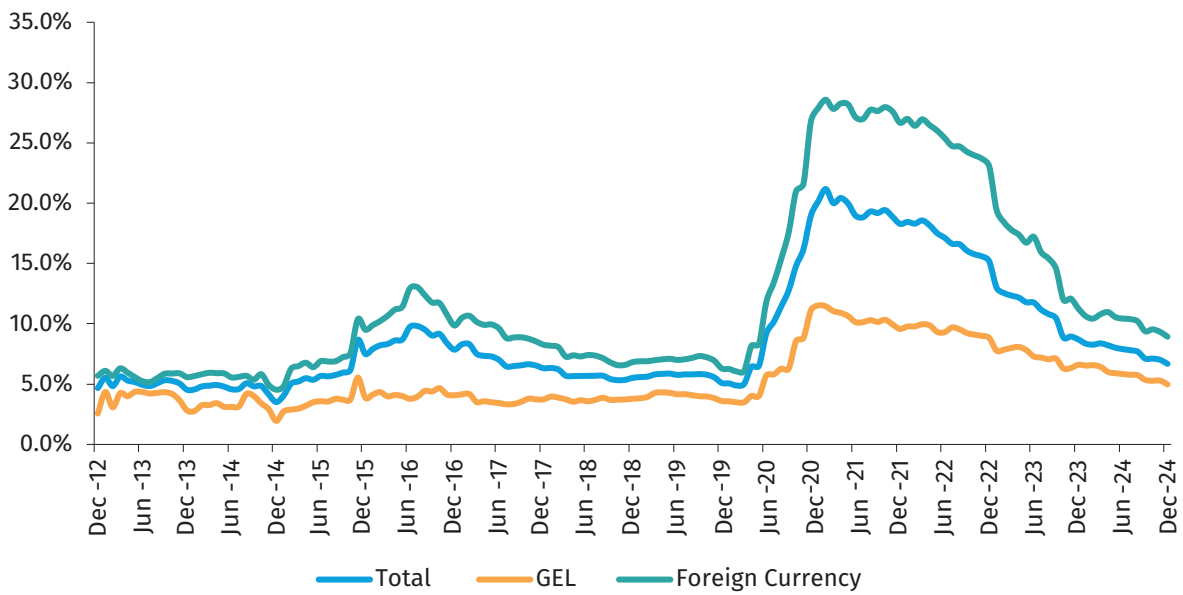
39. The ratio of reserves and net write-offs to the portfolio and total net write-offs.

DIAGRAM 4.13 CREDIT PORTFOLIO BY QUALITY INDICATORS (EXCEPT INTERBANK LOANS)



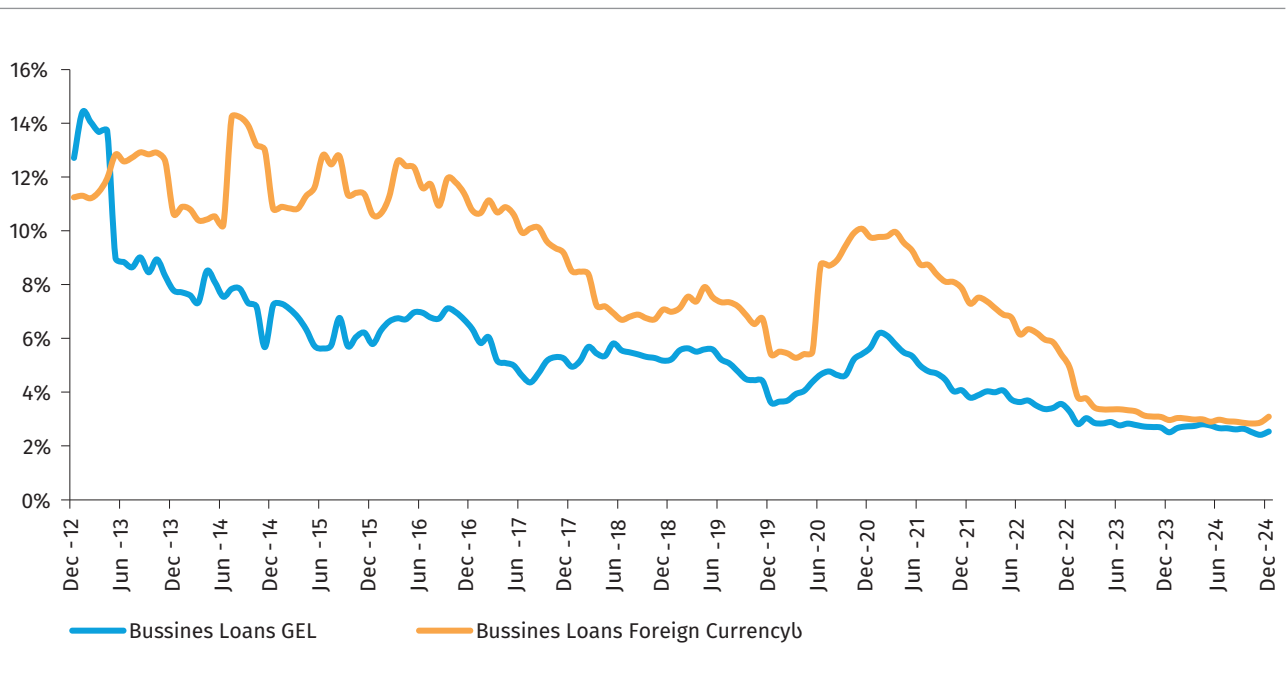
Source: NBG

DIAGRAM 4.14 SHARE OF RESTRUCTURED LOANS BY CURRENCY IN THE TOTAL LOAN PORTFOLIO



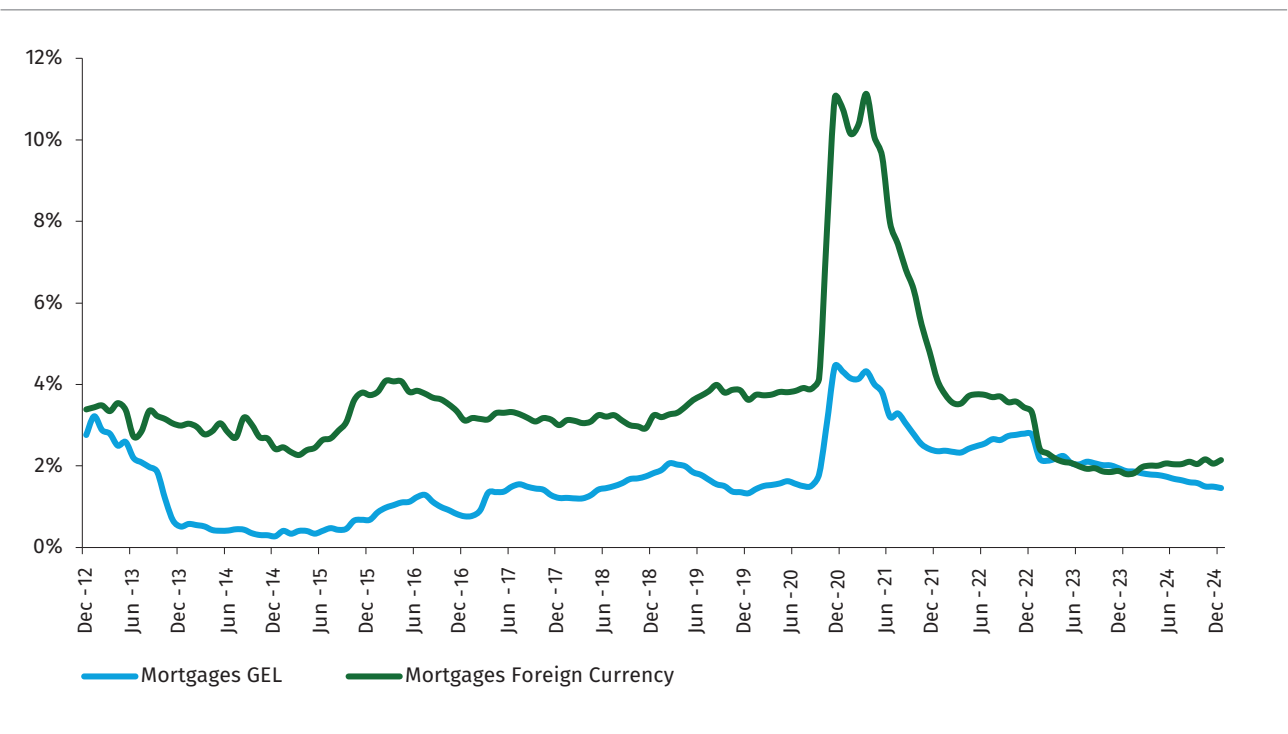
Source: NBG

DIAGRAM 4.15 SHARE OF NON-PERFORMING LOANS BY CURRENCY IN BUSINESS LOANS



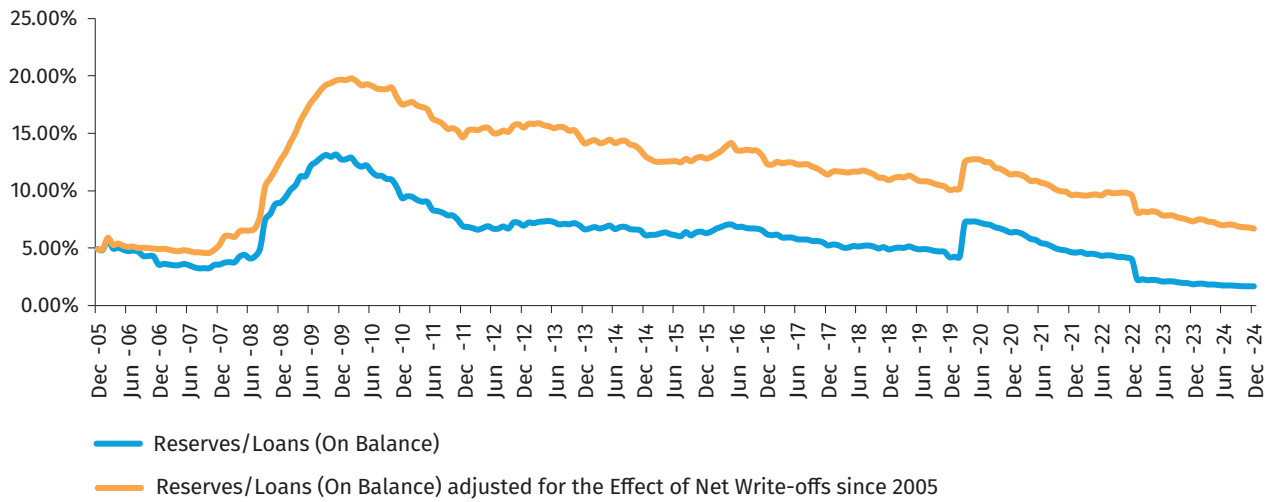
Source: NBG

DIAGRAM 4.16 SHARE OF NON-PERFORMING LOANS BY CURRENCY IN MORTGAGE LOANS



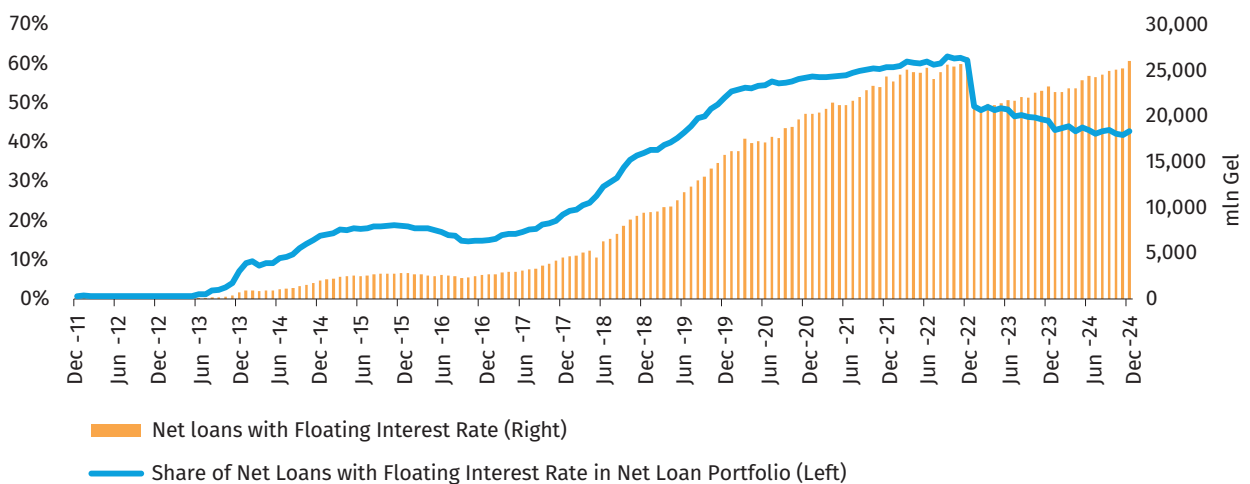
Source: NBG

DIAGRAM 4.17 LOAN LOSS RESERVES TO THE TOTAL PORTFOLIO⁴⁰



Source: NBG

DIAGRAM 4.18 VOLUME AND RATIO OF VARIABLE INTEREST RATE LOANS (TO NET LOANS)⁴¹



Source: NBG

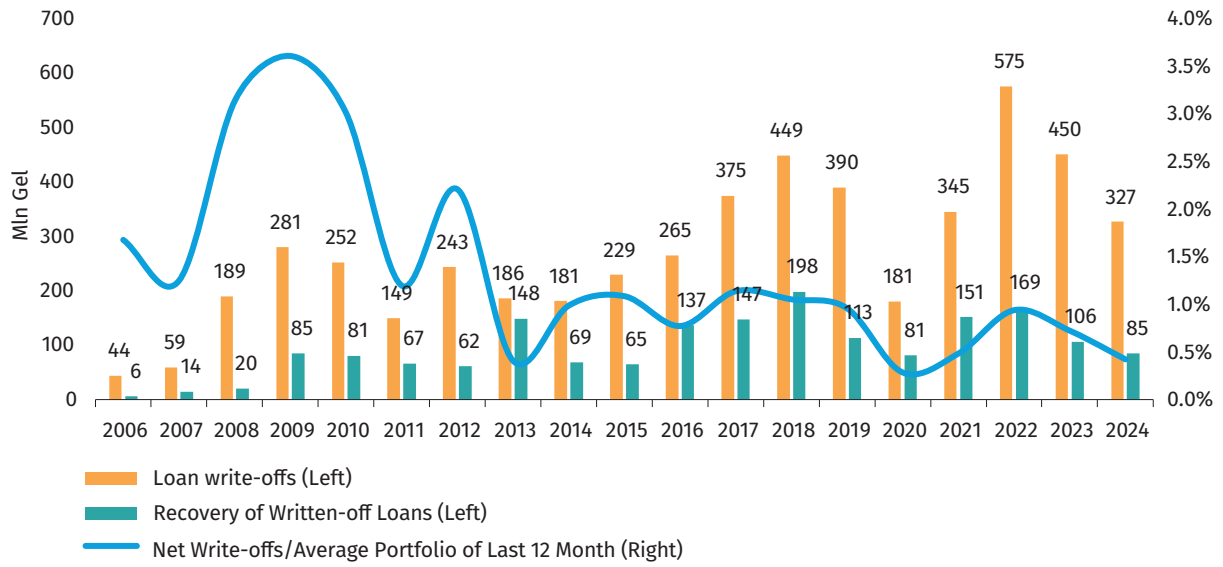
In 2024, the volume of net loan write-offs decreased by 29.8% compared to the same period in 2023. A decrease was recorded in both written-off assets and in

the recoveries of written-off assets, although the latter decreased less than asset write-offs.

40. Including general reserves.

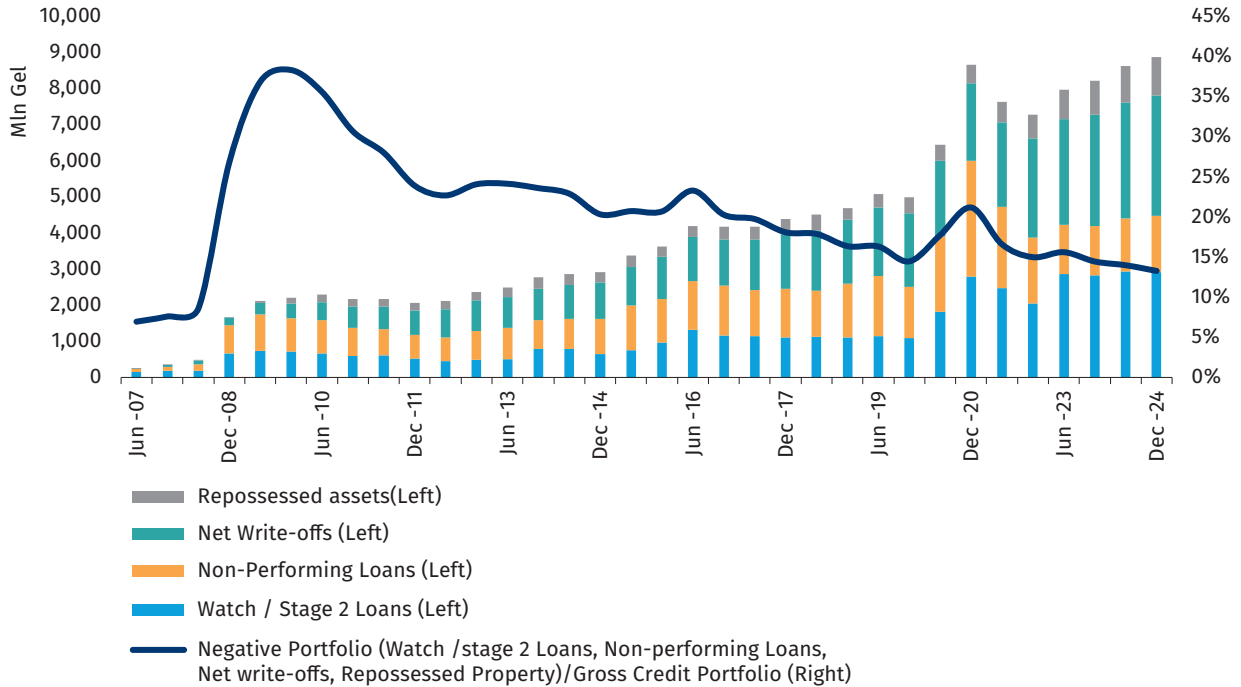
41. Net loans, meaning loan volume after deducting provisions for possible losses.

DIAGRAM 4.19 WRITE-OFFS AND RECOVERIES OF LOANS



Source: NBG

DIAGRAM 4.20 PROBLEM ASSETS

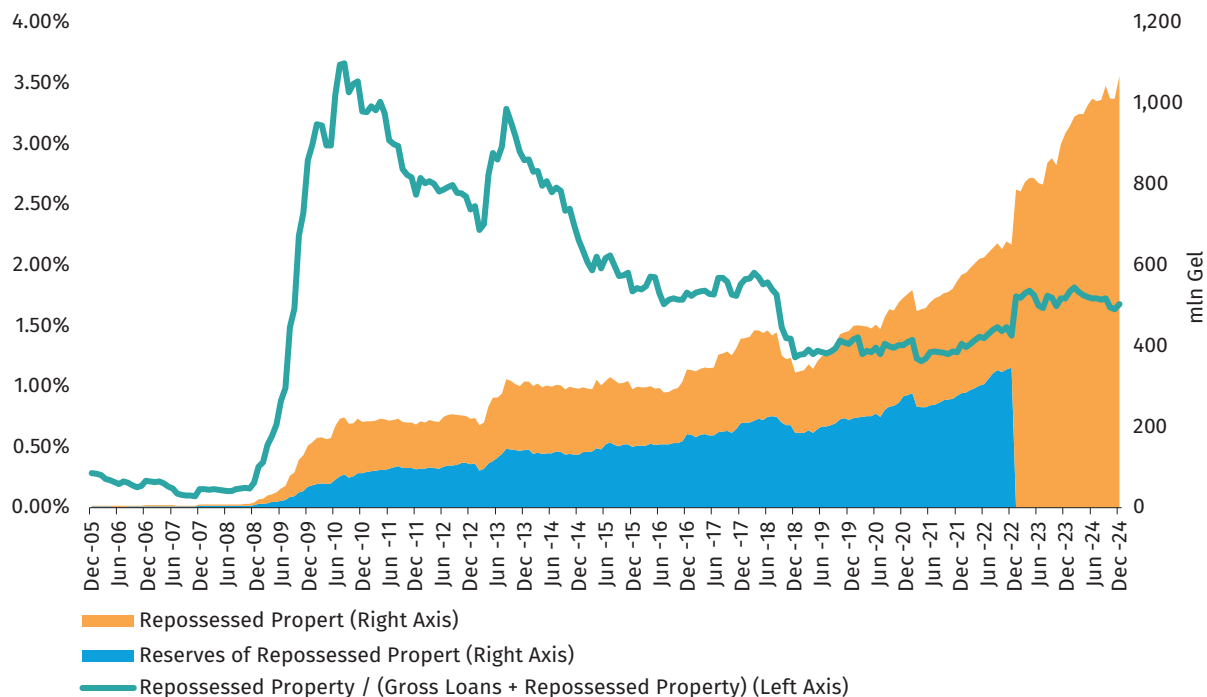


Source: NBG

In 2024, compared to 2023, the share of repossessed property in total investments (repossessed property plus

loans) decreased slightly, which in turn was due to the faster growth of loans relative to repossessed property.

DIAGRAM 4.21 REPOSSESSED ASSETS



Source: NBG

The development of the “Regulation on Determining the Risk Categories of Financial Instruments and Expected Credit Losses” has led to methodological changes being made to the supervisory stress test. The previous three-stage stress approach has been replaced with a two-stage system. In the updated system, the level of credit risk on borrowers is directly compared to the consequences of stress, resulting in the final stress effect. A significant change in the updated methodology is the calculation of the stress effect of a decrease in the turnover of a sector. Unlike the old approach, which considered

only one scenario, the updated methodology weighs three different scenarios: light, baseline, and severe. This change enables a more realistic assessment of a borrower’s resilience to stress, making the sectoral stress test more complex and allowing for a more in-depth analysis. Additionally, certain technical aspects of the stress test methodology have been improved based on the experience of previous years. Stress tests using the revised methodology will be conducted in 2025, using banks’ financial statements as of 31 December 2024.

TABLE 4.6 REDUCTION IN SECTORAL TURNOVER

Risk Sector	Reduction in Turnover		
	Baseline Scenario	Light Scenario	Severe Scenario
Government agencies	5.0%	2.5%	10.0%
Financial institutions	10.0%	5.0%	20.0%
Pawn shop loans (gold price reduction stress)	20.0%	15.0%	25.0%
Real estate development	40.0%	20.0%	60.0%
Real estate management	30.0%	20.0%	40.0%
Construction companies (not developers)	25.0%	15.0%	35.0%
Procurement, production and trade of construction materials	25.0%	15.0%	35.0%
Trade of consumer goods	5.0%	2.5%	10.0%
Manufacturing of consumer goods	5.0%	2.5%	10.0%
Manufacturing and trade of consumer durables	35.0%	25.0%	45.0%
Manufacturing and trade of footwear, clothing and textiles	5.0%	2.5%	10.0%
Trade (other)	5.0%	2.5%	10.0%
Manufacturing (other)	10.0%	5.0%	20.0%
Hotels and tourism	30.0%	20.0%	40.0%
Restaurants, bars, cafes and fast food outlets	15.0%	7.5%	30.0%
Heavy industry	5.0%	2.5%	10.0%
Loans granted to gas stations and gasoline imports	5.0%	2.5%	10.0%
Energy	5.0%	2.5%	10.0%
Car dealers	35.0%	25.0%	45.0%
Healthcare	5.0%	2.5%	10.0%
Pharmaceuticals	5.0%	2.5%	10.0%
Telecommunications	5.0%	2.5%	10.0%
Services	5.0%	2.5%	10.0%
Agricultural sector	5.0%	2.5%	10.0%
Other (including real estate business)	5.0%	2.5%	10.0%

Source: NBG

4.6 MARKET RISK

4.6.1 FOREIGN EXCHANGE RISK

Throughout 2024, the Georgian lari experienced average annual depreciation against both the dollar and the euro compared to the previous year. This depreciation was primarily attributed to short-term factors. Despite the depreciation, banks maintained stable foreign exchange positions and adhered to the 20% limit for the total cumulative position of all currencies, as set by the National Bank of Georgia.

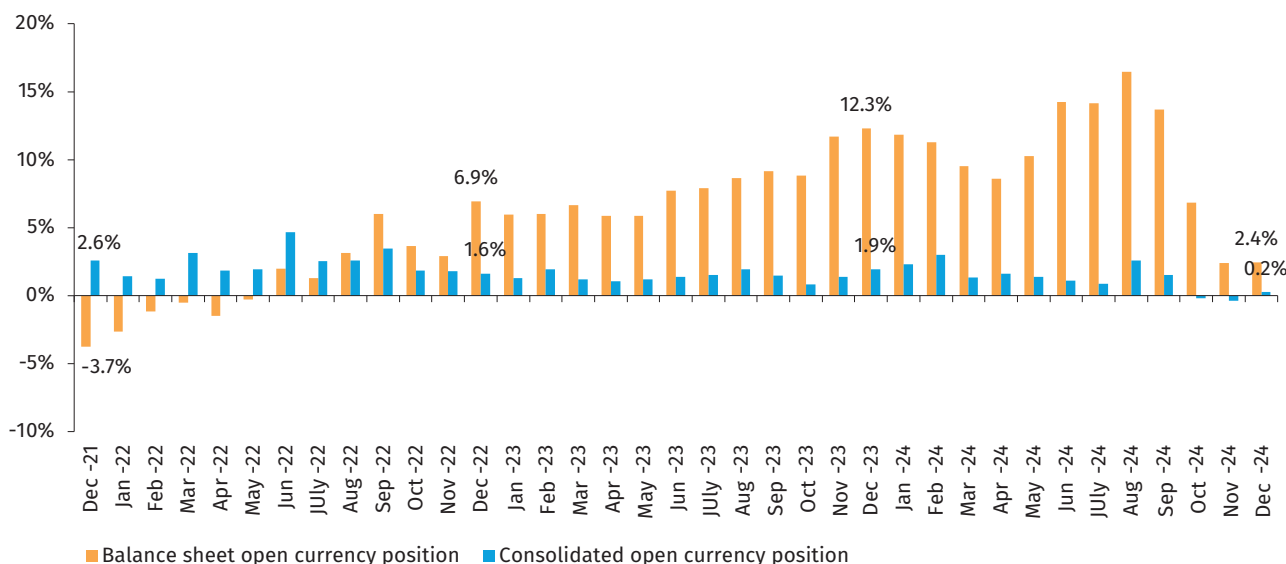
By the end of 2024, the ratio of the total cumulative foreign exchange position to regulatory capital stood at 0.2%.

In 2024, the proportion of assets and liabilities denominated in foreign currency within the Georgian banking system remained relatively stable compared to the previous year, accounting for 45% and 52%, respectively. Consequently, currency risk continues to be a significant factor for Georgian banks. Starting from July 2023, to better enhance approaches to reflecting the reserve of foreign currency assets in the open currency position, the

banking sector began recording their currency positions in accordance with International Financial Reporting Standards (IFRS). This approach involves

the full deduction of reserves for potential losses on foreign currency assets.

DIAGRAM 4.22 BALANCE SHEET AND CONSOLIDATED OPEN CURRENCY POSITIONS OF COMMERCIAL BANKS TO REGULATORY CAPITAL



IFRS accounting data are available from July 2023.

Source: NBG

4.6.2 INTEREST RATE RISK

In 2024, the refinancing rate was reduced by 1.0 percentage point and the international rates of the US dollar and the euro continued to decrease throughout the year. These fluctuations in interest rates once again highlight the importance of regular monitoring and adequate assessment of interest rate risk in banks.

Banks operating in Georgia have almost no securities intended for trading. However, those banks that do maintain a trading book⁴² are required to develop appropriate procedures and report to the NBG. If subsequent monitoring identifies the

potential for a significant increase in the portfolio, the regulations on trading book risk management will be implemented.

At present, the regulations and approaches for managing interest rate risk in the banking book are applied to the entire balance sheet. The framework for interest rate risk management in the banking book aims to identify, assess, manage, and maintain limits related to interest rate risk arising in the banking book. Interest rate risk refers to a bank's sensitivity to changes in interest rates. It involves the current or future risk to a bank's capital and earnings due to changes in interest rates, affecting its banking

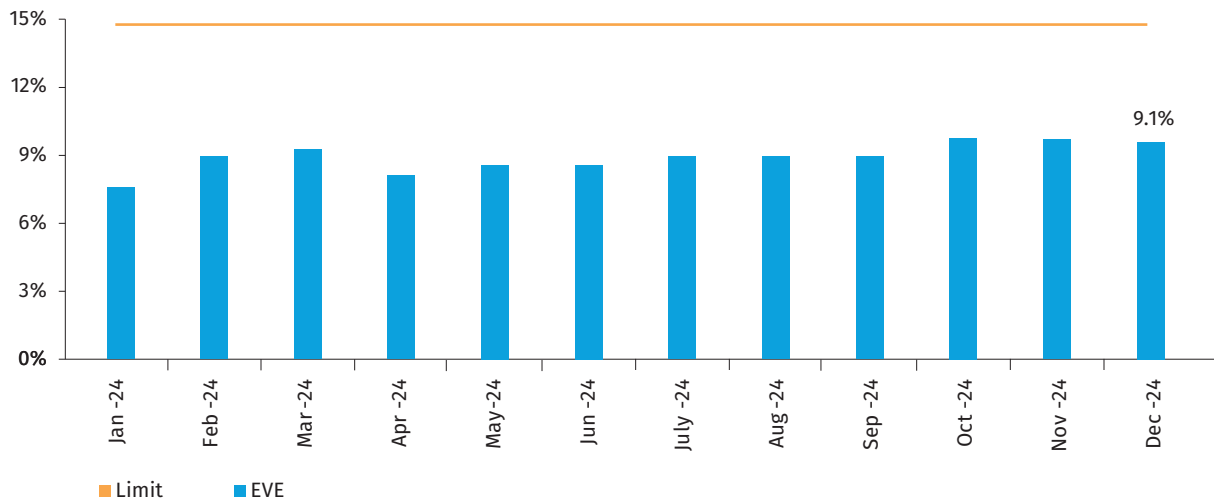
42. The trading book includes the financial instruments that a commercial bank owns

- a) for selling in the short term
- b) due to an expected change in the price, with the expectation of the profit obtained by revaluation
- c) to generate revenues through arbitration
- d) for insuring the risk positions of instruments purchased for the purposes of "a"- "c" above.

book position. Changes in interest rates alter the net present value and residual maturities of future cash flows, impacting the corresponding assets, liabilities, off-balance sheet items, and their economic value (EVE). Changes in interest rates also affect a bank's net interest income (NII), which results from changes in income and expenses sensitive to interest rate

risk. Managing this risk significantly impacts a bank's profitability and capital. As of December 2024, based on the current interest rate risk approach, the ratio of the system's economic value (EVE) and net interest income (NII) changes to Tier 1 capital are 9.1% and 1.7% respectively. The current figures for 2024 remain well below the maximum supervisory limit.

DIAGRAM 4.23 CHANGE IN EVE TO TIER 1 CAPITAL



Source: NBG

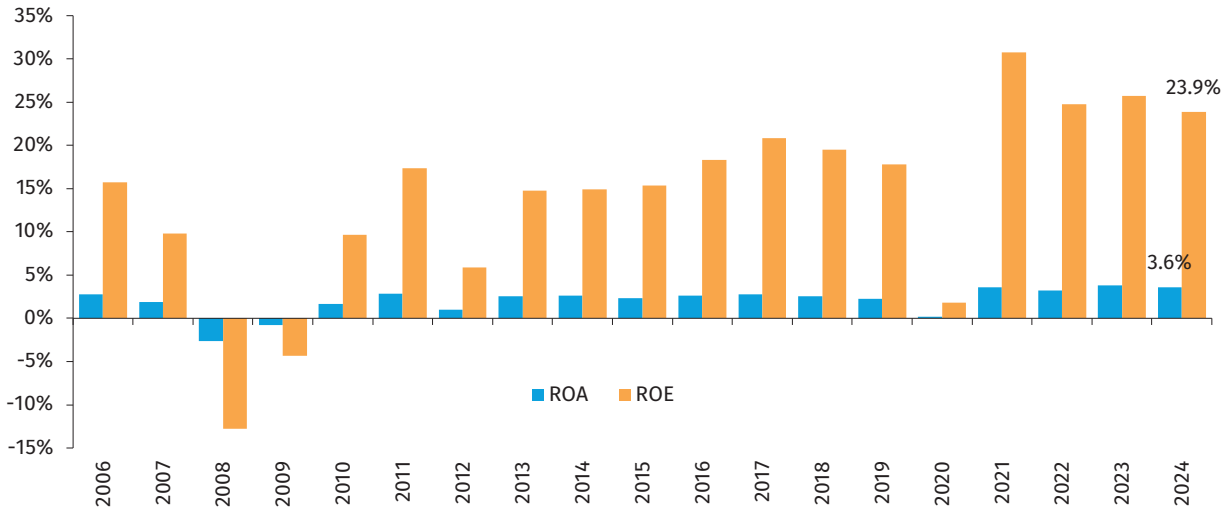
4.7 PROFITABILITY RISK

In 2024, the returns on average assets and equity⁴³ were 3.6% and 23.9%, respectively. For comparison, these figures in 2023 stood at 3.8% and 25.7%. The

results for 2023 reflect the use of NBG accounting standards for the first half of the year and IFRS accounting for the second half. In 2024, the banking system's indicators have shown stability and are in line with the return on equity levels that shareholders find acceptable.

43. ROE is net profit relative to the average share capital of the year. ROA is net profit relative to the average assets of the year. In these calculations, the NBG's net income is calculated as the sum of net interest income and net non-interest income less the amount of allowance for possible losses on loans and other financial assets, after allowance for contingencies and taxes. IFRS net income is calculated as the sum of net interest income (expense) and net non-interest income (expense) less expected losses and impairments, after income taxes.

DIAGRAM 4.24 RETURN ON EQUITY AND ASSETS

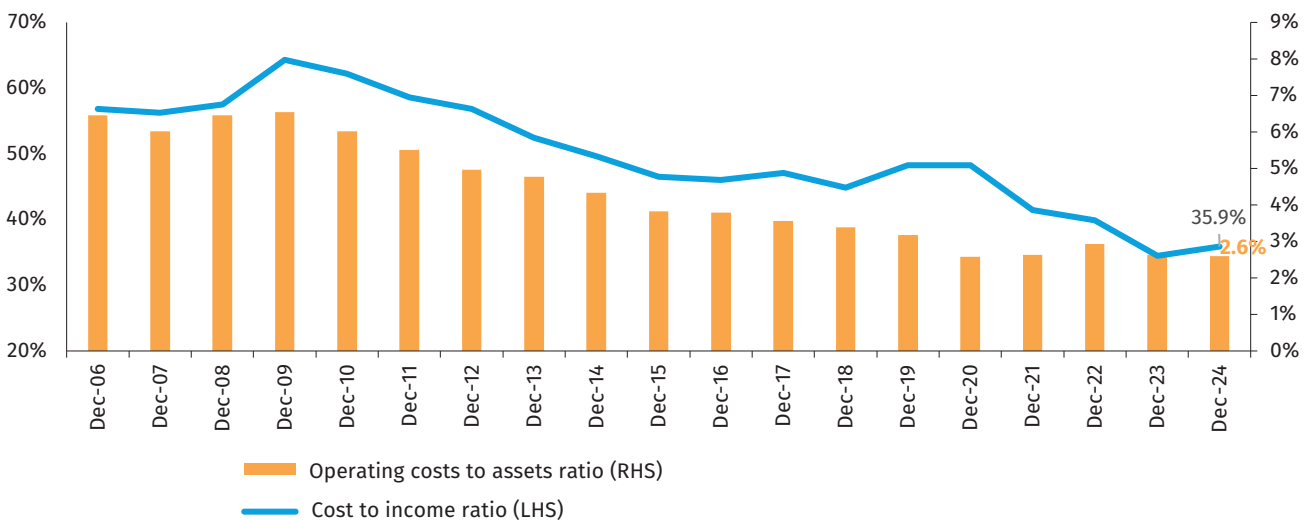


Data from July 2023 are provided based on IFRS.
Source: NBG

In 2024, several key factors influenced the profitability of the banking system. Notably, there was a significant increase in credit activity throughout the year, leading to a 12% rise in net interest income.

However, non-interest expenses also saw an 18% increase, causing the cost-to-income ratio to rise from 34.5% to 35.9%. Despite these changes, the cost-to-asset ratio has remained steady at 2.6%.

DIAGRAM 4.25 COSTS TO INCOME AND ASSETS



IFRS data are provided from December 2023.
Source: NBG

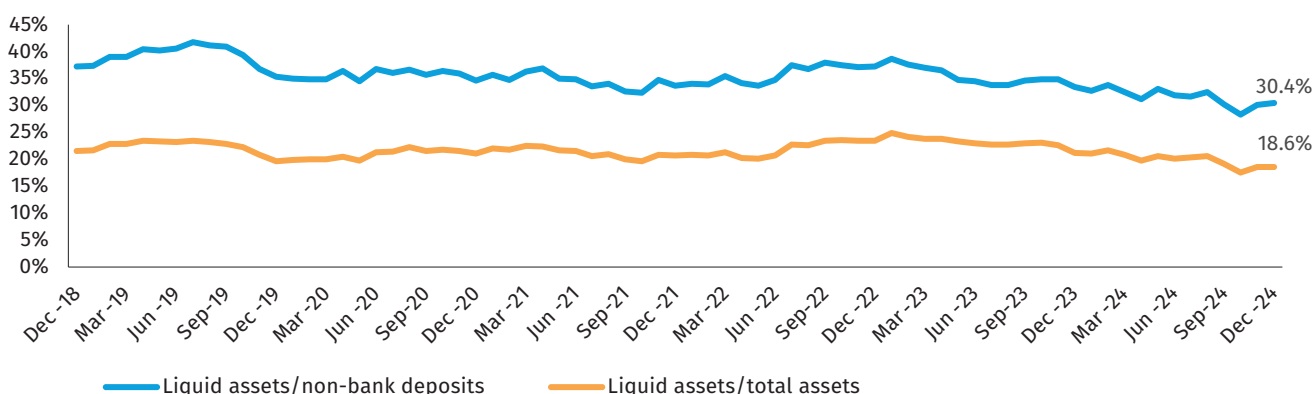
The National Bank of Georgia is actively reviewing banks' profitability forecasts, analyzing the business models and strategies of individual institutions, and evaluating appropriate measures to mitigate profitability risks. Particular attention is given to factors such as economies of scale, market niches or other competitive advantages, and anticipated credit losses. Additionally, the monitoring of banks' product pricing is ongoing.

4.8 LIQUIDITY RISK

4.8.1 LIQUID ASSET STRUCTURE

Throughout 2024, there was a reduction in the volume of liquid assets relative to total assets. Consequently, liquid assets now constitute 19% of total assets, which is sufficient to cover 30.4% of non-bank deposits.

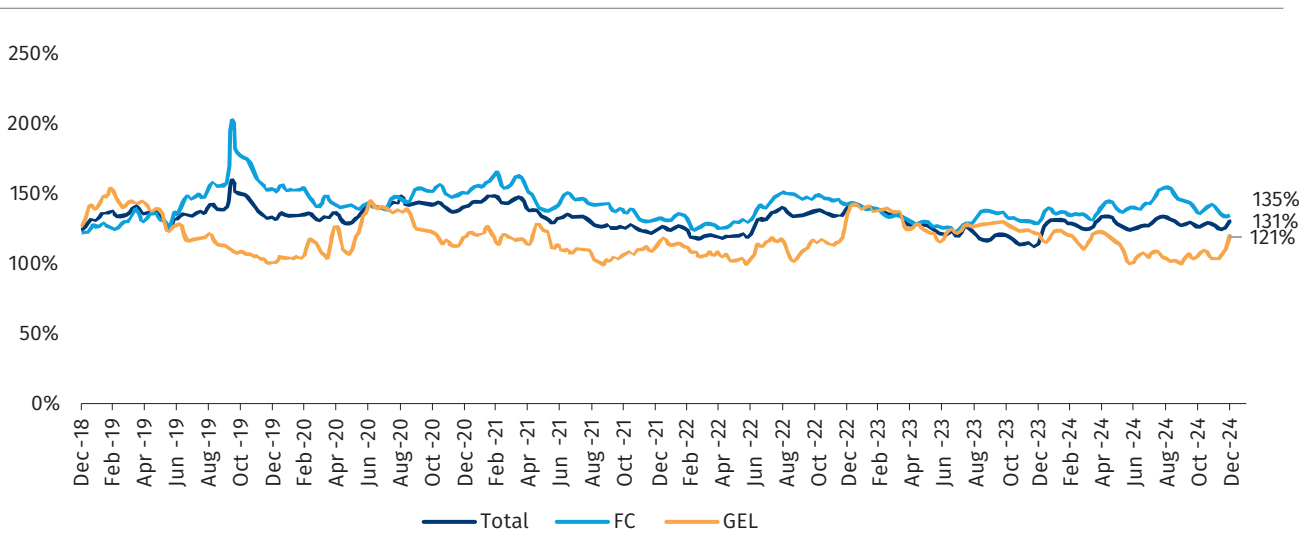
DIAGRAM 4.26 LEVEL OF LIQUID ASSETS



Source: NBG

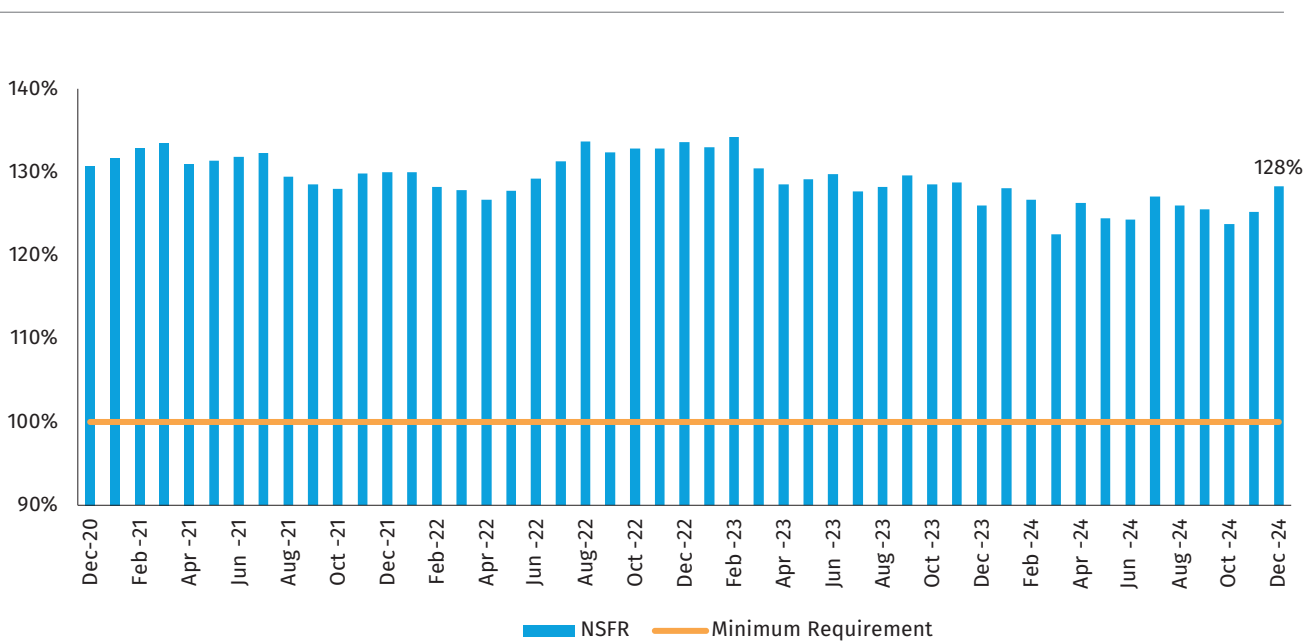
Both the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) remained high throughout 2024, reaching 128% at the end of the year.

DIAGRAM 4.27 LCR DYNAMICS (10-DAY FLOATING AVERAGE)



Source: NBG

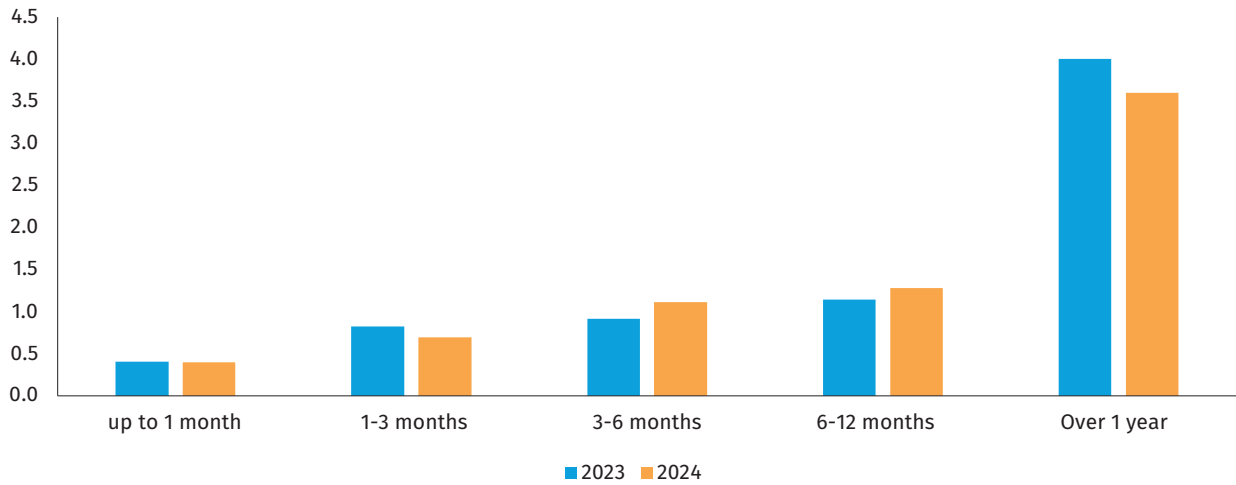
DIAGRAM 4.28 NET STABLE FUNDING RATIO



Source: NBG

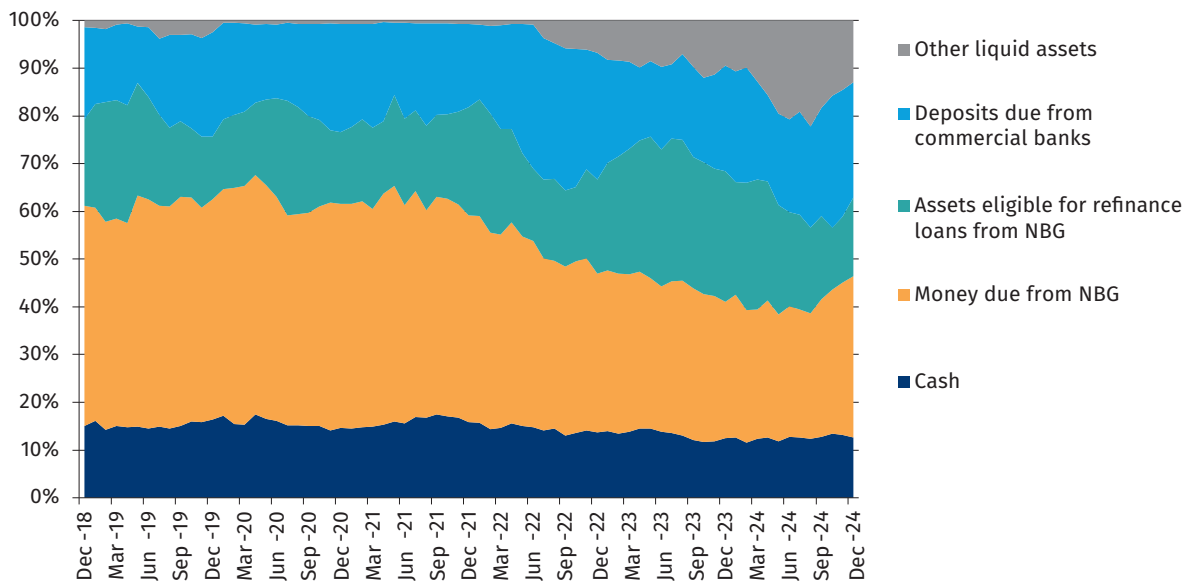
During 2024, the structure of the liquid asset gap remained stable in both the up-to-1-year and over-1-year time baskets.

DIAGRAM 4.29 LIQUIDITY GAP – ASSETS TO LIABILITIES



Source: NBG

DIAGRAM 4.30 VOLUME AND STRUCTURE OF LIQUID ASSETS



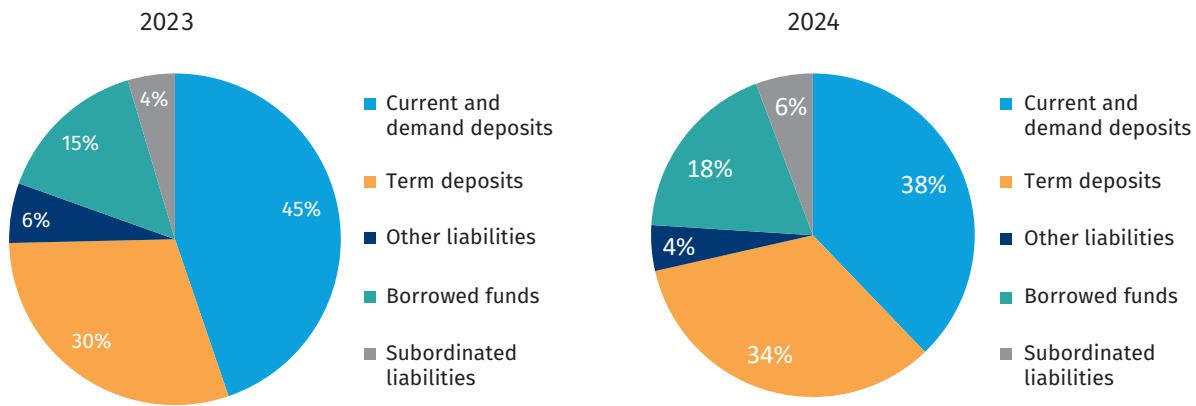
Source: NBG

4.8.2 LIABILITY STRUCTURE

The liability structure remains stable. Compared to 2023, the share of current and demand accounts has decreased, while the share of borrowed funds, term

deposits and subordinated liabilities has increased. Banks maintain a fairly comfortable level of liquid assets that correspond to the risks of the liability structure.

DIAGRAM 4.31 LIABILITY STRUCTURE



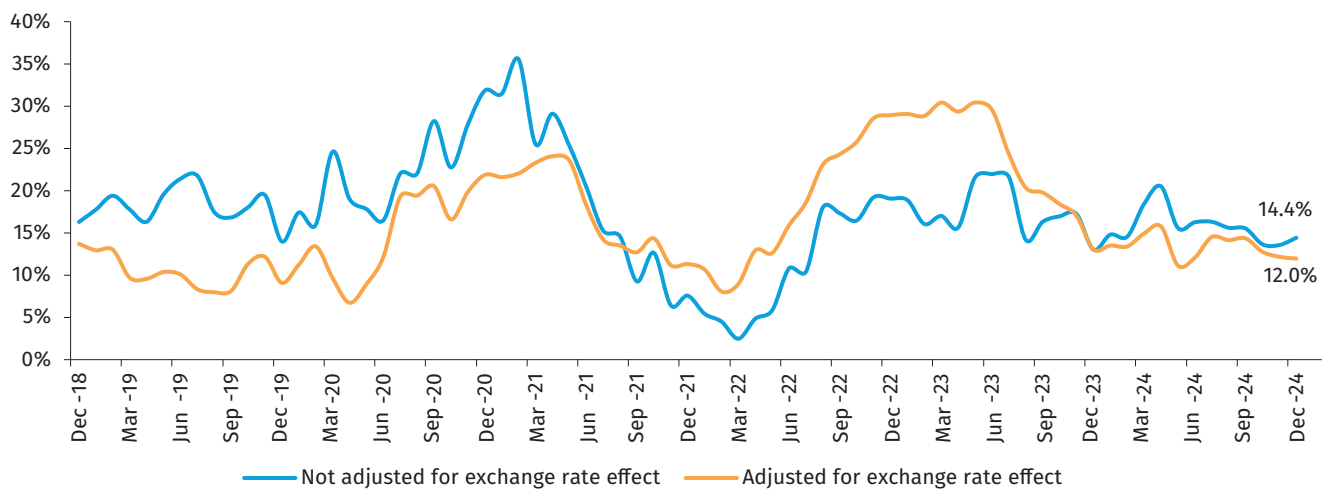
Source: NBG

4.8.3 RETAIL FUNDING

During 2024, non-bank deposits increased by GEL 7.2 billion (by 14 pp or by 12 pp without the exchange rate effect) and amounted to approximately GEL 57.2 billion by December. In terms of the structure of depositors, the growth of deposits of individuals

and legal entities were 16.6% and 12.7% respectively (13.4% and 11.1% respectively without the exchange rate effect). The larization of deposits decreased over the year and amounted to 48.1% by the end of December 2024.

DIAGRAM 4.32 ANNUAL GROWTH OF NON-BANK DEPOSITS

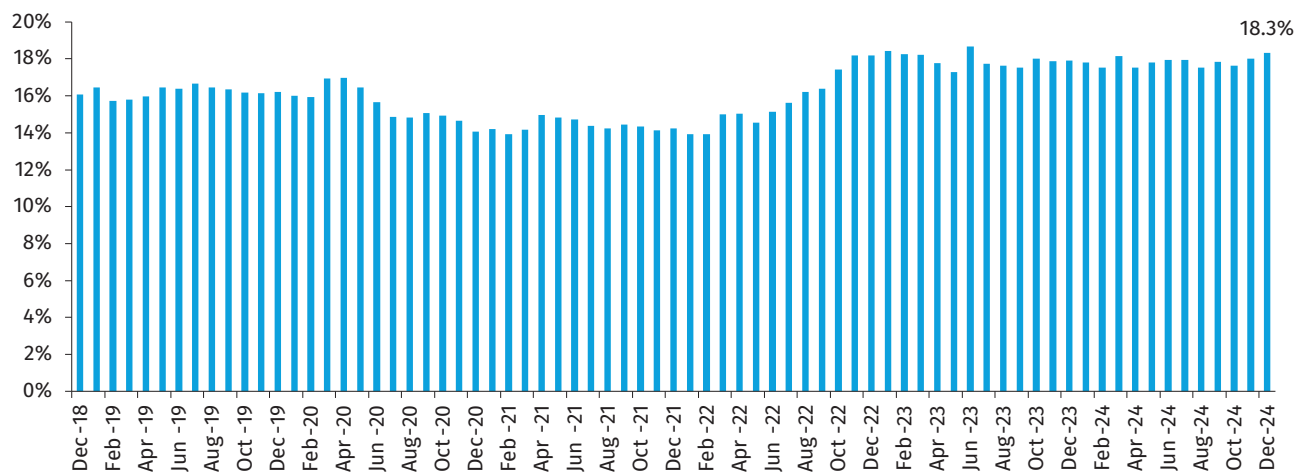


Source: NBG

The share of non-resident clients in total non-bank deposits increased by 0.4 pp during 2024 and amounted to 18.3% by the end of December. By origin, the share of Russian residents in the total deposits of non-residents was 37%. As a whole, non-resident deposits are still diversified, both by country and type of deposit, which is a positive

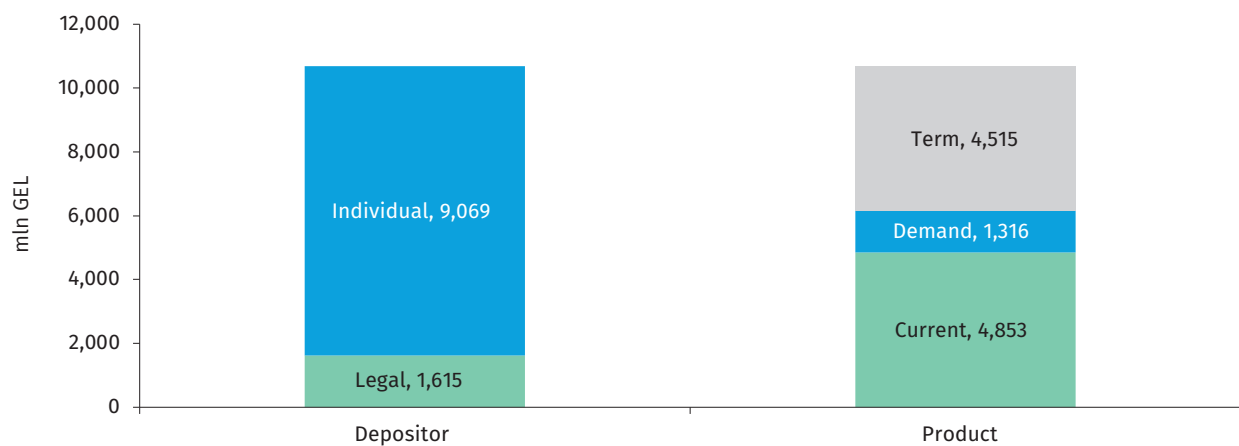
factor in terms of risk. However, in order to prevent excessive dependence on this type of funding, the National Bank of Georgia maintains additional liquidity requirements for deposits attracted from non-residents⁴⁴. The need for additional liquidity in banks with a high share of non-resident deposits reduces the incentive to attract such deposits.

DIAGRAM 4.33 SHARE OF DEPOSITS OF NON-RESIDENT CLIENTS



Source: NBG

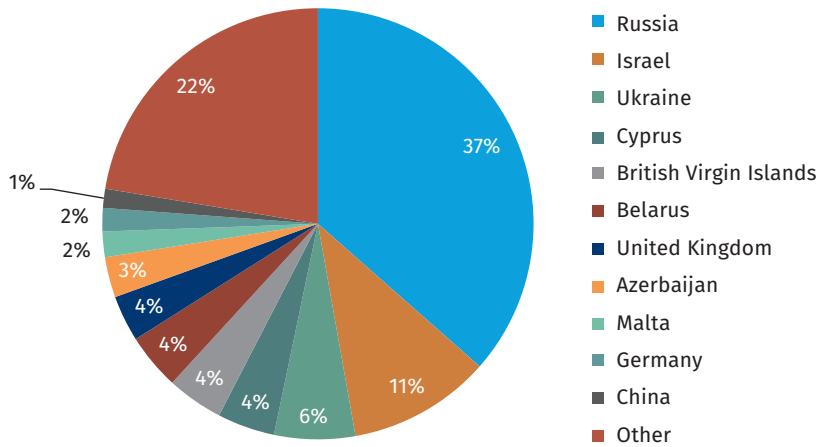
DIAGRAM 4.34 NON-RESIDENT DEPOSIT STRUCTURE (DECEMBER 2024)



Source: NBG

44. For the purpose of calculating the liquidity coverage ratio and the net stable funding ratio, non-resident deposits are subject to higher liquidity requirements than those of residents.

DIAGRAM 4.35 DEPOSITS OF NON-RESIDENTS BY COUNTRY (DECEMBER 2024)



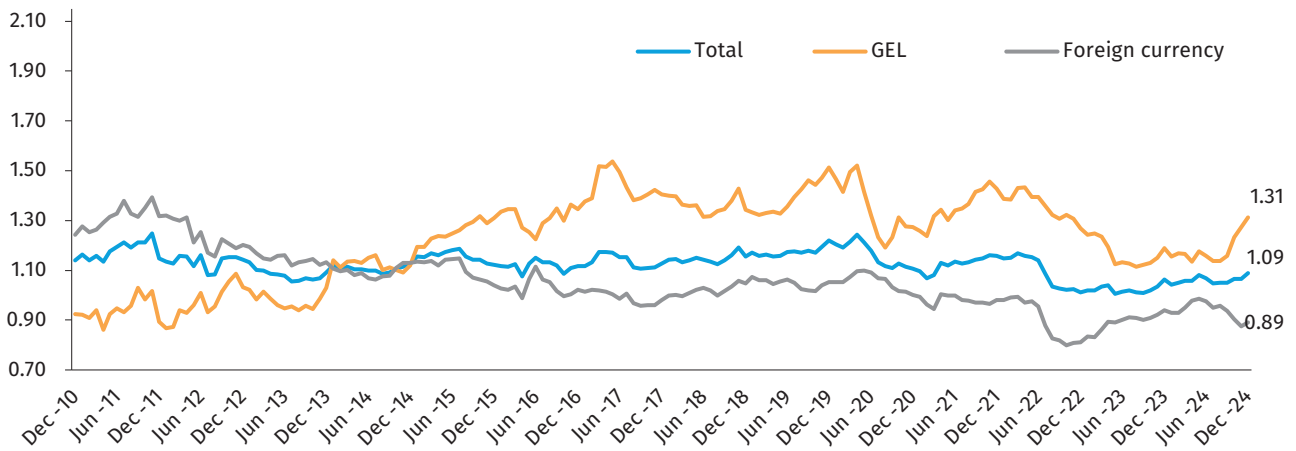
Source: NBG

4.8.4 WHOLESALE FUNDING

Throughout 2024, loan-to-deposit ratios have generally remained stable. However, there was an increase in the GEL ratio and a decrease in that for foreign currency. This shift can be attributed to the fact that the growth of GEL loans surpassed

the growth of deposits, while the growth of foreign currency deposits exceeded that of loans. The GEL loan-to-deposit ratio continues to exceed the ratio for foreign currency loans and deposits, partly due to the high growth rate of GEL loans as influenced by currency risks and the NBG's larization measures.

DIAGRAM 4.36 TOTAL LOANS TO NON-BANK DEPOSITS BY CURRENCY



Source: NBG

The funds obtained from external sources of wholesale funding are well-diversified, both in terms of the types of lenders and the residual maturity of the repayments. Over 45% of this funding has a residual maturity exceeding two years, which helps to mitigate funding risks for the system. In terms of sources, 63.1% of wholesale funding comes from international financial institutions, 8.2% from parent

or affiliated companies, and 28.7% from other private institutions. The significant proportion of funding from international financial institutions is considered low risk, especially given the long-term repayment schedules of such funding. To manage funding risks effectively, the National Bank of Georgia regularly monitors the relevant covenants⁴⁵ (the limitations set under loan agreements).

TABLE 4.7 EXTERNAL SOURCES OF WHOLESALE FUNDING AND THEIR REPAYMENT SCHEDULES AS OF 31 DECEMBER 2024

Repayment schedule (months)	<1	1-3	3-6	6-12	12-24	24-36	36-60	>60	ჯამი
Sum	5.9%	5.0%	11.6%	12.9%	18.5%	10.5%	22.0%	13.7%	100.0%
IFIs	1.8%	4.0%	1.8%	7.1%	13.5%	6.8%	16.6%	11.5%	63.1%
Affiliated/Parent financial institutions	0.9%	0.0%	0.7%	0.8%	1.0%	2.2%	2.2%	0.4%	8.2%
Other private funding	3.3%	0.9%	9.0%	4.9%	4.1%	1.4%	3.2%	1.8%	28.7%

Source: NBG

4.9 MACROPRUDENTIAL RISKS

The National Bank of Georgia continues to monitor indicators of systemic risks that may significantly impact the banking sector. Information on these risks is detailed in various sections of this report. The primary challenges from the past year remain regional uncertainty and the adequate assessment of the risks that that might pose to the stability of the financial sector, as well as the need for the development and implementation of appropriate macroprudential and supervisory policies.

The National Bank of Georgia conducts macroprudential supervision in several key areas, including a focus on the following:

- ◆ The increased debt burden for unhedged borrowers due to foreign currency loans.
- ◆ Over-indebtedness among vulnerable population segments.
- ◆ Intense competition in business and mortgage lending, compounded by imperfect product pricing models.

- ◆ System-wide cyber risks and fraud.
- ◆ The potential growth of unregulated financial intermediation based on financial technologies.
- ◆ Regional threats.

During 2024, several important decisions were made to mitigate these risks:

- ◆ The Financial Stability Committee decided to adjust the schedule for accumulating the countercyclical buffer. Commercial banks will now accumulate the buffer according to the following schedule: 0.25% by 15 March 2024; 0.5% by 15 March 2025; 0.75% by 15 March 2026; and 1% by 15 March 2027.
- ◆ The Financial Stability Committee temporarily increased the maximum loan-to-value (LTV) ratio for GEL-denominated real estate-secured loans to individuals by 5 PP to 90%. Additionally, the loan collateral ratio for mortgage loans for those earning income outside of Georgia will increase by 10 PP to 80%. These changes aim to enhance access to mortgage loans.
- ◆ Starting from 1 January 2025, the NBG will impose an additional requirement on regulated financial institutions. Individuals with total debt

45. Restrictions imposed by loan agreements

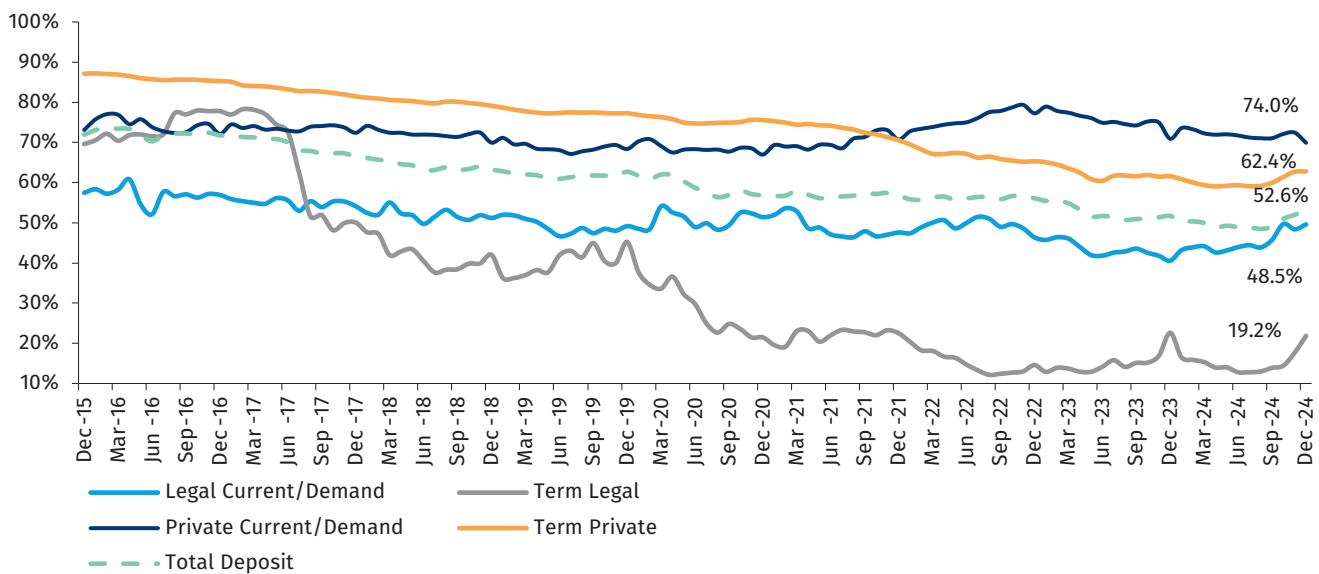
of up to GEL 500,000 will only be granted new foreign currency loans under hedged currency risk conditions.

- ◆ The restoration of buffers released at the beginning of the COVID-19 crisis commenced on 1 January 2022 and will continue over a span of three years.
- ◆ Following the recommendations from the International Monetary Fund and the World Bank as part of the framework of the Joint Financial Sector Assessment Program (FSAP) in Georgia, the Financial Stability Committee established the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for systemic banks. The MREL rates for systemic commercial banks and their schedules are set as follows: 10%

from 1 January 2024; 15% from 31 December 2025; and 20% from 31 December 2027.

Dollarization of deposits remains a significant challenge for the financial sector. Although a notable decrease has been observed in recent years, the level of dollarization remains high. This parameter varies by client and deposit type, with higher dollarization observed in the deposits of individuals compared to those of legal entities that require GEL for their operational activities. Of particular concern is the dollarization of time deposits of individuals, which exceeds 60%. This type of deposit constitutes the largest portion of the total portfolio, and its dollarization trend significantly impacts the overall dollarization of total deposits. As such, it serves as a key indicator of individual expectations regarding the exchange rate.

DIAGRAM 4.37 DOLLARIZATION OF DEPOSITS (FIXED EXCHANGE RATE)



IFRS accounting data are provided from July 2023.
Source: NBG

The NBG adopts a prudential approach to managing the credit risk associated with currency mismatches. Specifically, additional capital requirements are imposed on foreign currency loans extended to unhedged borrowers. For individual borrowers, even more conservative credit standards are applied.

To promote the larization (de-dollarization) of liabilities, the NBG implements more favorable liquidity and minimum reserve requirements for transactions conducted in the national currency.

4.10 OPERATIONAL RISK

Operational risk refers to the potential for loss resulting from inadequate or failed internal processes, personnel, systems, or external events. A crucial aspect of operational risk management is analyzing the impact of external risks. Proactively considering and preparing for these risks is vital to mitigate the effects of external events. This year, the ongoing Russia-Ukraine war and the internal situation within the country remain significant concerns. In the realm of operational risk management, key risks include business continuity risk, cyber risk, and contemporary challenges related to cybersecurity management. The NBG is actively collaborating with commercial banks to ensure the adequacy of their business continuity management principles and plans. This involves conducting periodic testing and implementing corrective measures to maintain business continuity based on the results of such tests. The NBG also focuses on various critical components of business continuity management, such as infrastructure adequacy and the testing of business continuity plans. It is essential for banks to ensure continuous business operations under various scenarios, which include evacuation testing and outsourcing processes, such as the use of cloud services.

The National Bank of Georgia continues to monitor the implementation of business continuity plan testing in commercial banks, focusing on the continuity of employees and the smooth operation of critical processes. This year, in addition to remote monitoring, NBG employees conducted on-site monitoring of the testing process in several commercial banks. The NBG's Operational Risks Division is involved in assessing commercial banks' recovery plans in terms of operational risk. The NBG has also continued its assessment of the operational and cyber risk management frameworks of commercial banks. In 2024, the assessment of outsourcing processes was a priority and was conducted in several commercial banks as part of thematic on-site inspections. The NBG places significant emphasis on evaluating relevant companies/products when outsourcing

relationships are initiated by commercial banks, as well as on monitoring and periodically reassessing outsourcing processes through a planned and risk-based approach. Moreover, to monitor the commercial banks assessed during the year, the NBG constantly evaluates the current status of any supervisory requirements issued to them.

In line with international standards, the NBG is expanding and improving its operational risk management approaches. Efforts are currently underway to implement the updated Basel Operational Risk Management Principles and the Operational Sustainability Principles for Georgian commercial banks.

The NBG has been actively involved in the development of digital banks and microbanks, the latter being a new entity for supervision. The Operational Risks Department plays a crucial role in assessing risks related to both digital banks and microbanks, both at the licensing phase and beyond. Through its active involvement, the department supports the safe and sustainable development of digital banking in Georgia, continuing to oversee the implementation of the Operational Risk Management Framework for digital banks and microbanks.

As the financial sector expands its remote services and digitalization processes, the implementation and continuous improvement of control mechanisms for fraud and technological risks are essential. Over the past year, the Operational Risks Department has been actively engaged in studying and assessing operational and cyber risks related to open banking, digital banking, remote identification, and electronic signatures in the banking sector. The development of open banking is steadily progressing in Georgia, introducing new opportunities for innovation in the financial sector. The Operational Risk Department is actively involved in this process, ensuring the identification and management of related risks. By promoting effective risk management practices, the department contributes to establishing a safe and effective environment for open banking. The NBG maintains and disseminates a single standard for operational risk management in the financial

sector, issuing recommendations and instructions to promote the development of operational risk management. The NBG also actively works to raise awareness among specific entities, including those seeking new licenses/registrations, covering areas such as remote identification, open banking, digital banking, and micro-banking.

A significant number of commercial banks have started implementing electronic signature processes. Currently, two types of electronic signatures are proposed: qualified electronic signatures and advanced electronic signatures. While electronic signatures at this stage are still a novelty for banks, they have become a facilitating factor for remote services. Implementing this process would represent a step forward for financial organizations, but it is also important to consider the risks associated with electronic signatures. This process requires greater study in practice.

The National Bank of Georgia places great emphasis on raising awareness of operational risks in the Georgian banking sector, expanding operational risk management, and developing supervisory principles. Banks have been recommended to engage in awareness-raising activities for both their employees and customers. Additionally, in the context of promoting the digitalization of various non-bank financial institutions, startups, and financial technology providers, recommendations on implementing operational risk management practices and assessments have been shared.

The National Bank of Georgia, in collaboration with commercial banks, continues to work on ensuring that banks have appropriate and flexible control mechanisms. Efforts are also focused on developing and implementing improved fraud monitoring management tools and information systems, including behaviorally oriented analytical management systems. One of the priorities for the National Bank of Georgia is the development of processes for detecting and preventing various types of fraud related to payment cards and digital channels.

To prevent and ensure timely reporting of major operational events, including the systemic spread of cyber risk, the Information Sharing and Analysis Center has been introduced. This center is actively used as a closed communication platform with commercial banks in Georgia.

In 2024, the expansion of operational risk forecasting tools remained relevant and the study and research of operational risk stress tests are underway. These tests allow the determination of the expected impact of events on the capital and financial positions of organizations under negative scenarios, with the aim of reducing such impacts. Accordingly, greater importance is placed on recording and improving historical data on potential or real operational risk losses, conducting cause-and-effect analyses of operational risk events, and assessing systemic impacts. The National Bank of Georgia focuses on minimizing losses caused by human error, improving manual processes and controls, and automating loss detection and recording processes. The National Bank of Georgia also places great importance on protecting against data quality and accuracy risks in the banking sector. In this regard, the principles of effective data aggregation and risk reporting are at the development stage.

The National Bank of Georgia continuously assesses the accuracy, integrity, and quality of financial data in the banking sector. Within the framework of data quality management, attention is given to the smoothness of business processes related to financial reporting, improving analytical tools, increasing the level of automation of reporting processes, and reducing the complexity of related information systems.

4.10.1 OPERATIONAL RISK IN THE GEORGIAN BANKING SECTOR

The local banking system is characterized by a relatively low complexity of banking products and services. However, the increasing reliance on information systems elevates the associated operational risk within the financial sector.

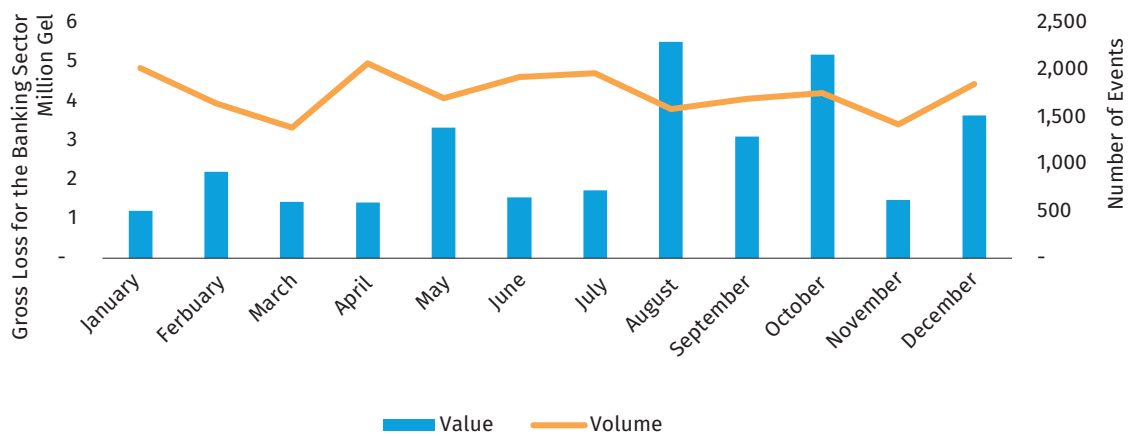
Throughout the year, as in 2023, there was a quantitative growth in digital services, along with the development of future strategies aimed at the further digitalization of the financial sector.

In 2024, total operational losses for Georgian commercial banks amounted to GEL 31.1 million, which is 6% higher than the total recorded in 2023. This figure represents the initial monetary impact associated with an operational event, before any

compensation or recovery of the operational loss.

During 2024, 19,803 operational loss events were recorded, a figure 7% lower than in 2023. It is important to note that, under the operational risk reporting framework of the National Bank of Georgia, commercial banks are required to record all operational loss events with a total loss equal to or exceeding GEL 10. Diagram 4.38 illustrates the dynamics of the total operational losses for 2024.

DIAGRAM 4.38 TOTAL OPERATIONAL LOSSES, 2024

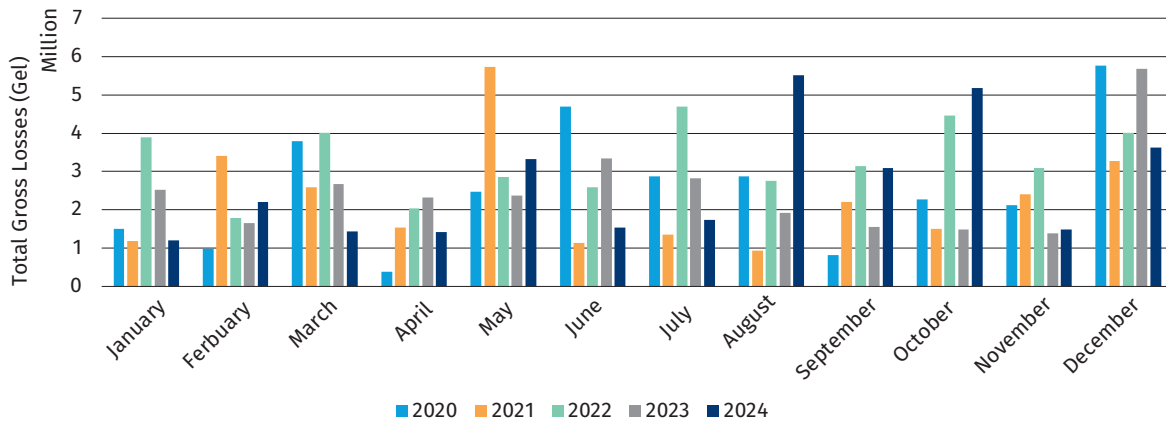


Source: NBG

Diagram 4.39 shows the dynamics of total operational losses over the last five years (2020-2024). It should be noted that historically more

operating loss events are recorded towards the end of the year, which is largely related to the end of the reporting period and increased credit activity.

DIAGRAM 4.39 TOTAL LOSSES FOR BANKING SECTOR, 2020-2024

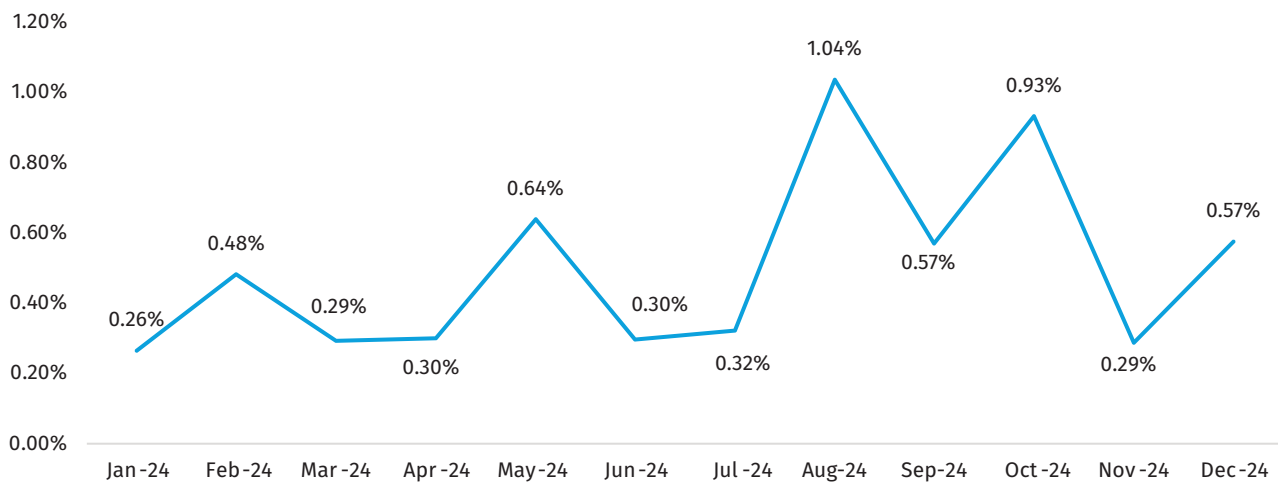


Source: NBG

One of the best measures of operational risk in the financial system is the operational risk loss indicator. This indicator is calculated by dividing the total operational losses of the financial system by the total income. In 2024, the ratio of total annual total losses

to total income calculated according to Basel II was 0.51%. Diagram 4.40 shows the monthly dynamics of the operational loss indicator of the Georgian banking sector.

DIAGRAM 4.40 DYNAMICS OF THE OPERATIONAL LOSS INDICATOR, 2024

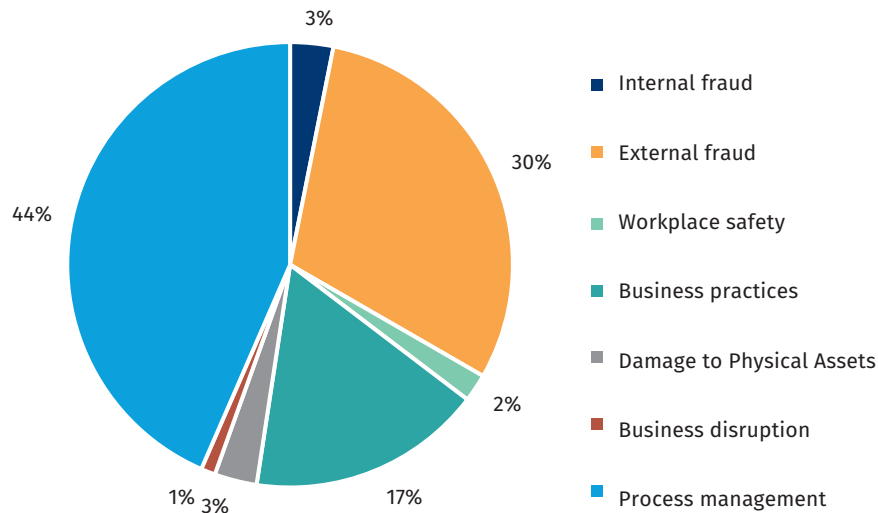


Source: NBG

In 2024, similar to 2023, operational losses were mainly recorded in the retail banking business line and, to some extent, in the commercial banking business line. The retail banking business line, in addition to retail banking itself, includes operational losses related to payment cards. When categorized

by event type, the largest share of losses in monetary terms, accounting for 44% of total losses, was recorded in the process management category. The second largest category, comprising 30% of total losses, was external fraud.

DIAGRAM 4.41 DISTRIBUTION OF TOTAL LOSSES OF THE BANKING SYSTEM FOR 2024 BY CATEGORY OF EVENT



Source: NBG

4.11 CYBER RISK

The importance of cybersecurity is growing in the context of the digital transformation of the economy. International financial institutions continue to identify cyber risks as a major threat to the financial sector. In particular, the International Monetary Fund's 2024 Financial Stability Report highlights the increased use of artificial intelligence in conducting potential cyber incidents and attacks.

In 2024, as in the previous year, one of the most critical issues facing the Georgian financial sector remained the proper management of third-party risks. The NBG's Cyber Risk Supervision Team issued extraordinary supervisory instructions and warnings, requiring commercial banks to implement additional measures to ensure the cyber and information security of relevant third parties.

The development and implementation of remote service channels adds a further significant cybersecurity challenge for the financial sector. The National Bank of Georgia continuously monitors developments in the banking sector and conducts cyber risk monitoring to implement timely remedial

measures, analyze attacks, and, if necessary, immediately report this information to the entire banking sector for a prompt response.

Cybersecurity supervisory requirements were introduced in the banking sector in 2019. Based on these requirements, the National Bank of Georgia monitors and supervises the implementation, maintenance, and continuous improvement of the cybersecurity management framework in the banking sector. During 2024, the Cyber Risk Supervision Team conducted cyclical assessments of commercial banks to determine compliance with this framework. These assessments were primarily carried out through physical on-site visits and both mandatory requirements and recommendations were established to address gaps that had been identified.

Considering the current challenges and context, the main areas for improvement included the following:

- ◆ Formalizing and increasing the efficiency of processes ensuring cyber and information security.
- ◆ Enhancing risk management practices, including risk management of third parties.

- ◆ Improving the effectiveness of processes and technological solutions for information protection.
- ◆ Continuously focusing on raising awareness and strengthening human resources in information and cyber security with appropriate competencies.
- ◆ Ensuring the existence and effectiveness of business continuity and preparedness plans in the event of a potentially large-scale cyber incident.

In addition to the aforementioned supervisory requirements, commercial banks are required to conduct audits and penetration tests of their information systems to eliminate various weaknesses and reduce cyber risks. Accordingly, the National Bank of Georgia places great importance on conducting appropriate sector-specific tests/audits and their quality control. An important component of cybersecurity supervision is the existence of effective processes and mechanisms for managing cyber incidents. In this regard, the Cyber Risk Supervision Team continues to analyze the mandatory reports on cyber incidents received from commercial banks and produces quarterly reports. This allows for the presentation of cyber incident trends both from the perspective of individual banks and the entire banking sector.

In 2024, similar to the previous year, the banking sector was primarily impacted by phishing and distributed denial of service (DDoS) attacks. In the case of phishing attacks, hackers stole and then exploited users' confidential and sensitive information for personal gain; and in the case of DDoS attacks, they disrupted or attempted to disrupt the services of commercial banks for certain periods. Based on the incidents reported by commercial banks, the National Bank of Georgia published several statements and issued appropriate supervisory instructions on its information-sharing platform. The availability and sharing of up-to-date information on cyber threats is an important practice recognized among stakeholders that serves to effectively manage cyber risk. The platform provides members with the opportunity to share timely, accurate, and

effective warnings about cyber threats. Doing so helps members gain knowledge of current trends, anticipated threats, and past experiences, which can be used for cyber risk prevention.

The Georgian legislation on information security was updated in 2021 and came into force in 2022. Throughout the year, the Cyber Risk Supervision Team of the NBG fulfilled its obligations under the relevant legislation for determining the authorization of those companies conducting information security audits and penetration testing for systemic banks.

4.11.1 REGULATORY ACTIONS ADDRESSING CYBER RISK

In 2024, to assess and further enhance cyber risk supervision practices, the National Bank of Georgia hosted a one-week technical assistance mission from experts of the International Monetary Fund. The IMF published a report on this mission at the end of 2024, based on which the NBG developed a two-year cooperation project. A key task within this project is to update the existing cybersecurity management framework regulations for commercial and microbanks. In order to develop its supervisory function and tools, the National Bank of Georgia has created "Guidelines for the Audit of Information Systems and Cybersecurity Management Framework in Commercial Banks".

The NBG places special emphasis on both the quality of audit conclusions and the subsequent correction of deficiencies identified in these by the supervised entities. Consequently, the NBG's monitoring of post-audit activities has been utilized as an additional supervisory tool. Additionally, meetings were held with external audit companies in 2024, providing them with the opportunity to share their perspectives on both the cybersecurity management framework and the audit guidelines.

In recent years, the financial sector, particularly banking institutions, has increasingly adopted cloud outsourcing services. On 1 August 2023, the Decree of the Acting Governor of the NBG "On the Use of Cloud Outsourcing Services by Financial Organizations" came into effect. This guideline

essentially outlines preventive requirements, the proper implementation of which will aid supervised entities in managing challenges and risks related to the cloud environment. According to 2024 data, 42% of the critical functions of the banking sector have been transferred to the cloud environment.

In 2023, the Decree of the Acting Governor of the NBG “On Approval of the Cybersecurity Management Framework for Microbanks” was issued. This decree includes the “*Guidelines for Auditing the Information Systems and Cybersecurity Management Framework in Microbanks*”. Based on this decree, a plan and schedule for ensuring cyber and information security requirements were developed for entities wishing to be licensed as microbanks. With the active involvement of the Cyber Risk Supervision Team, the first microbank license was issued in 2024.

Ensuring adequate cyber and information security requirements for licensing digital banks remains a pressing issue. Throughout 2024, the NBG’s Cyber Risk Supervision Team continued to actively participate in both the supervision of digital banks and the licensing of new entities.

As in the previous year, 2024 was marked by the introduction of new products and services in the financial sector that are increasingly based on information systems.

The National Bank of Georgia has developed the “*Regulation for the Registration, Deregistration, and Regulation of Credit Information Bureaus*”. This includes requirements for credit information bureaus and relevant platforms, particularly concerning their information systems. During 2024, the Cyber Risk Supervision Team issued several recommendations regarding information security regulatory policies and procedures to organizations wishing to register as platforms, as well as ensuring the security of relevant information systems. Special attention was also given to professionally conducted audits and penetration tests, the results of which can be used for further improvements.

In 2024, the number of applicants for open banking increased. This process is regulated by the decree of the National Bank of Georgia related to cyber and information security requirements. Applications received from candidate organizations were reviewed based on this regulatory criteria, additional instructions were issued, and final decisions were made.

Given the increasing importance of cybersecurity, it is crucial for the National Bank of Georgia to have cybersecurity specialists with strong competencies and to provide appropriate support for their career development. Throughout 2024, the Cyber Risk Supervision team, all of whom hold internationally recognized professional certifications, thus participated in various industry seminars and training sessions.

4.12 DEVELOPMENT OF FINANCIAL AND SUPERVISORY TECHNOLOGIES

4.12.1 PROMOTING FINANCIAL INNOVATIONS

Innovation and the share of innovative organizations in the financial sector are growing, bringing about both new opportunities and new risks. As such, the financial sector remains the most regulated sector of the global economy, and this trend continues to grow. As a result, the modern regulatory framework is quite voluminous, technical, and complex, which can be especially daunting for new financial startups. Against this backdrop, encouraging innovators with fintech ideas and supporting the transformation of these ideas into sustainable financial models poses a significant challenge for financial sector regulators. In response to this challenge, the National Bank of Georgia is developing various regulatory approaches and helping to create a basic infrastructure for fintech activities.

FINANCIAL INNOVATIONS OFFICE⁴⁶

The Financial Innovations Office serves as a communications bridge between the National Bank

46. Information on the Financial Innovations Office is available in the Financial Stability section of the NBG website: <https://www.nbg.gov.ge/index.php?m=742>

of Georgia and the community of financial technology innovators. The mission of the Financial Innovations Office is to promote responsible innovation in the financial sector and assist fintech organizations/startups in understanding the regulatory approach of the National Bank of Georgia.

Throughout 2024, within the framework of the Financial Innovations Office, nearly one hundred individuals received assistance and consultations, and a range of significant meetings were held with individuals possessing innovative ideas.

Regarding innovations in the financial sector, the office maintained close contact with international financial organizations throughout the year to share updates and regulatory approaches.

REGULATORY SANDBOX

The regulatory sandbox is a significant tool for promoting and developing financial innovations. It allows for the testing of innovative products or services in a real-world environment, playing a crucial role in the effective implementation of new technologies and business models, as well as in developing their regulatory processes. This environment ensures practical analysis and compliance with necessary regulations when implementing innovations under real conditions. In 2024, three new entities with diverse innovative projects moved to the "real-world testing" phase of the sandbox. These projects include areas such as cryptocurrency-backed loans, a credit-information platform, and an online currency exchange service. At this stage, each of these initiatives are being monitored, their practical results are being evaluated, and their potential impact on the market is being analyzed. A further five other projects encompassing various financial and technological innovations are also under consideration.

Furthermore, in 2024, special attention was given to initiating targeted sandboxes for tokenized deposits and crowdfunding. Extensive research on existing practices and an analysis of appropriate legal and technological frameworks were conducted to foster a regulated yet innovative environment.

Moreover, significant steps were taken towards expanding international cooperation by the end of 2024. With the involvement of the International Monetary Fund, active work began on creating an international (cross-border) regulatory sandbox in collaboration with the Central Bank of Azerbaijan. This initiative aims to develop the fintech ecosystem at a regional level, facilitating the testing of innovative financial products and services across borders in a safe and regulated environment.

DIGITAL LARI

Since the end of 2023, the NBG, in collaboration with a technological and technical partner, has completed the first phase of a pilot project aimed at understanding and structuring requirements and prioritizing basic test scenarios for the digital lari project. As part of developing the project plan, backlog planning was conducted, relevant technical documentation was produced, project timelines were defined, and additional third-party onboarding was carried out.

In parallel with these activities, three training sessions were held:

- ◆ A one-week seminar with over 60 participants was conducted by Ripple for NBG employees on blockchain fundamentals, tokenization, and smart contracts.
- ◆ A one-week internal training program was conducted for NBG employees, focusing on Ripple's primary and secondary programmatic platforms.
- ◆ A one-day informational session was conducted for parties directly involved in the pilot program.

From July 2024, based on the defined basic test scenarios, the technology and technical partner, with the help of invited third parties, began setting up/fine-tuning the corresponding platforms and technical instruments. This enabled the NBG to start a six-week testing period of basic test scenarios within the pilot project from January 2024. Within the framework of the pilot project, five basic scenarios were tested. This involved widespread involvement across the NBG: over 200 employees registered

for the pilot project, and more than half a million transactions were conducted.

After the project's completion, a summary report was prepared with the technological and technical partner. In the following quarter, the NBG will prepare a new report aimed at interpreting the results obtained within the pilot. This is intended to help define the next steps for the digital lari project.

NATIONAL STRATEGY FOR FINTECH DEVELOPMENT

The National Bank of Georgia is developing a National Strategy for Fintech Development. The goal of the strategy is to strengthen collaboration among stakeholders both within the country and internationally, and to take consistent and coordinated steps towards developing an inclusive and innovative fintech ecosystem. The document is being prepared in collaboration with the World Bank. Domestically, the fintech development strategy aims to facilitate the entry of new players into the market and develop modern financial infrastructure through projects such as open banking/finance development, the Regulatory Sandbox, the "Central Bank Digital Currency (CBDC) as an Ecosystem" initiative, and the implementation of an instant payment system.

On the international level, the fintech strategy aims to position Georgia as a regional fintech hub for Middle Corridor countries. To achieve this, the NBG is actively collaborating with countries in the region and encouraging their involvement. Additionally, the concept of an international regulatory sandbox is being developed to promote regulatory harmonization among countries, develop modern financial infrastructure, and attract foreign fintech companies and talent to Georgia.

Georgia's strategic vision for fintech development encompasses three key areas:

1. **Implementing a proactive regulatory policy** that encourages the adoption of regulatory-driven innovations in the financial sector.
2. **Testing and implementing early-stage technologies to create modern financial**

infrastructure. One priority in this direction is identifying the advantages of blockchain-based financial infrastructure and using that to increase the efficiency and effectiveness of existing financial systems, thereby aiding the adoption of technology-driven innovations in the financial sector.

3. **Supporting the "Beyond-Georgia" fintech ecosystem.** As a small open economy, Georgia has limited potential for market scaling. Therefore, emphasis is placed on initiatives that strengthen international cooperation in supporting the fintech market.

To ensure that the interests of each stakeholder are well considered in the fintech strategy, the National Bank of Georgia published an initial version of the strategy in November 2024 and called on relevant private and public entities to actively communicate and share their opinions and recommendations. Various private and public entities provided comprehensive feedback on the strategy, the NBG engaging in an active communication process with each entity to reflect key considerations in the strategy document.

Following the development of the fintech strategy, the next steps will focus on preparing the final version of the document and developing an action plan based on active public-private collaboration.

CREDIT REGISTRY

Efforts were made in 2024 to address inaccuracies discovered in credit registry data, with the majority of issues subsequently being resolved. Various reports submitted by commercial banks to the NBG were used to analyze the accuracy of the credit registry data.

The credit registry, which was developed in consultation with the World Bank's working group, is a database that facilitates the collection of comprehensive information on credit risk. As of the end of 2024, the credit registry form became aligned with IFRS reports. Data are submitted to the NBG on a monthly basis and include the following data groups:

- ◆ Details of credit liabilities.
- ◆ Data on collateral related to credit liabilities.
- ◆ Information on refinanced loans.
- ◆ Information on investments.
- ◆ Information on rejected loan applications.
- ◆ Information on loans closed during the accounting month.

The following activities are planned for 2025:

- ◆ Conducting sectoral research analysis based on credit registry data.
- ◆ Generating various reports submitted by commercial banks to the NBG based on credit registry data.
- ◆ Creating automated supervisory mechanisms using credit registry data.

BOX 1. GENERATING SYNTHETIC DATA

To facilitate data processing and the development of statistical and machine learning models, the National Bank of Georgia actively collaborates with representatives of the financial sector. However, the quality and quantity of available data remain the main challenges in building and developing these models.

In response, the NBG has been actively generating synthetic data using machine learning techniques and generative algorithms, such as Generative Adversarial Networks (GANs). These synthetic datasets have already been successfully used in various hackathon challenges.

Synthetic data is one of several privacy-enhancing technologies (PETs) that support secure data sharing. In the process of creating and sharing synthetic data, there is no risk of disseminating real data or violating confidentiality. Synthetic data preserves the statistical properties of the original datasets, making it valuable for training statistical and machine learning models.

The use of synthetic data is growing worldwide. A leading example is the United Kingdom, where a Digital Sandbox framework was launched by the Financial Conduct Authority (FCA). One of the key initiatives of this platform is the use of high-quality synthetic datasets for financial experimentation. This platform provides financial companies with a high-quality synthetic data set for testing financial products. In March 2024, the FCA published a report¹ reviewing the opportunities, challenges, and regulatory considerations of using synthetic data in the financial sector. The report aims to encourage the responsible and risk-aware use of such data.

In support of financial innovation and technological development, the NBG has expressed its readiness to cooperate with stakeholders in the financial sector. Where appropriate, the NBG is also open to sharing synthetic datasets, generated from real-world data, with interested parties.

[1] FCA-Using Synthetic Data in Financial Services 2024.



BOX 2. AI IN CENTRAL BANKS

Artificial Intelligence (AI) and AI-based models are currently one of the most significant innovations and challenges in the financial sector. According to reports from the Bank for International Settlements, central banks are increasingly using AI technologies to improve efficiency across various areas. This trend has accelerated since 2021 and is particularly noticeable in developed countries, where 70% of central banks actively use AI tools. **Large Language Models (LLM), Natural Language Processing (NLP), Machine Learning (ML), and Generative AI** are actively used in central banking operations, including for ensuring financial stability, setting monetary policy, and in payment systems, banking supervision, risk assessment, macroeconomic forecasting, and fraud detection processes. These technologies are used to automate routine tasks and process large volumes of structured and unstructured data, which would be difficult or impossible via traditional methods. It has been highlighted that the role of AI is no longer experimental – it is becoming an integral part of modern central banking operations.

The National Bank of Georgia is following these global trends and is actively seeking to implement AI-based tools in its internal processes. The NBG collaborates with various departments to identify existing needs, challenges, and problems and to develop AI-based solutions to improve workflows.

The main initiative of the National Bank of Georgia is to create an AI platform that will integrate all AI tools. This platform will be accessible to NBG employees and will enable the easy use of AI-based solutions. This initiative will promote the widespread use of AI and accelerate the implementation of innovations in the internal operations of the NBG.

In addition to internal use, the National Bank of Georgia actively promotes the adoption of AI in Georgia's financial sector. To ensure the effective use of AI-based models, the NBG has developed a Model Risk Management (MRM) framework, which provides guidelines for financial institutions on the development, validation, and management of ML and AI models. This framework promotes transparency and risk reduction in AI-based decision making.

Work has also begun on the NBG's AI strategy, which, in line with the rapid development of AI, requires an essential and significant legal framework.

These initiatives align with global trends in AI adoption and highlight the readiness of the National Bank of Georgia to develop the financial sector and join the ranks of technologically advanced central banks.

4.12.2 MODEL RISK

The use of various statistical models in the financial sector's decision-making processes is becoming increasingly widespread. These models are extensively used for loan issuance, financial accounting, and risk management. In particular, the application of mathematical and statistical models has increased in the credit assessment of the retail, micro, and small business sectors. There has also been a recent rise in the implementation of models based on machine learning and artificial intelligence

algorithms. While this enhances the effectiveness of the models, it can also complicate the interpretation, analysis, and risk assessment of results.

Considering ongoing trends in the sector, the need to develop a framework for the ethical use of models has become a priority. In response, ethical principles for the development, implementation, and use of models have been defined in regulations, along with ways to reduce the potential unethical use of models. This change is primarily aimed at

protecting consumers. A model built without ethical principles might unfairly classify certain groups of consumers and restrict their rights. A second change concerns the expansion of the risk-based approach, so a methodology for ranking/grouping models based on their riskiness has been developed within the framework of regulatory changes. A third change relates to ensuring the transparency and interpretability of models by users through use of statistical methods. These changes will limit the use of "black boxes" by model users and shift the responsibility for the model's results to the creator of the model.

In connection with the introduction of IFRS 9 at the NBG, models that account for expected credit losses are being integrated into financial institutions. Due to the complexity of these models and their impact on a bank's financial condition, these models carry high risks. In 2023, the differentiation of these

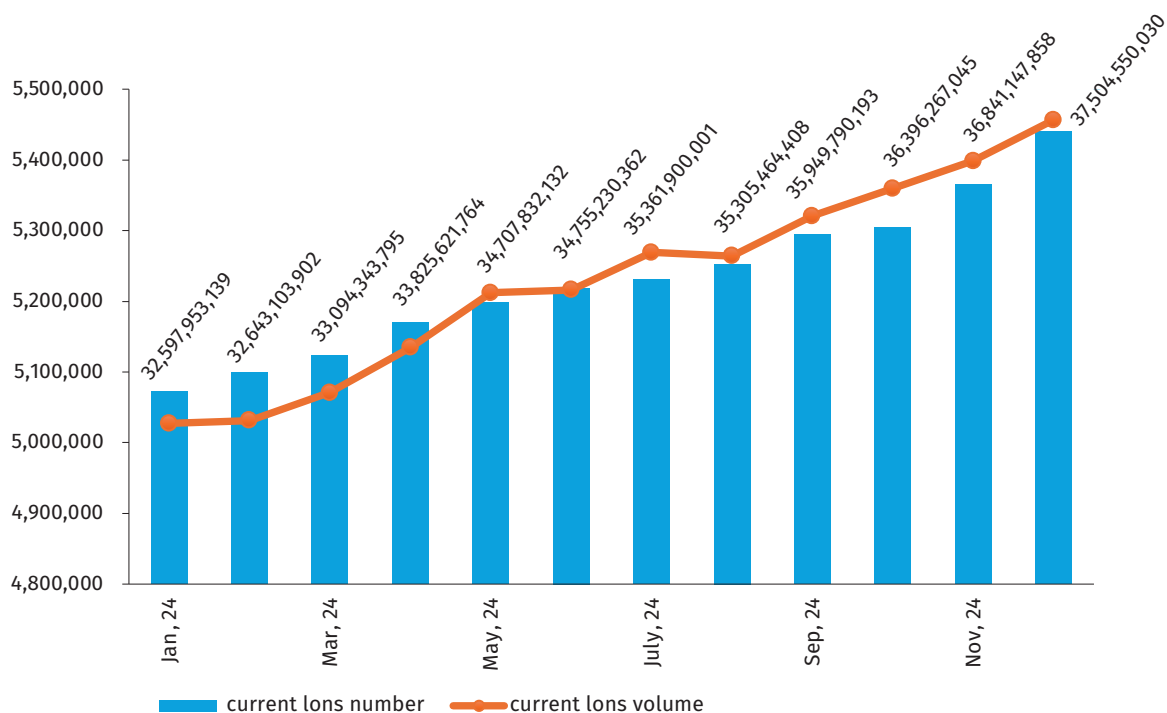
models and methodologies began, and feedback has already been received from several banks. In 2025, the analysis of these models will continue, and the proper identification of defects that could lead to increased model risk will be carried out.

4.12.3 CREDIT INFORMATION BUREAU/ PLATFORM

The activities of the Credit Information Bureau are subject to the regulation and supervision of the National Bank of Georgia. This ensures compliance with regulatory acts for both the bureau and entities under contractual relations with it.

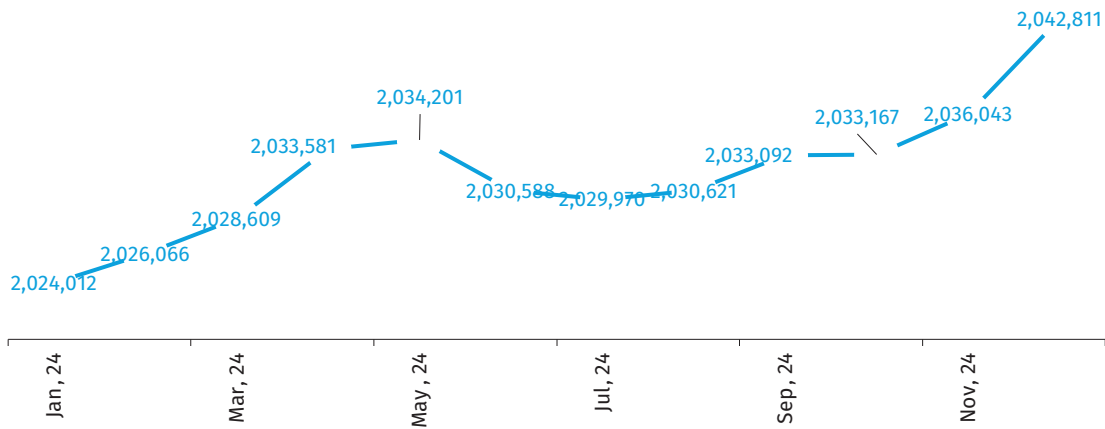
As of December 2024, there were 235 lending entities in contractual relations with the Credit Information Bureau, along with 20 organizations involved on a non-mandatory basis. This figure is variable, being influenced by the periodic registration and deregistration processes of lending entities.

DIAGRAM 4.42 NUMBER AND VOLUME OF CURRENT LOANS, 2024



Source: NBG

DIAGRAM 4.43 UNIQUE NUMBER OF CURRENT BORROWERS, 2024

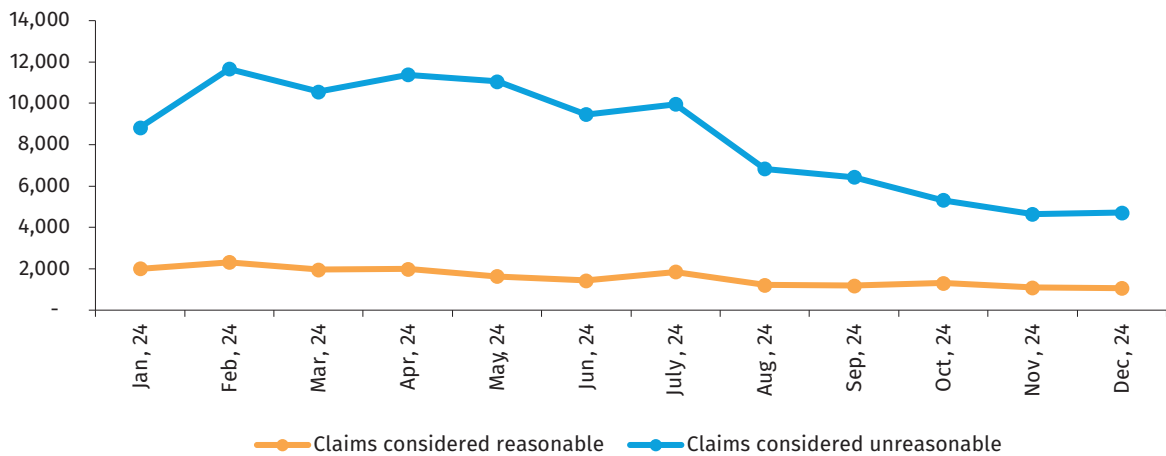


Source: NBG

Protecting consumer rights is of utmost importance to the National Bank of Georgia. To ensure the accurate and fair representation of consumer data in the credit information database, complaints

registered by consumers are periodically reviewed, and appropriate actions are taken as necessary. The number of monthly complaints registered throughout 2024 are presented in Diagram 4.44.

DIAGRAM 4.44 NUMBER OF CUSTOMER COMPLAINTS, 2024



Source: NBG

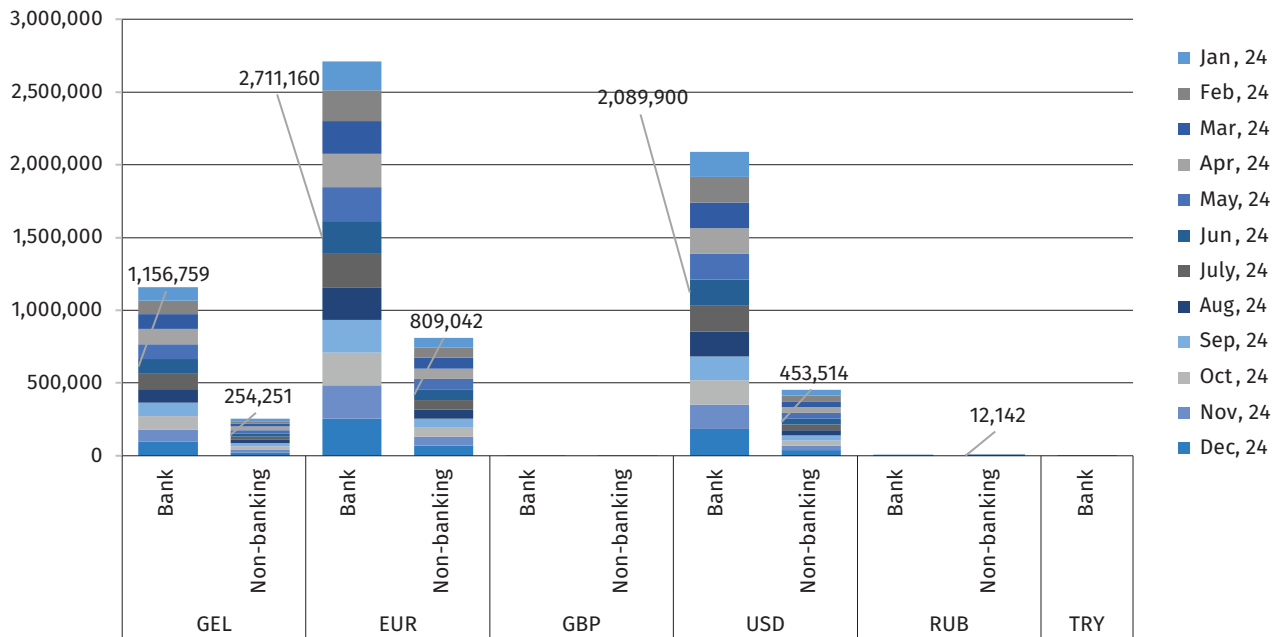
During the supervision process, regulations are periodically reviewed and updated based on practical experience and identified needs in order to improve sectoral activities. In 2024, changes were made to the regulations developed for the supervision of the Credit Information Bureau. Among other

significant changes, a new type of activity related to customer identification services was added to the bureau's functions. In addition, there is growing interest in the registration of the Credit Information Bureau platform, which was allowed by changes implemented in 2022.

As a result of regulatory changes made by the National Bank of Georgia in 2023, the Credit Information Bureau's database has been expanded with data on income received from international

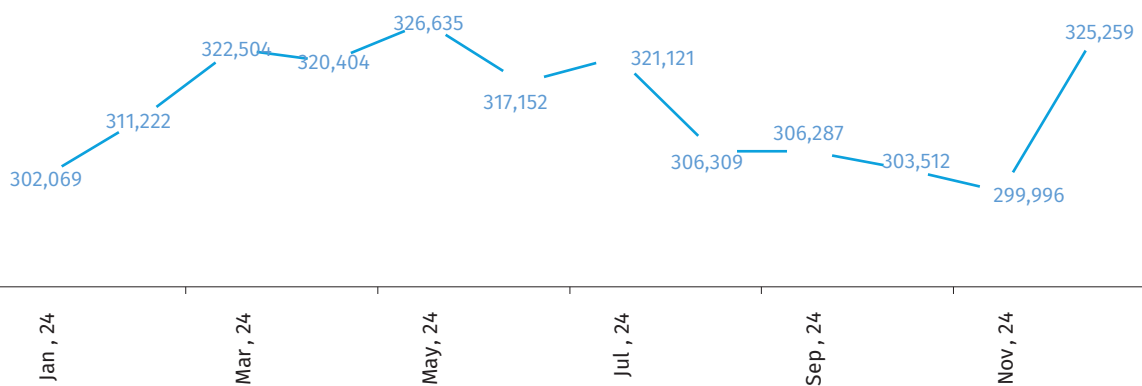
money transfers. This expansion aims to simplify the borrowing process for recipients of money transfers and the lending process for financial institutions.

DIAGRAM 4.45 NUMBER OF CASHED INTERNATIONAL REMITTANCES, 2024



Source: NBG

DIAGRAM 4.46 NUMBERS OF UNIQUE PERSONS CASHING REMITTANCES, 2024



Source: NBG

Within the framework of the supervisory mandate of the Credit Information Bureau, the National Bank of Georgia conducted systematic checks on and supervised lending entities to ensure their compliance with the aforementioned regulations. Based on needs identified during this process, in 2024 the National Bank of Georgia issued the following:

- ◆ Five written directives to the Credit Information Bureau.
- ◆ 27 written directives to regulated entities.
- ◆ 10 monetary fines to regulated entities.

4.12.4 OPEN BANKING/FINANCE

Open banking is one of the most important processes in modern-day digital finance, offering consumers flexible and secure access to banking services through open API (Application Programming Interface) integration. This enables data exchange among banks, financial institutions, and fintech companies. The model fosters innovation and enhances the efficiency of the financial sector.

Work on the open banking project in the National Bank of Georgia began in 2019. In early 2020, the Open Banking Committee was established under the Georgian Bankers' Association with the goal of developing a common standard necessary for the implementation of open banking in Georgia and to support the project's further development. As of 31 March 2021, open banking services became available in Georgia. By 2024, the following API services had been implemented: exchange of information on payment accounts; exchange of information on standard products; payment initiation services; remote identification via open banking; and bulk payment services.

In addition to these existing services, the following new types of API services became available in 2024:

- ◆ Initiation of multiple/repetitive payments.
- ◆ Initiation of scheduled, future-dated payments.
- ◆ Variable recurring payments.
- ◆ Information sharing services for deposits.
- ◆ Information sharing services for loans.

These new API services have been implemented based on international best practices and will play a significant role in the modernization of Georgia's financial ecosystem – particularly in enhancing competitiveness and transparency. Furthermore, the introduction of new API services will support the development of diverse business models. Consultations are ongoing with the banking and non-banking sectors to define new API services based on demand.

In 2024, active work was carried out to expand open banking services in Georgia and to integrate fintech companies into the open banking framework.

In 2024, as in the previous year, a number of individual meetings were held to share information about the capabilities and future development of open banking. These meetings involved both NBG-supervised entities and fintech companies, helping to shape the open banking ecosystem and inform participants of the benefits of open banking.

Interest in open banking has grown significantly in the non-banking sector. In 2024, two non-bank entities joined the open banking ecosystem and, as of early 2025, two additional non-bank organizations became participants. This trend clearly indicates that open banking services are becoming increasingly in demand among various financial service providers. The next stage in the development of open banking is the transition to open finance, which entails an expansion of the open banking concept to cover a broader exchange of financial data. Open finance will allow consumers to manage and utilize not only their banking account data, but also information related to insurance, investments, pension funds, and other financial services – all through unified, secure, and regulated infrastructure.

The National Bank of Georgia continues to strengthen the open banking ecosystem, ensuring high standards of data security and regulation, and supporting the digital transformation of the country's financial sector alongside the development of innovative services.

4.13 PROCESSING OF INFORMATION AND REGULATORY TECHNOLOGIES

In 2024, the National Bank of Georgia actively continued the use of the XBRL (Extensible Business Reporting Language) standard for the effective exchange of supervisory reports. In this process, the bank relied on Corefiling, a leading British information system provider, which provides technological support and ensures the functioning of relevant systems.

Within the framework of XBRL, the process of supervisory reporting is standardized and automated, allowing commercial banks and other supervised entities to submit data in both traditional and XBRL formats. Data accuracy is verified according to the established taxonomy, and banks can pre-check validation results, significantly reducing the risk of incorrect data submission and improving data quality.

Receiving reports in accordance with IFRS (International Financial Reporting Standards) remained a priority. All mandatory supervisory reports from commercial banks are received in

both traditional and XBRL formats. In 2024, the development of the XBRL taxonomy for local reports continued, which promotes data standardization and the transparent implementation of regulations. Additionally, the EBA CRD IV taxonomy was actively used for FINREP reports, ensuring compliance with EU banking regulations.

To enhance the efficiency of supervisory processes, the NBG uses an internally developed application that undergoes continuous updates and optimization. This platform ensures accurate data processing, analysis, and a more structured management of supervisory activities.

To improve data analysis and visualization processes, a transition to Power BI was implemented in 2024, replacing the existing Business Intelligence system. The adoption of Power BI enabled more flexible data analysis and the creation of dynamic and interactive dashboards, which became a significant tool for various parties involved in the supervisory process. In 2024, the NBG continued to actively develop directions for data standardization, transparency, and the improvement of technological infrastructure, which will ultimately significantly enhance regulatory and supervisory processes in the country.





CONSUMER RIGHTS
PROTECTION

5.1 IMPROVEMENT OF THE LEGISLATIVE FRAMEWORK

5.1.1. REGULATION ON PROTECTING CONSUMER RIGHTS

In 2024, efforts continued to improve the consumer-focused environment by studying and analyzing best international practices and the present challenges facing the sector. To enhance the standards of consumer rights protection in the financial sector in line with the requirements of the Association Agreement between Georgia and the European Union, the National Bank of Georgia made certain amendments to the *"Regulation on Protection of Consumer Rights in the Provision of Services by Financial Organizations"*, as approved by Decree No. 32/04 of 9 March 2021. Although the work on these changes began in previous years, they were only adopted and implemented in 2024 following close communication and discussions with the sector and other stakeholders. The changes addressed the following issues:

- ◆ Clarification of the definitions of "credit intermediary" and "total amount of credit", as well as correction of the definition of "deposit", which now includes current and card accounts that earn interest.
- ◆ As a result of the amendments, financial organizations are required to verbally inform consumers of the significant terms of a financial product before offering it, except in such cases where the product offer is made through remote communication means that preclude verbal communication—whereby this information is provided to the consumer in another way (including through remote communication means). Additionally, financial organizations must ensure that certain types of information and contracts are made available on internet and mobile banking platforms.
- ◆ The right to withdraw from contracts. According to the amendments, consumers have the right to withdraw from contracts concluded

remotely and from unsecured loans and loans secured with movable property of up to GEL 1 million within 14 days of their initiation. In case of withdrawal from a loan/credit agreement, the consumer will only cover the principal amount used, the interest for the period used, and the fees paid to the administrative body and notary. The regulation also specifies the obligation to include information in the contract about the conditions for exercising the right of withdrawal. Additionally, certain exceptions related to the exercise of this right are defined in the regulation.

- ◆ The amendments also affected the mandatory information to be included in the preamble of credit and deposit agreements. Specifically, financial organizations are required to indicate in the preamble whether there is a right to withdraw from the contract or not. Additionally, according to the amendments, financial organizations must include information in the preamble about the right to unconditionally extend the credit term if the credit is issued in accordance with the "Regulation on Lending to Individuals", as approved by Decree No. 44/04 of the Governor of the National Bank of Georgia dated 13 March 2020, taking into account Annex No. 1, Note 2 of the Regulation—specifically related to whether the consumer has the authority to unconditionally extend the term of the credit/loan.

In addition, the National Bank of Georgia initiated changes in the requirements for payment service providers. These changes involve more detailed regulations regarding the registration of consumer complaints, the requirements for responding to them, as well as the obligation to submit relevant reports to the National Bank of Georgia. These changes will enable the National Bank of Georgia to better analyze how payment service providers respond to registered consumer complaints and whether there are any deficiencies in this area, including at a systemic level, which may require further attention in the future. The implementation of these changes is planned for 2025.

Furthermore, to strengthen the competitive environment in the sector and promote consumer rights protection, the NBG has started working on another amendment to the regulation, which involves reducing the prepayment fee in cases of refinancing a loan/credit from one financial organization to another. The implementation of these changes is also planned for 2025.

5.1.2 COOPERATION BETWEEN REGULATORY AGENCIES IN THE FIELD OF CONSUMER RIGHTS PROTECTION

Collaboration among various national regulatory bodies regarding consumer rights protection has been ongoing for several years. Throughout 2024, in collaboration with the Georgian Competition and Consumer Agency and other regulatory bodies, the National Bank of Georgia organized Consumer Rights Protection Week and the international conference "Competition and Consumer Rights Protection" for the second time. These events provided information to both sector representatives and consumers about the NBG's actions in the field of consumer rights protection in the financial sector.

Additionally, at the initiative of the Georgian Competition and Consumer Agency, and with the involvement of sectoral regulatory bodies—including the NBG, the Communications Commission, GNERC, the Insurance State Supervision Service of Georgia, and the National Food Agency—the first National Strategy for Consumer Rights Protection was developed and supported by the Government of Georgia. This strategy aims to continue improving the legal framework for consumer protection and to strengthen consumer education and cooperation. Within the framework of the strategy, an action plan for 2024 was also developed, detailing the specific steps that the agency and regulatory bodies need to take to achieve the goals and objectives set out in the strategy.

MARKET CONDUCT SUPERVISION

Within the framework of the recommendations of the technical assistance mission from the World Bank, and in alignment with best international practices,

the National Bank of Georgia actively undertakes market conduct supervision. The primary objective of this is to strengthen risk-based supervision principles in the area of protecting the rights of financial sector consumers. In this regard, various indicators were developed in 2024 continuous monitoring of which allows to proactively identify potential risks and challenges in consumer rights protection and to plan appropriate response measures. Additionally, the NBG has developed a draft strategy for market conduct supervision, which will be made public for consultation in 2025. Furthermore, several thematic inspections were conducted in 2024 within the scope of market conduct supervision.

5.2 REMOTE AND ON-SITE INSPECTION OF CONSUMER RIGHTS PROTECTION STANDARDS IN THE FINANCIAL SECTOR; THEMATIC INSPECTIONS

For the purpose of monitoring the protection of the rights of financial sector consumers and observing the challenges present in the market, the National Bank of Georgia continued to actively conduct remote inspections of its supervised entities in 2024. Additionally, as mentioned earlier, thematic inspections were carried out within the scope of market conduct supervision in 2024, which went beyond standard inspections. For example, to monitor compliance with the requirements of the "*Code of Ethics for Loan Recovery by Financial Organizations*", as approved by Decree No. 14/04 of 17 February 2022, (hereinafter the "Code of Ethics"), an on-site thematic inspection of financial organizations began in 2024. This will continue into 2025 due to the number of financial organizations involved. Within the framework of various thematic inspections, a total of 15 financial organizations were inspected by the National Bank of Georgia in 2024. It is planned to publish consolidated information about the practices identified within the framework of thematic inspections starting from 2025.

In addition, throughout the year, the National Bank of Georgia carried out appropriate supervisory actions regarding violations of legislative requirements. In this context, written instructions were sent to five commercial banks, seven microfinance organizations, and 24 loan lending entities. Furthermore, fines totaling GEL 83,000 were imposed on four commercial banks, three microfinance organizations, and seven loan lending entities.

Starting from 2025, within the framework of legislative requirements, it is planned to publish information on the NBG's website about monetary fines imposed on each financial organization relating to consumer rights protection.

MYSTERY SHOPPER STUDY

In 2024, the National Bank of Georgia, with funding from the German Sparkassenstiftung Georgia foundation and the involvement of the research company ACT, conducted a mystery shopper study in the financial sector. This study assessed the compliance of services provided to consumers by selected commercial banks with the *"Regulation on Protecting Consumer Rights in the Provision of Services by Financial Organizations"*. Specifically, the focus was on the process of providing information to consumers through direct communication channels during the offering of loans/credit and the execution of contracts.

The study identified certain types of deficiencies, and communication with the relevant financial organizations has been established to address these issues. Work on resolving these deficiencies is ongoing and will continue into 2025.

CONSUMER COMPLAINTS

The Consumer Rights Protection Department of the National Bank of Georgia operates a division that responds to consumer complaints. In 2024, a total of 8,698 complaints were recorded, representing an approximate 3.4% increase compared to the previous year. This increase was primarily due to heightened complaints in the first half of the year,

while complaints in the second half of the year decreased by about 35% compared to the same period in the 2023.

As in previous years, in 2024 most complaints were registered via telephone. Specifically, 6,432 complaints (73.97%) were recorded through this channel, which is approximately 1% higher than the previous year. Following the telephone channel, the next most active channels were email and the dedicated page on the NBG's website for registering complaints. These channels accounted for a total of 1,127 complaints (12.95%). Written complaints accounted for 547 complaints (6.28%), social media for 232 (2.67%), and in-person visits for 358 (4.11%).

In terms of content, the majority of complaints in 2024 pertained to general issues/questions. As in previous years, complaints related to administration/services were also prevalent, with contract-related issues being the third most common subject. By product, the most frequent complaints related to problematic and consumer loans, as well as other types of products. It is noteworthy that the highest number of complaints were registered in relation to commercial banks, which is to be expected given their large number of customers.

5.2.1 CREDIT INFORMATION BUREAU

In terms of regulating the Credit Information Bureau, the Consumer Rights Protection Department of the National Bank of Georgia continued to study reports based on complaints registered in the bureau to identify deficiencies and inadequate practices. In 2024, a total of 119,059 complaints were registered in the Credit Information Bureau. Out of these, consumer identification and subsequent responses were provided for 16,844 complaints. In cases involving unidentified consumers, the bureau reviewed the issues but did not provide feedback.

In terms of content, the most prevalent issues among the complaints registered in the bureau included the following: complaints related to credit scores; dissatisfaction with the time of recording loan repayment information; complaints concerning

the accuracy of information displayed by the bureau; complaints about information verification without consumer consent.

During the examination of these complaints, deficiencies were identified not only within the Credit Information Bureau itself but also in financial organizations.

5.3 DATA ON CLAIMS RECORDED IN FINANCIAL ORGANIZATIONS

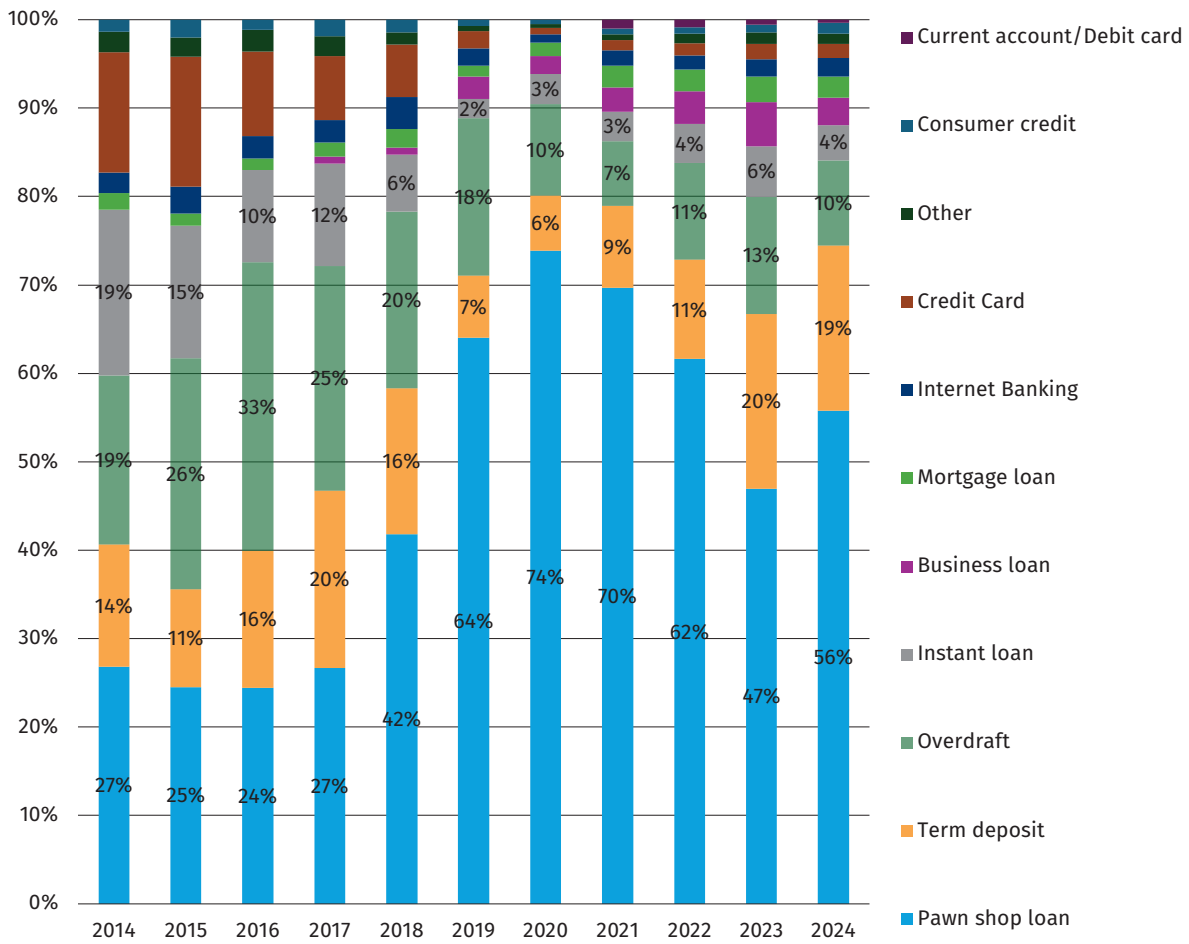
In accordance with the requirements of the *“Regulation on Protecting Consumer Rights in the Provision of Services by Financial Organizations”*, financial organizations submit monthly reports to the National Bank of Georgia on the complaints filed with them by consumers. These are also published on a monthly basis on the website of the National Bank of Georgia.

According to these reports, a total of 28,729 complaints were filed in commercial banks during 2024, which is an increase of approximately 26% compared to the previous year. This rise is mainly due to an increase in complaints related to payment services. It is worth noting that the number of complaints made to commercial banks has been increasing in recent years, which is mainly due to increased consumer awareness.

As in previous years, the nature of the majority of complaints filed in commercial banks still concern issues related to transactions, administration/ services, and contract terms. In terms of product types, the most common complaints were related to current accounts/debit cards, consumer loans, and credit cards.

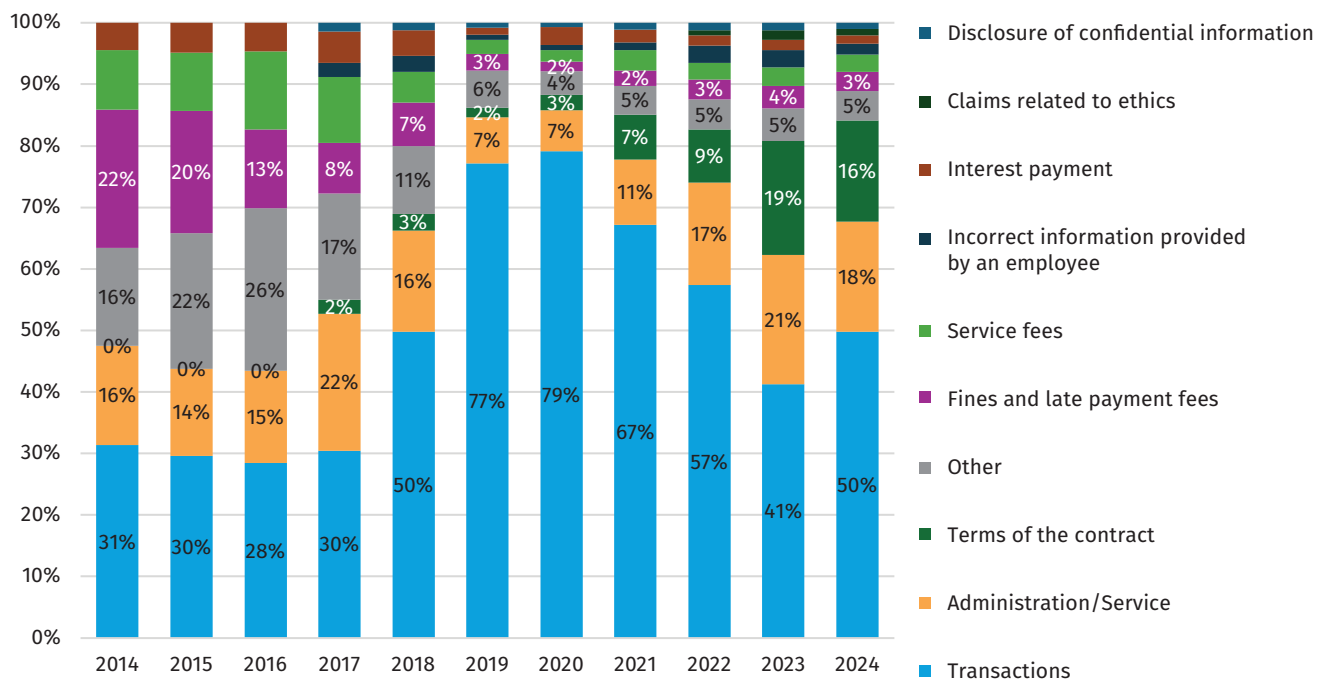
It is also worth noting that the number of substantiated complaints in relation to the total number is approximately 29%, which has not changed significantly compared to the previous year.

DIAGRAM 5.1 DISTRIBUTION OF CLAIMS MADE AT COMMERCIAL BANKS BY PRODUCT



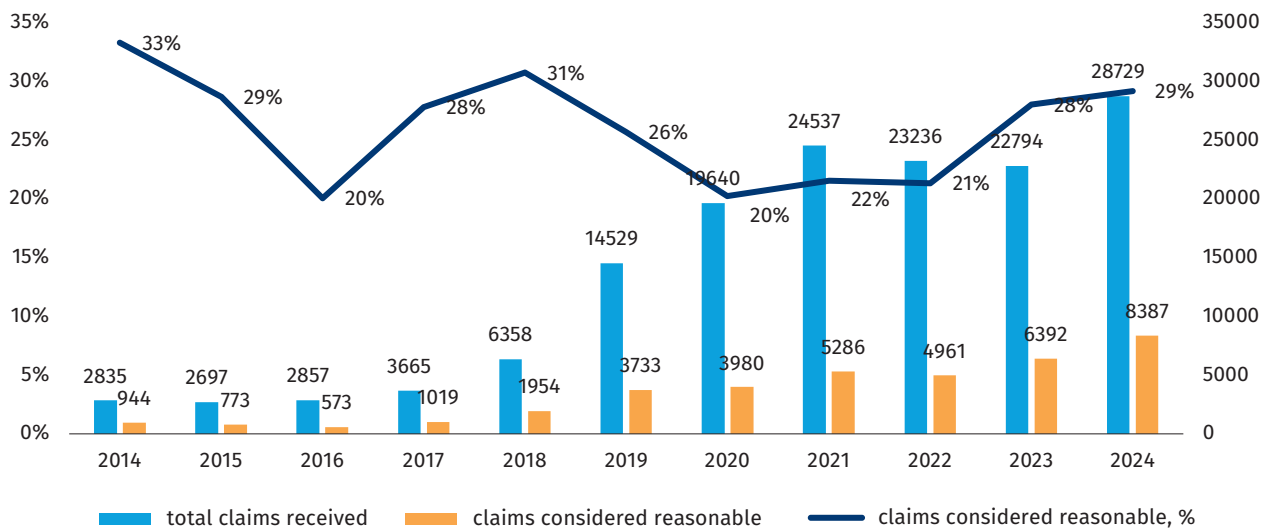
Source: NBG

DIAGRAM 5.2 DISTRIBUTION OF CLAIMS MADE AT COMMERCIAL BANKS BY NATURE OF COMPLAINT



Source: NBG

DIAGRAM 5.3 DISTRIBUTION OF CLAIMS MADE AT COMMERCIAL BANKS BY STATUS



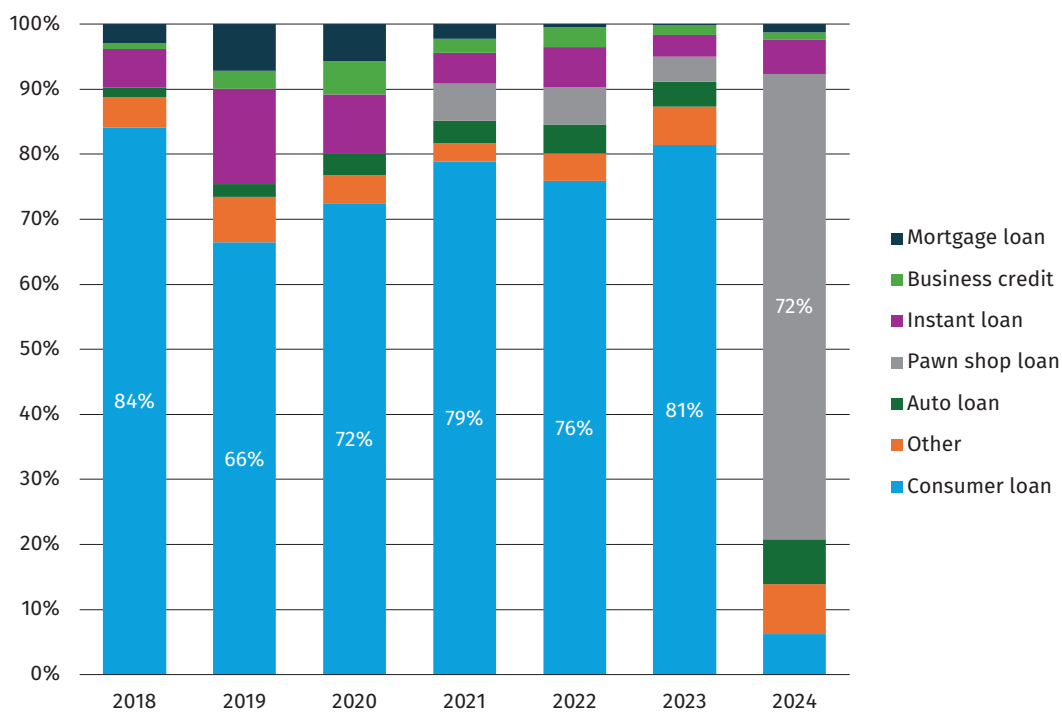
Source: NBG

A total of 798 complaints were registered in microfinance organizations in 2024, representing a 35% decrease from the previous year—a change that largely stemmed from the elimination of a previous technical defect in a microfinance organization.

About 42% of the complaints registered in microfinance organizations in 2024 related to administration/service issues, while complaints

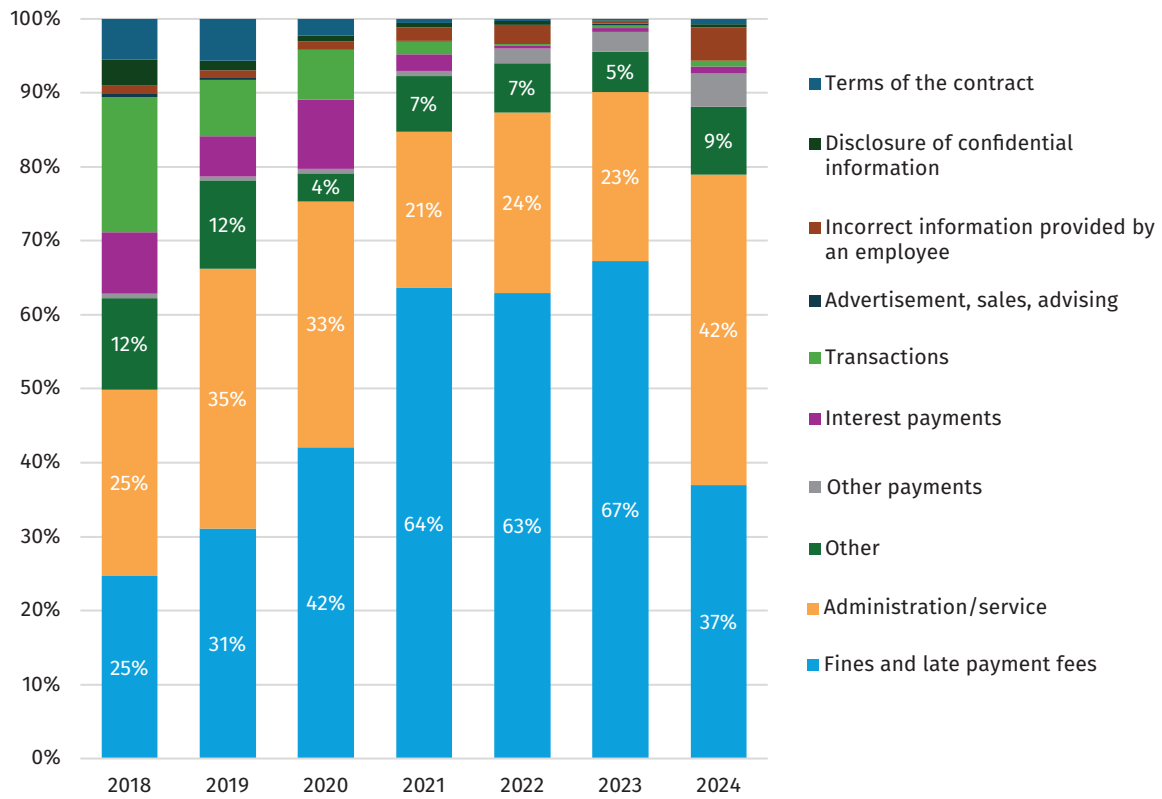
related to fines and late payment fees accounted for 37% of the total. As for the distribution of complaints by product, the largest number of complaints (72%) concerned pawn shop loans, while the remaining complaints, as in the previous year, related to consumer and auto loans. The share of substantiated complaints was approximately 51%, which is a decrease compared to the previous year.

DIAGRAM 5.4 DISTRIBUTION OF CLAIMS AT MICROFINANCE ORGANIZATIONS BY PRODUCT



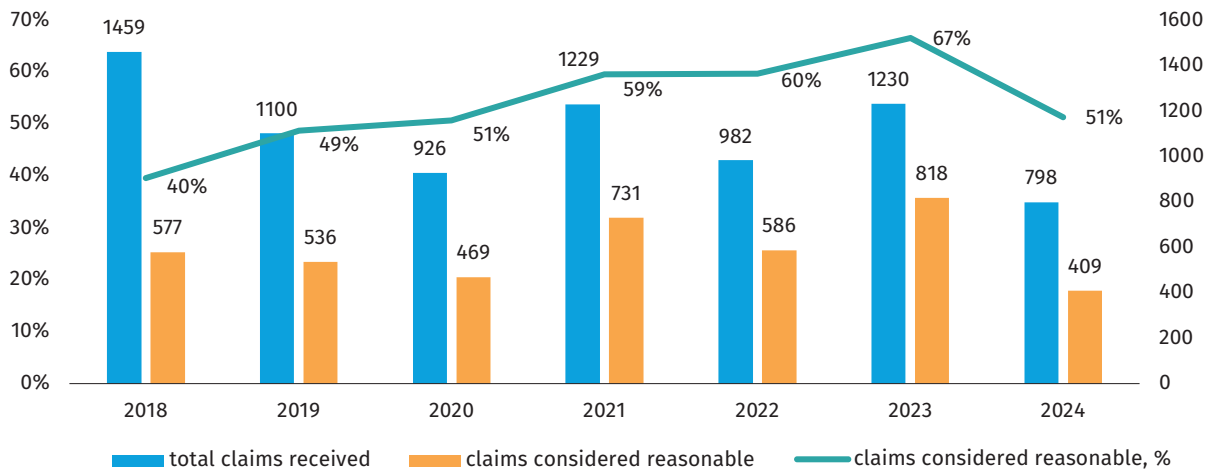
Source: NBG

DIAGRAM 5.5 DISTRIBUTION OF CLAIMS AT MICROFINANCE ORGANIZATIONS BY NATURE OF COMPLAINT



Source: NBG

DIAGRAM 5.6 DISTRIBUTION OF CLAIMS AT MICROFINANCE ORGANIZATIONS BY STATUS

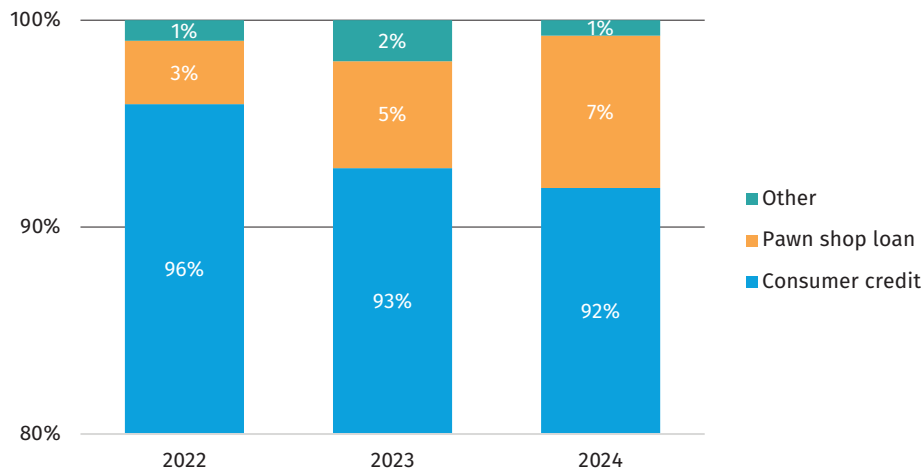


Source: NBG

In 2024, a total of 1,457 claims were recorded in loan lending entities. This represents a reduction of around 24% from the previous year. This decrease, alongside changes in the distribution of the nature of the claims, largely result from the elimination of previous inaccuracies in the registration of claims.

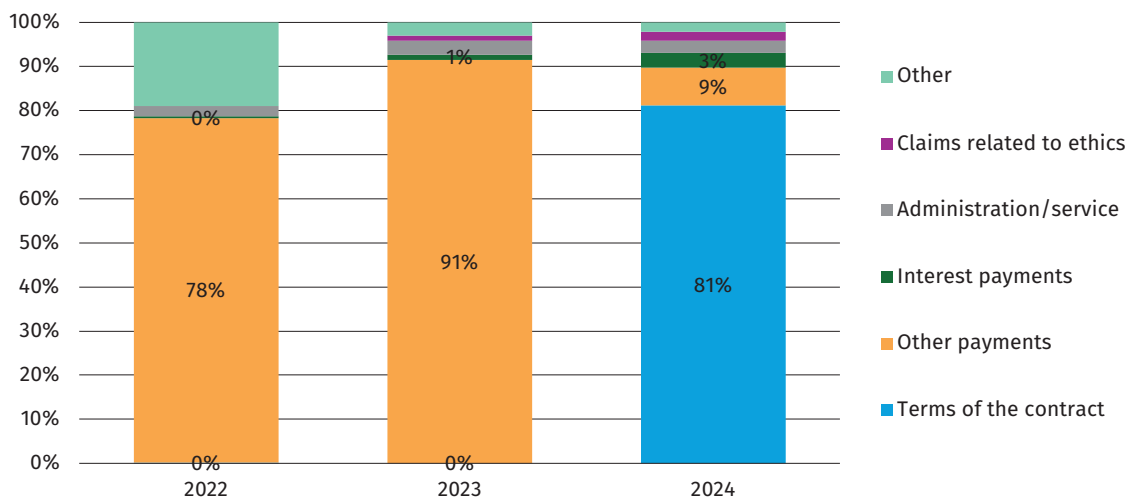
In terms of the nature of the complaints, the majority of claims, about 81%, concerned issues related to the Code of Ethics, while in terms of product type, claims were most often recorded in relation to consumer and pawn shop loans. The share of substantiated claims is quite low at only 2%.

DIAGRAM 5.7 DISTRIBUTION OF CLAIMS IN LENDING ENTITIES BY PRODUCT



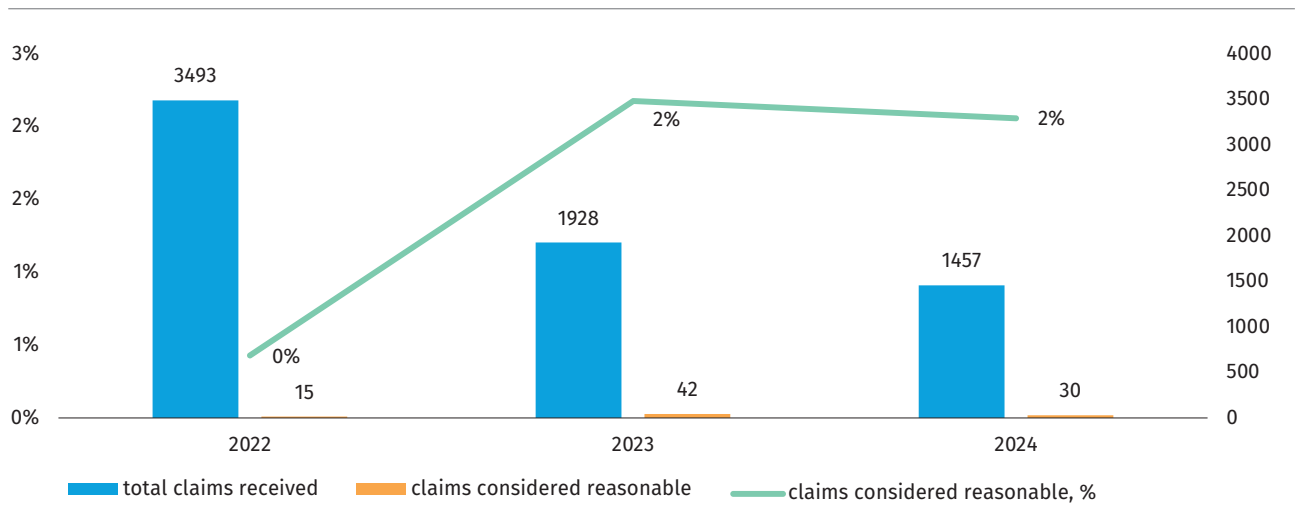
Source: NBG

DIAGRAM 5.8 DISTRIBUTION OF CLAIMS IN LENDING ENTITIES BY NATURE OF COMPLAINT



Source: NBG

DIAGRAM 5.9 DISTRIBUTION OF CLAIMS IN LENDING ENTITIES BY STATUS



Source: NBG





FINANCIAL EDUCATION

6.1. FINANCIAL EDUCATION

Throughout 2024, the promotion of financial education in Georgia continued in accordance with the National Strategy for Financial Education (hereinafter the “strategy”), which was last updated in 2023. This strategy defines new priority directions and objectives based on Georgia’s unique experience and has introduced new visions, fostered active collaboration with stakeholders, and made financial education opportunities more accessible to the broader public.

Initially, the strategy targeted priority groups, including students, teachers, and the adult population. In 2023, new, more defined segments were added, including women, emigrants, entrepreneurs, and rural populations. Consequently, the form and scope of financial education activities expanded and became more diversified. Ensuring the sustainability and continuity of these activities remained a significant focus throughout 2024.

Support from stakeholders interested in promoting financial education was actively expressed and, over the course of the year, various activities and events reflected a growing awareness of the key themes of financial education. These included Global Money Week, World Savings Day, International Consumer Rights Day, Insurance Day in Georgia, International Youth Day, and Cybersecurity Awareness Month.

Several competitions tailored to the needs of the specific segments identified by the strategy were also held. A notable new competition was "My Path as an Emigrant", where emigrants shared their experiences and advice through short texts and video materials. Other competitions included the video contest "Youth on Finance and Entrepreneurship", where young people created short educational videos on entrepreneurship and financial education, and the literary contest "Teach Finance through Literature", where school pupils explored financial education topics through creating literary works.

Throughout the year, numerous training sessions were conducted to empower priority segments, including training of both direct beneficiaries and

multipliers such as active trainers. Various new projects were initiated, and training modules were developed for use by interested parties.

Assorted reading and video materials were prepared to effectively integrate key financial education issues into the educational process; moreover, a board game, "Financial Association Game", was developed, through which school pupils can learn financial education terms in a playful, engaging, and creative manner.

WORK OF THE STRATEGY MANAGEMENT COMMITTEE

In 2024, financial education projects and activities were implemented in accordance with the priorities set by the Strategy Management Committee.

On 16 February, the 8th regular meeting of the Strategy Management Committee was held at the National Bank of Georgia. In addition to members of the committee, the meeting was attended by representatives from the public, civil, educational, and private commercial sectors, as well as interested commercial banks.

The meeting summarized the activities carried out in 2023 to promote financial education in Georgia and approved the action plan for 2024. Participants discussed present challenges and opportunities for expansion, outlined their priorities and set future plans, which were subsequently refined and implemented during working meetings organized throughout the year.

The financial education platform, www.finedu.gov.ge

The National Bank of Georgia’s financial education platform, www.finedu.gov.ge (“Finedu”) and its social media channels (Facebook, Instagram, LinkedIn, YouTube, and TikTok – the latter of which was added this year), continued to be one of the dominant and more flexible media tools for spreading financial education across Georgia throughout 2024.

The website was enriched with new educational reading and video materials, and provided regular information about the various events, competitions, and campaigns that were conducted.

Throughout 2024, Finedu's website was visited by 207,144 unique users. The platform was also active on social networks, reaching nearly 1.9 million users on Facebook, while the number of followers on Instagram and LinkedIn reached almost 6,000.

ANNUAL AWARENESS-RAISING EVENTS

Various thematic campaigns have paid special attention to the spread of financial education. Throughout 2024, the Finedu web platform and social channels were used to echo several key local and international awareness-raising events, including Global Money Week, World Savings Day, International Consumer Rights Protection Day, Insurance Day in Georgia, International Youth Day, Cybersecurity Awareness Month, Women Entrepreneurs' Day, International Students' Day, the International Day of Micro, Small and Medium Enterprises, Earth Day, and the project "Invite Finedu to the Classroom".

Global Money Week

Global Money Week was established in 2012 and is celebrated annually in over 170 countries. Its aim is to spark interest in financial, economic, and entrepreneurial topics among children and young people, raise awareness, and promote these subjects. In 2024, the theme of Global Money Week was "Protect Your Money, Secure Your Future", with the slogan "Learn. Save. Earn". The main topics were money, money-related issues, and financial security.

Georgia joined this international event for the tenth time in 2024. The campaign, which ran from 18-25 March was organized by Finedu, with various resources being contributed by partner organizations: the Georgian Bankers' Association, the Pension Agency, the Insurance State Supervision Service of Georgia, JSC "Bank of Georgia", JSC "TBC Bank", JSC "Basisbank", JSC "Terabank", JSC "ProCredit Bank", JSC "Credo Bank", JSC "Microbank MBC", Caucasus International University, Alte University, Insurance Company "Unison", National Palace, and the online publication "Business Insider Georgia".

In 2024, Global Money Week was celebrated on a large scale in Georgia with various projects:

"Invite Finedu to the Lecture Room"

One of the projects within Global Money Week was "Invite Finedu to the Lecture Room", where trainers prepared by Finedu visited interested higher and vocational education institutions and conducted training sessions for students.

The training topics focused on budgeting, saving, and financial security. The project involved 150 students from six educational institutions in various regions of Georgia. At the end of the training, students were given educational materials and certificates of completion.

"Invite Finedu to the Classroom"

Among the activities of Global Money Week, another notable and in-demand project was "Invite Finedu to the Classroom".

Within the framework of this project, employees of the National Bank of Georgia and partner organizations, upon invitation from interested teachers, visited school pupils in grades III-XII as Finedu ambassadors and conducted open lessons. The ambassadors introduced financial education to the pupils in an interesting and understandable way, including topics on money and the history of Georgian money, the importance of money management and saving, budgeting, financial products, and financial security. In the interactive lessons, pupils shared their attitudes and experiences with the invited guests.

As part of the project, up to 50 employees of the NBG and representatives of partner organizations visited schools as ambassadors. The project supporters were JSC "Bank of Georgia", JSC "TBC Bank", JSC "Basisbank", JSC "Terabank", JSC "Credo Bank", JSC "Microbank MBC", and Caucasus International University. On a nationwide scale, open lessons were conducted in a total of 101 schools, reaching nearly 4,500 students in 167 classes. Students were given special educational materials, and supporting teachers received certificates of appreciation.

Public Panel for Students and Graduates

On 20 March, a public panel for young people was held at Alte University on the topic "Protect

Your Money, Secure Your Future". The event was organized by the National Bank of Georgia together with the Georgian Bankers' Association. The meeting was opened by Teimuraz Khomeriki, a member of the NBG's Board.

Representatives from the Georgian Bankers' Association, the Pension Agency, the Insurance State Supervision Service of Georgia, JSC "ProCredit Bank", JSC "Bank of Georgia", JSC "Basisbank", JSC "Microbank MBC", and the insurance company "Unison" participated in the event.

The speakers discussed the following topics with the audience: cyber threats for students, personal data protection, security recommendations for online banking or social media use, career opportunities in the cybersecurity sector, personal financial planning, the importance of preparing for retirement from an early age, insurance, and cyber insurance.

At the meeting, young people were able to ask questions to the professionals in the field. At the end of the event, they participated in a thematic quiz, and the winners received branded souvenirs.

World Savings Day

World Savings Day, held annually on 31 October, has been celebrated for a century since its establishment in 1924. In Georgia, the event was celebrated for the thirteenth time in 2024. Its aim is to raise awareness about the benefits of saving, especially among children and young people, and to encourage saving. Support for World Savings Day in 2024 was expressed through the aforementioned popular project "Invite Finedu to the Classroom", which had a new addition in 2024: as part of the traditional open lessons, Finedu ambassadors were able to introduce financial terms to school pupils in grades VII-IX with the help of a newly developed board game called "Financial Association Game". The introduction of this was not limited to just the open lesson held within the campaign, as the board games were subsequently given to the classes as gifts, allowing pupils to continue to deepen their knowledge of financial topics, issues, and terms.

About 50 employees from the NBG and JSC "Bank of Georgia" participated in the campaign dedicated to World Savings Day, and fun lessons were conducted for nearly 1,100 students.

World Consumer Rights Day

World Consumer Rights Day was first established on 15 March 1983. In 2024, Georgia's consumer rights protection regulatory bodies and the financial sector participated in this international campaign for the fourth time.

The direct aim of the planned events and materials related to the campaign was to raise awareness among consumers about their rights. To support the campaign, informational materials were posted on Finedu's media platforms, and a live video session titled "Expert on Finedu" was conducted.

Insurance Day in Georgia

Insurance Day in Georgia has been celebrated annually on 2 May since 2022. It was jointly initiated by the National Bank of Georgia and the Insurance State Supervision Service of Georgia, with the support of the Georgian Insurance Companies Association and with the involvement of representatives from the insurance sector. Its aim is to raise public awareness about insurance.

In 2024, Insurance Day was marked on the Finedu platform's website with a mini-competition. The winners of the competition received Finedu-branded items and an educational board game created by the Insurance State Supervision Service of Georgia.

International Youth Day

In 2024, several thematic activities on the topic of financial education were dedicated to the youth – one of the priority segments of the broader financial education strategy. One such activity, was the recognition of International Youth Day on 12 August, which was celebrated on the Finedu platform and included a competition, thematic posts published as part of a Facebook campaign, and specially created reading and video materials for students.

Cybersecurity Awareness Month

October is Cybersecurity Awareness Month. The international campaign to raise awareness about cybersecurity was first established in 2004, with Georgia joining the annual event for the fourth time in 2024.

The 2024 campaign was dedicated to identifying and preventing cybercrime and raising awareness about the topic. The campaign was conducted under the slogan "Protect Our World", within which informational thematic materials were published, and a mini-competition was held.

Women's Entrepreneurship Day

On 19 November, which is Women's Entrepreneurship Day, a special video was distributed on the Finedu platform, in which a woman entrepreneur shared her success story with the audience and talked about underlying challenges, ways to overcome them, and the particular importance of financial literacy in achieving goals.

The video was prepared by the National Bank of Georgia with the support of the German Sparkassenstiftung Georgia (DSIK) fund.

International Students' Day

On 17 November, to celebrate International Students' Day, useful financial advice for students was shared on Finedu's social networks.

International Day of Micro, Small and Medium Enterprises

The International Day of Micro, Small and Medium Enterprises falls on 27 June. The day serves to raise awareness about the importance of this business sector for national and international development. Finedu marked the date with a thematic information campaign.

Earth Day

Despite various efforts, environmental challenges are increasing year by year, significantly affecting the economic sustainability of both countries and individuals. Therefore, environmental issues have naturally become part of financial education.

Earth Day, falling on 22 April, has been celebrated worldwide since 1970 and in Georgia since 1990. Annual large-scale awareness-raising events are conducted to draw the population's attention towards various environmental problems. In 2024, the campaign's slogan was "Planet Against Plastic". Thematic material was published on Finedu platforms as part of this day.

Information Campaigns on Social Networks

Throughout the year, several information campaigns were conducted on Finedu to disseminate information about various current topics in financial education. These campaigns were sometimes dedicated to a specific target segment or the promotion of a particular topic.

Segmented Campaigns

Among the various segmented information campaigns undertaken during the year, those dedicated to women stand out. Seeking to promote women's empowerment and enhance their financial education, from 3-8 March a week dedicated to women was declared on the Finedu platform, and later, from 25 November to 10 December, Finedu joined the international campaign against violence towards women. The slogan for the information campaign was #FineduForWomen. Within the framework of the campaign, interesting statistical and educational materials, including video content, were shared for women.

The campaigns dedicated to women, in addition to providing informational support, were particularly aimed at encouraging entrepreneurship. For this purpose, entrepreneurial materials specifically dedicated to women were published.

The segmented social network campaigns dedicated to teachers and parents were also notable. February was declared the month of teachers on Finedu, and June was dedicated to parents and children. Accordingly, financial topics and materials that help teachers and parents provide timely and adequate financial information to children were highlighted.

Thematic Campaigns

Tailored information campaigns on particular topics continued on Finedu throughout 2024. For example, June was dedicated to the issue of responsible lending, and the campaign #BorrowResponsibly was conducted. Within the framework of the campaign, advice, blogs, and video materials were posted on the Finedu platform to help interested users make informed and suitable decisions when using loans. November was dedicated to raising awareness about the importance of saving, and a special campaign #SaveWisely was held. Within the framework of the campaign, information about the necessity of saving was shared, and thematic advice and practical tips were published.

Financial Education Competitions

To increase interest in financial education among the population and to present financial issues in an accessible format, Finedu's channels featured a number of creative competitions throughout 2024:

Teacher Competition "Financial Education in School" (Finale)

On 24 January 2024, which is International Education Day, the concluding event of the teacher competition "Financial Education in School", which had commenced the previous year, was held. This was organized by the NBG, the Ministry of Education, Science and Youth of Georgia, and the Insurance State Supervision Service of Georgia. According to the competition's conditions, participating teachers were required to create interesting educational activities related to financial literacy issues provided by the national curriculum.

The aim of the competition was to interest students in financial education issues, create supplementary educational materials around the financial literacy issues within the national curriculum, and support the learning process.

A total of 65 teachers from private and public schools across all regions of Georgia participated in the competition. On 15 January, 20 teachers were chosen to advance to the final stage of the competition. At

the concluding event that followed, the teachers presented their lesson ideas. Their ideas were evaluated by a jury consisting of representatives from supporting organizations according to the criteria defined in the competition's conditions. After the teachers' presentations, five special prize winners, two second-place winners, and three first-place winners were identified. The winners all received prizes and all finalists were awarded special certificates, commemorative gifts, and educational materials.

The supporters of the teacher competition "Financial Education in School" were the Forum of Civic Education Teachers, JSC "Bank of Georgia", JSC "TBC Bank", JSC "Basisbank", JSC "Liberty Bank", JSC "Credo Bank", PSP Insurance, and the Georgian Insurance Group.

Competition "Teach Finance with Literature"

World Book and Copyright Day was established by UNESCO in 1995 and is celebrated annually on 23 April. On that date in 2024, to support the universal and special significance of books and to promote financial education topics, as well as to demonstrate the integration of financial issues in various fields, the NBG, through the Finedu channels and in collaboration with partner organizations, announced a competition for schools and teachers titled "Teach Finance with Literature".

According to the competition's conditions, school teachers, together with their pupils, were to select a literary work whose plot or idea was related to financial education issues, financial challenges, and opportunities.

The aim of the competition was to broaden students' horizons and enhance their knowledge through the unconventional presentation of financial education topics, encouraging the development of correct financial behaviors and attitudes.

A total of 43 schools, 54 teachers, and nearly 1,000 pupils from various regions of Georgia participated in the competition, and ultimately, 10 schools and 20 teachers were named among the winners.

The winning schools received GEL 500 worth of books for their school libraries, and the winning teachers received GEL 50 vouchers as well as a free one-year subscription to the electronic book library "Saba".

The supporters of the competition were JSC "Bank of Georgia", JSC "TBC Bank", JSC "Basisbank", and JSC "Credo Bank".

Competition for Emigrants "My Path as an Emigrant"

Emigrants are one of the priority segments of the financial education strategy. To support emigrants and better represent the challenges and opportunities they face, the NBG, through its Finedu channels, announced the competition "My Path as an Emigrant".

The aim of the competition was for individuals with emigration experience to create textual and video materials that would inform the target audience about real challenges and opportunities, present success or failure stories, and also to reflect on the importance of financial knowledge, behaviors, and attitudes necessary for making wise financial decisions.

The submission period for competition entries lasted from 19 July to 30 September. The entries were evaluated by a jury consisting of representatives from the National Bank of Georgia, the National Center for Teacher Professional Development, the Ministry of Foreign Affairs of Georgia, the International Organization for Migration, and JSC "Microbank MBC", according to the competition's requirements and criteria.

On 18 December, which is International Migrants Day, eight winners of the competition were announced. Each received cash prizes from the supporters of the competition.

The supporters of the competition were JSC "TBC Bank", JSC "Basisbank", JSC "Microbank MBC", the International Organization for Migration (IOM), the Ministry of Foreign Affairs of Georgia, and

the National Center for Teacher Professional Development.

Competition Dedicated to International Youth Day

International Youth Day has been celebrated annually on 12 August since 1999. Its main goal is to highlight and encourage the role of young people in addressing the challenges facing society. Young people are one of most numerous and significant segments of the financial education strategy. In 2024, the National Bank of Georgia, together with partner organizations, marked International Youth Day for the fourth time and, along with an information campaign, held a special competition. On 12 August, with the support of partner organizations JSC "Basisbank", JSC "Credo Bank", and JSC "Microbank MBC", the NBG announced a video competition for young people titled "Youth on Finance and Entrepreneurship".

The goals of the competition were to spread financial education topics among the younger generation through interesting and informative methods; to propagate financial education topics among young entrepreneurs; and to encourage wise financial behaviors and entrepreneurship in young people.

As part of the competition, participants aged 18-29 were required to create short educational videos presenting the idea of promoting entrepreneurship in young people, starting a business or developing a startup, or the essential importance of financial education on the path to success for entrepreneurs.

The final event was held on 27 September at the head office of the National Bank of Georgia, where the organizers announced the winners of the competition. Four winners of the competition were announced – three of whom were chosen by the jury's assessment, and the fourth, the "Viewer's Choice", was determined based on the reactions of users on Finedu's Facebook page. All finalists were awarded symbolic gifts.

The video materials created by the finalists and winners were posted on the Finedu website.

Projects to Attract Multipliers

In 2024, the Financial Education Department of the NBG initiated two new projects to attract multipliers, aimed at supporting the process of universalizing financial education across the country:

Supportive Project to Empower Active Trainers and Training Organizations

Within the framework of a special project, the NBG, through the Finedu channels, offered collaboration with independent trainers and training organizations. The project aimed to involve interested parties in a special certification training project run by the NBG, providing them with relevant knowledge, educational materials, and mentoring support. This project was carried out in two stages.

The first stage involved conducting a two-day training course that included providing theoretical material on financial education topics along with practical activities in the form of simulated training sessions. The intensive learning course also aimed at developing skills in creating training modules and learning methodologies in the field of financial education. The main topics of the training were budgeting, savings, loans, taxes, consumer rights, and financial security.

In the second stage, trainers and training organizations were required to conduct training events independently or in affiliation with another organization. The trainers themselves chose the training topics from financial education or related themes, as well as their preferred audience from priority segments (women, migrants, rural population, adults, student-youth, etc.). A three-month period was allocated for conducting the training sessions. Trainers were provided with all necessary resources for conducting sessions, including main and supplementary materials for the training module and handbooks.

Both stages were successfully completed in 2024. As a result, trainers were awarded certificates confirming their qualification to conduct training courses in financial education. A total of 34 trainers were trained, who in turn reached nearly 300

beneficiaries within the framework of this project alone. However, the ultimate number of training sessions conducted and, accordingly, the number of beneficiaries involved, are much larger as a result of the continued use of the materials the trainers received after the project's completion.

Project "Finedu Trainer" to Attract Paid Trainers

To attract paid trainers, the NBG, with the involvement and support of JSC "Bank of Georgia", launched a new pilot project called "Finedu Trainer" through the Finedu channels.

The framework of the project planned to select and train trainers living in the regions of Georgia, who would in turn go on to conduct nine different thematic training sessions with the local population throughout 2025. The project envisaged the involvement of the NBG in the training of trainers, providing resources, organizing the process, and monitoring progress, while the remuneration of trainers was planned with the participation of JSC "Bank of Georgia". Due to the educational objectives of the project, preference in the selection process was given to residents of the border and highland regions of Georgia.

The project had several simultaneous goals: raising financial education among the population, supporting the development of personal and family financial management skills, organizing meetings in certain regions throughout the year, popularizing financial education issues, and supporting the financial empowerment of highland and border populations.

After the project was announced, an online orientation session was held on Finedu for interested participants. Participants received information about the project's idea, participation conditions, selection stages, and the specifics of the training sessions to be conducted by the trainers.

More than 200 interested participants expressed their interest in the project, from which 18 representatives from the Samtskhe-Javakheti,

Kvemo Kartli, Shida Kartli, Kakheti, Imereti, Guria, Samegrelo, and Racha-Lechkhumi regions were selected. Each of these representatives underwent special trainer training during November 2024. Over three days, the participants mastered the material, the necessary skills for being a trainer, and discussed the peculiarities of their regions and the challenges in the learning process. All participants were subsequently awarded a Finedu Trainer certificate.

In the next stage, with the support and coordination of Finedu, the trainers conducted demonstration training sessions for pupils of various schools. As a result of these, 11 trainers were finally selected, who each conducted a three-day thematic financial education training program in January 2025.

The Finedu trainers will conduct educational meetings for the population of their relevant residential regions within the framework of the project until the end of 2025.

Educational Activities Programs and Activities for Teachers

Teachers, as the most important intermediaries with the priority student-youth segment of the financial education strategy, are connected to Finedu through various completed or ongoing projects:

Facebook Group "Finedu Teachers' Hub"

Over the years, many interesting and engaging educational materials and resources have been accumulated on Finedu's channels within the framework of school projects. To further facilitate teacher's access to these materials, a special Facebook group, "Finedu Teacher's Hub" (ფინედუს სამასწავლებლო), was created for teachers; the aim was to improve access for teachers and bring together both participants of Finedu projects and other educators interested in teaching financial education.

In the group, teachers share their experiences, interesting resources, educational materials, and information about training or events. This helps them in both their professional development and planning interesting and engaging lessons for students.

"School-Bank" Training Series

Throughout 2024, the NBG continued to train teachers within the framework of the "School-Bank" project. This training module is a financial education program developed by the National Bank of Georgia and the international organization Aflatoun International (formerly Child and Youth Finance International) for school pupils in grades VII-IX, where lessons are compiled using interesting and accessible language for adolescents.

The project proceeds in two stages: first, the teachers themselves undergo training, and then they implement the acquired knowledge in schools, conducting the 15 lessons provided by the "School-Bank" module.

The training period lasted two days and covered all key issues of financial education, including saving and budgeting, responsible borrowing, banking products, consumer rights and responsibilities, and financial security. At the end of the training, all participating teachers were given corresponding educational materials and a certificate confirming their participation.

Throughout 2024, a total of 55 public and private school teachers from various regions and cities of Georgia attended the training. Additionally, the coverage area of the project was expanded and, along with those from schools, 11 trainers from one of the non-formal education institutions were trained to spread financial education to children in various regions.

Training for "Citizenship" Subject Teachers

Throughout 2024, face-to-face and online training sessions were conducted for teachers of "Citizenship". These were organized by the NBG and included one training session held in Kvareli at the NBG's Money Museum.

The training covered financial and economic literacy issues, as integrated into the "Citizenship" subject textbook for grades VII and IX according to the national curriculum. Specific topics included

money, the market, personal budgets, saving, loans, insurance, financial literacy, financial organizations and services, consumer rights and responsibilities, the state budget and taxes, and professions and employment.

Teachers were given full educational materials, which will be useful for planning lessons, along with certificates confirming their participation. Throughout the year, a total of 101 teachers were trained in this area.

Video Series with Teacher Participation

The NBG created a special series of video lessons on current financial education topics with the participation of teachers. In these video lessons, active teachers from Tbilisi and various regions of Georgia participated by giving short, approximately 10-minute, lessons on financial education issues.

The video lessons were published within the framework of an educational campaign for teachers. The aim was to present and motivate the involved teachers and to support them in effectively conducting the learning process.

Educational Activities for School Pupils and Students

Class Visits to the NBG

Similar to the previous year, throughout 2024 the National Bank of Georgia hosted pupils from interested schools in grades VIII-XII, providing them with interactive training tailored to their age and interests. The meetings were organized at the initiative of the interested teachers, and visits were planned for both individual classes and school financial education clubs.

The main part of the training was dedicated to introducing students to topics such as saving, budgeting, banking products, the financial system, and financial security. In the practical and interactive part of the sessions, the pupils discussed financial issues of interest to them and performed exercises to reinforce the information provided.

During 2024, 620 pupils from 22 school classes from

Tbilisi and various regions of Georgia visited the National Bank of Georgia.

Project "Invite Finedu to the Classroom"

The project "Invite Finedu to the Classroom" was successfully implemented twice during the year – within the frameworks of both Global Money Week and World Savings Day. During the scope of these information campaigns, employees of the NBG and partner organizations, serving as Finedu ambassadors, visited up to 220 classes across Georgia, conducting interesting lessons on financial education and distributing printed educational materials to nearly 5,500 students.

Online Training for Students Living in the Occupied Territories of Abkhazia

In October, in an initiative organized by the National Center for Teacher Professional Development, Finedu conducted two-day online training sessions for pupils in grades IX-XI living in the occupied territories of Abkhazia.

The training on financial education topics was conducted in two sessions that were attended by up to 90 pupils. The topics for discussion were chosen considering the age and interests of the students. A representative of the Finedu team spoke to the students about important financial issues such as saving, budgeting, banking products, the financial system, and financial security.

Support for the "Innovation Camp"

In 2024, as has become a tradition, the NBG supported the "Innovation Camp" event organized by "Junior Achievement Georgia" as part of the framework of the project "Support for Entrepreneurial Education in Europe and Eurasia" arranged by the United States International Development Agency (USAID).

Up to 100 pupils from various schools usually participate in the "Innovation Camp". Participating teams develop business ideas according to the given theme, create projects, and present them to the jury members at the final stage.

In 2024, the NBG participated in three "Innovation Camp" project events. Representatives of the NBG participated as jury members and, along choosing the winning teams, also named Finedu's chosen team.

Forum at the National Youth Palace

During the year, the NBG supported a youth forum held at the National Palace, in which 50 pupils from various schools in Tbilisi participated. Within the framework of the event, participants were required to prepare projects related to various challenges and present them to experts in the relevant field to seek possible support for their implementation.

Among the working topics were two issues related to financial education: "Financial Literacy" and "Digital Security". Working in groups and, with the support of mentors from the National Palace's media club, the participants created and presented projects to be implemented by the end of the year.

Later, the pupils that were involved in the "Financial Literacy" project visited the NBG, where a special training session on relevant topics was conducted for them. They were also provided with educational materials to be distributed to the beneficiaries in the next stage of the project: the implementation of thematic activities on financial education.

Support for the "Intellectiad" Project

In the fall of 2024, through the Finedu platform, the NBG participated in the "Intellectiad 2024 - Autumn Season" event organized by the "Auditorium of Innovators" organization. The project, which was conducted in Imereti, aimed to provide non-formal education to young people through "What? Where? When?" type intellectual games and to spread various information among school pupils.

In the project, Finedu posed thematic questions on the topic of financial education, with special questions prepared for pupils of grades V-VI and grades VII-IX.

The project hosted 133 teams from private and public schools in Imereti. In total, nearly 600 school

students participated. The winners were awarded Finedu-branded items and printed educational materials.

EDUCATIONAL PROJECTS FOR STUDENTS

A specially designed three-module training course for students, the "Guide to Students' Financial Independence", was conducted within the framework of various projects. The training course covered the following topics budgeting, saving, and financial security. The aim of the course was for participants to not only to acquire theoretical knowledge but also to reinforce it with practical exercises.

Within the framework of this module, training courses were conducted by both the employees of the National Bank of Georgia and trained multipliers. Specifically, employees of the National Bank of Georgia conducted training sessions for students of Telavi State University. Additionally, with the participation of trainers trained by the NBG, the project "Invite Finedu to the Lecture Room" was implemented, within which the training modules were taught to students of six higher and vocational education institutions.

Financial Education Corner in Akhaltsikhe

In 2024, within the framework of Mastercard's financial education project, and with the support of the National Bank of Georgia, USAID, and the UN Association of Georgia, a financial education corner was opened at Samtskhe-Javakheti State University, which housed financial education materials developed by the National Bank of Georgia. This gives students an additional opportunity to better acquaint themselves with and study financial education issues.

Educational Sessions at Shaori Youth Camp

To interest young people in financial education topics, visits to youth camps to conduct informational interactive sessions were carried out for the second time in 2024.

The "Shaori Youth Camp" is held under the "Youth Agency" LEPL with the support of the Ministry of

Education, Science, and Youth of Georgia. Its main goal is to increase accessibility to active recreation for young people, encourage social integration, provide support for the development of physical and intellectual potential, promote healthy lifestyles, support the establishment of national and European values, and encourage of patriotic values.

At the camp, employees of the NBG introduced the activities of the NBG to young people and spoke about insurance, banking products, consumer rights, and financial literacy. Discussions focused on financial management, saving, budgeting, their importance, as well as existing opportunities and challenges. The final part of the sessions was dedicated to an interesting quiz, which gave young participants the opportunity to demonstrate their knowledge of financial education issues. The winning participants were given symbolic gifts and Finedu-branded items. Nearly 300 young people participated in the meetings conducted across three sessions.

Educational Activities for Women

As part of the efforts to enhance women's financial education, several information campaigns and training sessions were conducted throughout 2024.

Information Campaigns

Information campaigns directed at women were conducted during the week of 3-8 March, as well as from 25 November to 10 December. During these periods, several activities were carried out to enhance women's financial education and encourage better utilization of their potential.

Finedu marked the Women's Week (held from March 3-8, around International Women's Day) with an information campaign and, together with the association "SOS Children's Village Georgia", conducted training sessions for the target audience, aiming to empower women in achieving financial independence and boosting their confidence. The training covered key financial education topics such as budgeting, saving, and financial security.

The project was implemented with the financial support of the Federal Ministry for Economic

Cooperation and Development of Germany and the "Hermann Gmeiner German Fund" within the framework of the project "Support for Youth Self-Realization, Well-being, and Employment - VIBEs for youth".

Support for the Women Entrepreneurs' Empowerment Project

The NBG participated in the women's empowerment project of JSC "Microbank Crystal", whose primary audience was women, entrepreneurs, and the population living in the regions.

During a three-day meeting, participating women gained necessary knowledge and information through intensive lecture sessions and practical activities. Discussions focused on financial literacy, saving, gender-related cognitive bias, and community activities. A representative of the NBG introduced the participants to the activities and functions of the NBG and spoke about the role of financial education and the necessity and purpose of saving.

At the end of the training, participants were given educational materials and certificates confirming their participation.

Training for Incarcerated Women

In 2024, an employee of the NBG, together with the Center for Professional Training and Retraining of Convicts, conducted a two-day training session for incarcerated women at the 5th Penitentiary Institution.

The main topics of the training were budgeting, personal budget management, balance of expenses and income, and financial products, their characteristics, and practical methods of selection. Additionally, issues of financial security, types of financial fraud, and ways to avoid them were discussed.

A total of 17 incarcerated women participated in the training and the institution's library was subsequently gifted educational guidebooks from Finedu.

FINANCIAL EDUCATION ACTIVITIES FOR REGIONAL POPULATIONS

Financial Education Training in Marneuli and Akhmeta

The NBG participated in training events organized by Mastercard, which aimed to enhance the level of financial education among the population in various regions of Georgia. The training sessions were held in Marneuli and Akhmeta and were attended by various interested parties, including micro, small, and medium entrepreneurs.

Within the framework of the interactive meetings, participants listened to a lecture tailored to their needs from representatives of the NBG and also received information about banking and financial products, loans, financial accessibility, and mechanisms for protection against financial fraud.

FINANCIAL EDUCATION ACTIVITIES FOR THE EMIGRANT SEGMENT

Webinar Series - "Finedu in Support of Emigrants"

Throughout the year, Finedu actively worked on enhancing the financial education of emigrants and their family members.

With the involvement of the commercial banks JSC "Bank of Georgia" and JSC "TBC Bank", the National Bank of Georgia initiated and conducted an informational-educational webinar training course for several groups of emigrants using the Finedu channels.

The development of the training module was based on the results of a small, targeted study. The study identified certain knowledge gaps in financial education. According to emigrants, obtaining the knowledge to address these gaps would help them correctly set financial goals, use current opportunities in the financial market, and optimally manage their funds.

Registration was open to all interested parties, and over 90 people registered. The webinars aimed to support emigrants and provide them with important

information on financial issues. Over the course of one week, topics such as personal budgeting, saving, income management, risks and ways to identify them, banking products, money transfers, and the financial system were actively discussed. The course generated high interest among the listeners.

Meeting with Emigrants at the Kvareli Money Museum

On 18 July, the Kvareli Money Museum of the National Bank of Georgia hosted representatives of the Greek-Georgian Cultural Association and the Georgian folk song and dance ensemble "Iverieli". The visit of emigrants to the Kvareli Money Museum of the NBG was planned within the framework of the broader financial education strategy.

Representatives of the NBG held an educational meeting for up to 50 Georgian emigrants living in Greece, including students, and introduced them to the functions of the NBG, the basic instruments of financial education, and educational projects. In the concluding part of the meeting, the curator of the Money Museum offered the guests a special tour, introduced them to the history of Georgian money, and showed them the unique exhibits of the museum.

Support for the Finedu Project "Save More During Emigration"

On 15-16 February, with support of the International Organization for Migration (IOM), a two-day training for trainers of the State Employment Support Agency (SESA) was held within the framework of the project "Save More During Migration". The training topic was "Personal Financial Planning and Budgeting", which had the aim of enhancing the positive effects of labor migration. Along with the NBG, the project was also supported by JSC "Bank of Georgia".

The training covered various financial topics and issues: the impact of behavioral economics on personal finance and budget management, banking products for emigrants, and the reliability and security of the financial system. During the event, a representative of the NBG spoke to participants about the reliability and security of the financial system.

According to the plan, in the next stage of the project, the SESA trainers will train up to 100 employment consultants, who, in turn, will provide consultations to the beneficiaries of the employment agency and help form healthy financial habits.

Financial Education Activities for Entrepreneurs New Training Module

Entrepreneurs are one of the significant segments defined by the financial education strategy. In 2024, a new training module was developed that utilized elements of a special board game created by the German Savings Banks Fund "Sparkassen" for entrepreneurs.

Videos and Reading Material for Entrepreneurs

In 2024, within the framework of various information campaigns, several reading materials were created for entrepreneurs and, with the involvement of the German Savings Banks Fund "Sparkassen", three video series were developed, including one specifically for women entrepreneurs.

Training Course in Marneuli

In November, a training course was held for individuals interested in entrepreneurship in Marneuli. It was organized by the NBG and Finedu with support from the Network of Democratic Engagement Centers.

The two-day training had both theoretical and practical components. It aimed to inform micro and small-sized entrepreneurs and financial decision makers involved in business about the sources of business financing, products offered by financial institutions, business loans, the importance of financial accounting and analysis, and consumer rights protection. After the training, participants were given supporting educational materials and certificates.

Webinar on the Topic "Financial Education and Financial Stability"

A webinar for entrepreneurs was held with the organization of JSC "Terabank" and with the involvement of National Bank of Georgia employees.

During the webinar, speakers discussed topics and issues of financial education and financial stability with the interested audience. Throughout the session, listeners had the opportunity to familiarize themselves with the main aspects of financial education and financial stability, and to see trends, opportunities, and challenges in both directions.

Educational Materials Created Throughout the Year

The creation of appropriate educational materials is of the utmost importance for the implementation of educational projects. Throughout 2024, significant attention was given to this and the creation of such materials was encouraged with the direct participation of segment representatives. As a result of these activities, several new reading and video materials are now available, a special board game, "Financial Association Game," has been completed, and work has begun on two thematic comics intended for students.

Board Game "Financial Association Game"

International practice shows that learning through play is particularly effective. The NBG thus considers the development of materials in this direction to be a priority issue.

On the initiative of the National Bank of Georgia, and with the support of JSC "Bank of Georgia", the company "N Tamashobana Mziuri" created the first Georgian board game on financial education. Through the "Financial Association Game" game, children learn and explain financial terms depicted on special cards in an interesting way. The game was used during classroom visits conducted within the framework of the World Savings Day campaign and was well received by school pupils.

Works Created Within the Framework of Teacher Competitions

In 2024, two teacher competitions, "Financial Education in School" and "Teach Finance with Literature", were completed. The works of the finalists of both competitions were posted on the Finedu website.

Both competitions served to create supplementary educational materials for teachers that would help present financial education issues, as defined by the national curriculum, to students in an interesting and diverse manner.

Any teacher can use the materials posted on the Finedu website in PDF format either directly for their intended purpose or can develop new activities using the existing ideas.

Video Lessons for Teachers

To cover financial education topics in a simple and concise manner, the NBG created a series of special video lessons on current financial education topics in 2024. In the video lessons, active teachers from Tbilisi and the regions of Georgia participate in discussing financial education issues.

The videos explain the financial and economic literacy issues defined by the national curriculum in simple and understandable language, these include topics on financial organizations and the National Bank of Georgia, financial products and services, consumer rights and responsibilities, financial fraud and financial security, insurance, professions and employment, and the state budget and taxes.

The video lessons significantly help teachers in effectively conducting the academic process and students in better understanding the curriculum. Interested parties can watch the series of videos on the Finedu website and social media channels.

Animated Videos for Emigrants

With the support of JSC "Bank of Georgia" and JSC "TBC", the NBG prepared two animated videos specifically for emigrants. These introduce emigrants to Georgian banking products tailored to them, cover the specifics of remotely opening an account, and provide advice about effectively managing finances. The videos, like other developed materials, are available on the Finedu channels.

Videos for Women

To empower and inform women, the Finedu team, with the involvement and support of the German

Sparkassenstiftung Georgia, prepared five videos on different topics, including one in animated format and four with the participation of professional speakers from various fields.

The videos help inform women about important and current issues such as financial education, legal rights, access to education, and financial inclusion. In each video, a specialist in the field talks about the challenges and opportunities facing women.

Videos for Young Entrepreneurs

In collaboration with the NBG and the German Sparkassenstiftung Georgia, a video series was created to support young entrepreneurs, where successful young entrepreneurs share their experiences and useful advice.

Video "My Money, My Country"

In 2024, an English-language video titled "My Money, My Country" was completed, in which the winning students of a competition held within the framework of Global Money Week trace the history of Georgian money.

The video presents the 26-century-long history of Georgian numismatics and aims to introduce the history of Georgian money to an international audience. The video was prepared following an initiative of the National Bank of Ukraine that occurred within the framework of 2023's Global Money Week.

Finedu's Facebook Live Sessions - "Expert on Finedu"

In 2024, the Facebook project "Expert on Finedu", which began in 2021, continued. The aim of this project is to objectively and competently highlight important and current topics and issues. Invited professionals mainly talk about finances and financial decisions, and the direct or indirect factors that might affect those.

During the year, two sessions of the project were held, in which employees of the National Bank of Georgia's Consumer Rights Protection and Legal Departments participated as speakers. The

first session discussed the changes made in the "Regulation on Protecting Consumer Rights in the Provision of Services by Financial Organizations", including the implementation of the right to refuse a loan within 14 days of taking it. The second session reviewed the specifics of processing personal data by financial organizations.

INTERNATIONAL AND LOCAL CONFERENCES

Finedu at the International Conference on Entrepreneurship and Innovation

On 9 February, a three-day international conference on entrepreneurship and innovation, organized by Caucasus International University, opened. In the conference, whose supporters included the National Bank of Georgia's educational platform Finedu, some 140 representatives from international academia and the public and private structures of Georgia participated.

A representative of the National Bank of Georgia spoke about the importance of financial education and current challenges and introduced the projects implemented by the NBG to the attendees. They noted the increasing opportunities for entrepreneurship development with the growth of financial education levels, as well as the necessity for integrating innovations in financial education and the special importance of involving youth in the process.

National Bank of Georgia at the International Conference on Financial Education Organized by OECD, September 2024

Employees of the National Bank of Georgia participated in an annual international conference on financial education held from 24-26 September. The conference was organized by the Ministry of Finance of the Kingdom of the Netherlands and the International Network on Financial Education of the Organization for Economic Cooperation and Development (OECD/INFE), within the framework of OECD's technical support project. The co-organizers of the event were the Central Bank of Montenegro, the Ministry of Finance, the Capital Market Regulatory Authority, and the Insurance Supervision Agency.

The main theme of the conference was "Stakeholder Collaboration for Effective Financial Education". Up to 50 representatives from various countries participated in the event. Invited experts from Belgium, Sweden, Poland, the USA, Portugal, Peru, Malaysia, and other countries shared their experiences with the attendees.

Panel discussions were held on issues such as financial education for youth, informing consumers about financial risks and threats, and providing financial education to vulnerable groups. Teimuraz Khomeriki, a member of the NBG's Board, spoke about the experience of spreading financial education in the regions of Georgia, the activities carried out, and the challenges of providing basic financial education to vulnerable groups, noting that enhancing financial education is one of the most important tasks for ensuring the stability of the country's financial sector and financial well-being.

Georgia joined the OECD/INFE technical support project in 2018. Since 2023, this collaboration has been extended for a further five-year term. The project unites 10 countries in Southeast Europe (Bosnia and Herzegovina, Bulgaria, Moldova, Montenegro, Romania, Armenia, Georgia, Ukraine, North Macedonia, and Croatia).

National Bank of Georgia at an International Conference Organized by the Czech National Bank

An international conference titled "Financial and Economic Literacy: Filling the Gaps on the Journey to Economic Well-being" was held in Prague from 26-27 November, organized by the Czech National Bank and the International Federation of Finance Museums.

The conference, attended by international representatives from academia and the legislative, museum, and financial sectors of various countries, aimed to share challenges and achievements in the field of financial and economic literacy.

A representative from the Financial Education Department of the National Bank of Georgia

introduced the initiatives and experiences of the NBG in financial education to the attendees. The attendees showed great interest in Georgia's experience updating the zero strategy, developing a financial education platform, integrating financial literacy issues into school curricula, and various educational projects tailored to different target groups.

National Bank of Georgia at the International Conference on Financial Education Organized by OECD, December 2024

On 10 December, employees from the NBG were invited to a technical support meeting in North Macedonia for consultations and experience sharing in the process of developing the country's national strategy for financial education. The meeting was organized by the Ministry of Finance of the Kingdom of the Netherlands and the International Network on Financial Education of the Organization for Economic Cooperation and Development (OECD/INFE), within the framework of the OECD's technical support project. Ketevan Akhalkatsi, the head of the Financial Education and Strategic Department of the NBG, shared Georgia's experience on significant issues that should be considered in the process of working on the strategic document.

6.2. STRATEGIC DEVELOPMENT – THE NATIONAL BANK OF GEORGIA'S EDUCATIONAL SPACE

Professional financial education is a priority for the National Bank of Georgia. For this purpose, at the end of 2023, a new division tasked with strategic development and projects was created within the Financial Education Department. The creation and development of an educational space was the task of the new unit. The idea of the NBG's educational space is to disseminate the intellectual capital and experience accumulated in the NBG both within and outside the organization, including to public institutions, the financial sector, and internationally. In 2024, the newly created Strategic Projects Division of the Financial Education Department entered the

active phase of development. Within two months of the unit's creation, extensive and adapted visions for the educational space concept presentation were prepared in Georgian and English for international partners and donors. These were modified several times for different target audiences and updated based on the stages of project development. Based on the presentations, a project document for the concept was subsequently developed.

At the beginning of 2024, a concept paper for the initiative to create an educational space was presented to local and international partners and potential donor organizations. During the preparatory work, an analysis of the local and international financial educational sector was conducted. To study best practices, consultative meetings were held with training centers and organizations such as the International Monetary Fund's Regional Capacity Development Center in the Caucasus, Central Asia, and Mongolia (IMF/CCAMTAC); the Gerzensee Study Center; the training centers of the central banks of Switzerland, Luxembourg, and Poland; and educational academies and associations in Georgia. For the same purpose, representatives of the Financial Education and Strategic Development Department of the National Bank of Georgia held a working meeting with Herve Joly, the director of the Joint Vienna Institute, to share modern methods of training center management and best practices. The experience gained will help the NBG in refining and improving the working processes of the educational space.

To identify the potential and needs of the NBG, in the first quarter of 2024, a study of the organization's needs and an analysis of internal resources were conducted in the context of individual departments. Based on this research, an account of the potential and resources for internal training was prepared.

Additionally, a survey of the heads of the human resources departments of the banking sector was conducted, based on which the development of syllabi for the required topics and the collection of training materials began. By the end of the year, a detailed training plan and calendar for 2025 was developed and written for all target groups.

A catalog of training programs was also developed, which includes the following topics and areas: macroeconomics, monetary policy, payment systems, financial technologies, sustainable financing, risk management, banking supervision, and securities/capital markets.

Electronic Learning Platform

In the fourth quarter of 2024, work began on creating an electronic learning platform where all the educational programs and resources of the National Bank of Georgia will be centralized. Additionally, new training and educational materials tailored to the needs of the target audience will be developed.

The electronic platform will streamline the structuring of current courses and modernize the process of creating, organizing, and delivering future educational programs.

The Strategic Projects Division, together with the Project Management Office, conducted preliminary preparatory work in this direction, defining administrative-financial resource and software requirements, and assessing risks. Preliminary negotiations were also held with potential project implementers.

International Partnerships

In 2024, the National Bank of Georgia further expanded its collaboration with regional and international partners. At the beginning of the year, within the framework of the International Monetary Fund's Caucasus, Central Asia, and Mongolia Regional Capacity Development Center's (IMF/CCAMTAC) work program, the National Bank of Georgia hosted high-ranking delegations from the central banks of Kazakhstan and Uzbekistan. Representatives from the Financial Markets and Macroeconomics and Statistics Departments of the National Bank of Georgia shared their experiences with their Kazakh and Uzbek counterparts on the request of the International Monetary Fund.

IMF/CCAMTAC represents a joint project between the IMF and nine member countries (Azerbaijan, Armenia, Georgia, Kazakhstan, Kyrgyzstan,

Mongolia, Tajikistan, Turkmenistan, and Uzbekistan). The center's main activities are aimed at developing the economic potential of the region. In 2024, the NBG, together with IMF/CCAMTAC, implemented a significant educational project for public sector employees and planned future activities.

IMF/CCAMTAC Seminar for Public Servants

In 2024, at the initiative of the National Bank of Georgia (NBG), a training module was developed for public servants working in economic fields. The project was implemented with the support of the IMF/CCAMTAC.

From 22-26 July, IMF/CCAMTAC, in cooperation with the National Bank of Georgia, held a seminar at the NBG's headquarters on the topic "Financial Programming and Policies (FPP)". The seminar was attended by around 30 public servants from the National Bank of Georgia, the Ministry of Finance, the Ministry of Economy and Sustainable Development, the Revenue Service, the National Statistics Office, and the Budget Office of the Parliament of Georgia. The seminar was led by senior analysts from CCAMTAC and aimed to enhance macroeconomic analysis and forecasting capabilities among public officials. In addition to professional development, the seminar also provided participants with opportunities to expand their professional networks. Such training fosters dialogue among colleagues on economic policy, thereby supporting IMF surveillance and program negotiations.

The seminar concluded with a panel discussion focused on recent developments and the economic outlook in Georgia. Panelists included Norbert Funke, Director of CCAMTAC; Shalva Mkhatriashvili, Head of the Macroeconomics and Statistics Department at the NBG; Deputy Minister of Finance, Ekaterine Guntsadze; and the Chief Economist of TBC Capital, Tsotne Marghia. They discussed economic trends in Georgia, offering participants a valuable opportunity to engage in high-level policy dialogue.

The seminar was opened with welcome remarks by the Vice Governor of the National Bank of Georgia, Ekaterine Mikabadze. At the closing

event, certificates were awarded to participants by Natia Turnava, Acting Governor of the National Bank of Georgia. In her speech, she emphasized the importance of continuous IMF support and the value of knowledge sharing between institutions.

EDUCATIONAL INITIATIVES FOR THE FINANCIAL AND PUBLIC SECTORS

Presentation of the Energy Sector Research Findings

Upon the initiative and under the organization of the Strategic Projects Division, the National Bank of Georgia presented its sectoral research in a new format during a large-scale event on 29 April.

The presentation of the energy sector research findings was prepared by the Specialized Risks Department. Titled “Overview of Georgia’s Energy Sector: Comparative Analysis, Sector Credit Portfolio, and Financial Analysis”, the event held at the Tbilisi Sheraton Hotel was attended by around 150 representatives from the financial and energy sectors, as well as industry experts.

This Strategic Projects Division initiative helped foster improved synergy between sectors. Sectoral research discussions and meetings held on the NBG platform allow representatives from different industries to exchange views, collaboratively address challenges, and define development paths for their sectors.

Training Module for the Non-Banking Sector

In April, an informational and working meeting was held in Kutaisi with microfinance institutions and lending entities (LEs) from the Imereti region. During the meeting, participants discussed the needs and regional challenges of the non-banking sector, based on which a specialized training module was developed.

A training series titled “Sustainability of the Non-Banking Sector: Transparency, Reporting, and Consumer Protection” covered supervision, anti-money laundering, and consumer rights issues. Training was conducted for microfinance institutions

and LEs from the Imereti, Samegrelo, and Adjara regions. From 7-17 August, about 50 representatives from 30 organizations participated in training sessions held in Kutaisi, Zugdidi, and Batumi.

The three-day program introduced participants to financial reporting processes, the use of the electronic portal, and regulatory acts. Emphasis was placed on reducing operational risks and strengthening corporate governance. At the end of the training, participants completed a test and received certificates.

In the next stage, this training module will be delivered to microfinance institutions and LEs based in Tbilisi.

E-learning for Capital Market Participants

At the initiative of the National Bank of Georgia, and with the support of the European Bank for Reconstruction and Development (EBRD), around thirty brokerage and asset management companies operating in Georgia’s capital market were granted access to an e-learning platform.

The platform, <https://www.capitalmarketselearning.com>, offers a wide range of courses covering key topics such as financial markets, risk management, swap operations, and derivatives. The educational program has been developed by Intuition, a leading international company.

Participation in this program has significantly contributed to the development of Georgia’s capital market.

Internal Training for Employees

Throughout 2024, several informational meetings and training sessions were held for employees of the National Bank of Georgia. Notably, a training session on sustainable finance was held on 30 May.

On 31 October, in connection with World Savings Day, the Financial Education Department held a presentation for NBG employees. At the end of the presentation, participants’ knowledge and

engagement were tested through an interactive game, encouraging a rethinking of financial behavior.

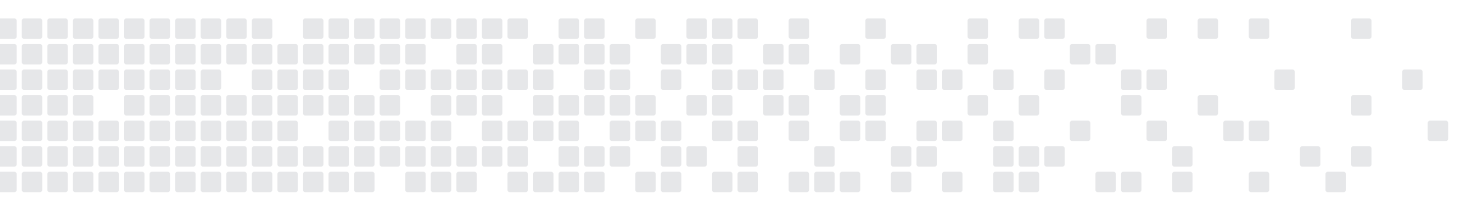
For the upcoming year, several educational activities have been planned for staff, including an IFRS research workshop and an informational session on the topic of the digital lari.

Global Youth Financial Inclusion Award 2024

The National Bank of Georgia participated in the 2024 Global Youth Financial Inclusion Award organized by

the Alliance for Financial Inclusion. At the selection stage, the NBG's application received top marks and was selected among the five finalists. The NBG was thus invited to the award ceremony in Ecuador, which was attended by the Head of the Financial Education and Strategic Development Department, Ketevan Akhalkatsi.

In 2024, various educational and informational events and training sessions were conducted in both Tbilisi and the regions. Additionally, collaboration with international partners further developed.





NON-BANK SUPERVISION

7.1. GENERAL OVERVIEW OF THE NON-BANKING SECTOR

The timely and measured reforms implemented by the National Bank of Georgia in the regulation and supervision of the non-banking financial sector have ensured the stable development of this sector, its resilience to crises, and the maintenance of dynamic growth. The extensive regional coverage and diverse customer base of the sector continues to define its significant role in the country's financial system.

Through the development of systems and processes, the non-banking financial sector has rapidly adapted to a dynamic regulatory environment. Additionally, by offering new innovative products and services, it has engaged in active competition, increased efficiency, and attracted more interest from investors.

The non-banking sector is diverse, encompassing both small-scale organizations focused on single products and large organizations possessing broad profiles; and their financing structures vary. High regional coverage of the sector ensures the accessibility of financial services in locations where only a few commercial banks are present. This, to some extent, contributes to the development of the regional economy, job creation, and increased financial inclusion.

As of 31 December 2024, the non-banking financial sector was represented by 31 microfinance organizations across 418 locations, 158 lending entities across 296 locations, 505 currency exchange points across 713 locations, and one credit union. It is important to note that two microfinance organizations have recently obtained micro-banking licenses – one received a license at the end of 2024, and the other at the beginning of 2025.

Despite constituting only 3% of the total assets in the financial sector, amounting to GEL 2.9 billion, the role

of the non-banking financial sector in employment and financial service provision is substantial, and has seen an 8% annual growth rate. Specifically, the number of employees in this sector accounts for 22% of the total financial sector, and the number of branches represents 57% of the total.

Throughout 2024, alongside remote supervision, the inspection process of non-banking institutions was actively conducted to ensure compliance with current legislation and the accuracy of accounting data.

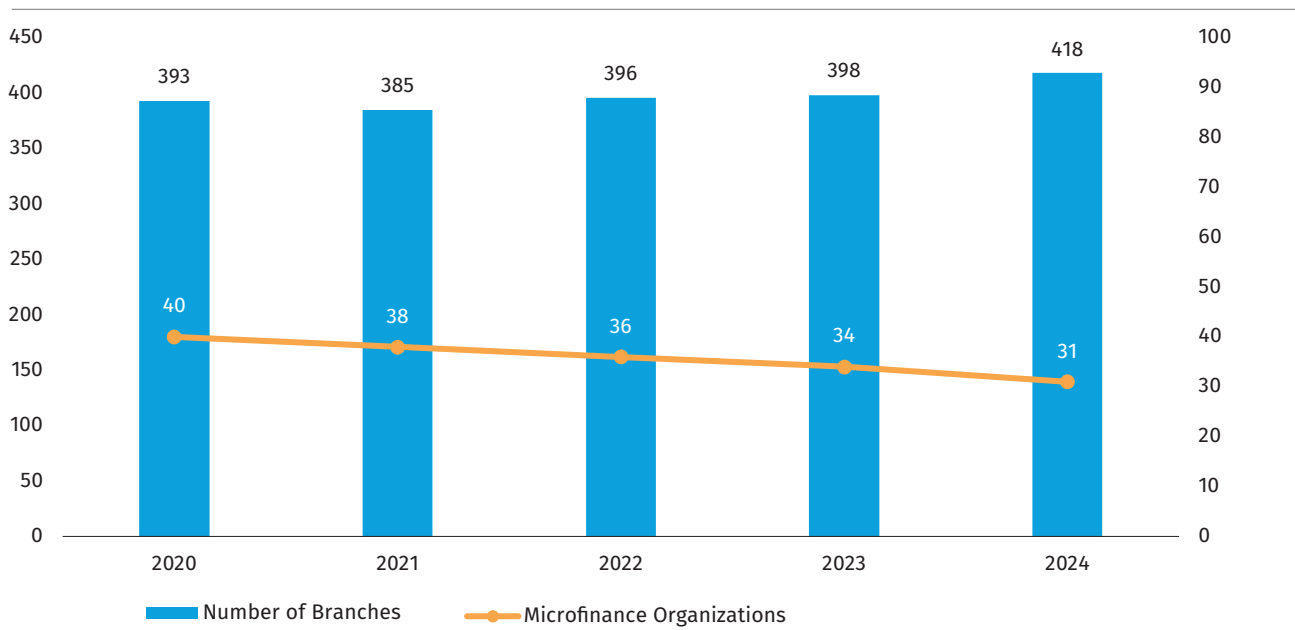
Due to the stable growth of the microfinance sector and the level of acceptable risk, the maximum amount of microcredit, previously established in 2017, was reviewed. Legislative changes will increase this amount from GEL 100,000 to GEL 200,000 starting in 2025. This adjustment will enable the sector to better serve the growing needs of small businesses, ultimately promoting the further development and growth of the sector.

Additionally, to ensure effective and healthy corporate governance and a well-organized operational environment in microfinance organizations, changes to the existing regulations are planned. These changes aim to improve risk management, enhance transparency standards, and increase accountability and sustainable development. The requirements stipulated by these changes will be proportional to the scale and complexity of the relevant organization.

7.2 MICROFINANCE ORGANIZATIONS

Over 2024, the number of registered microfinance organizations decreased from 34 to 31. By the end of the year, one such organization registered as the first microbank. Meanwhile, two other organizations continue to operate as loan issuers. Despite this reduction in the number of microfinance organizations, the number of branches within the country is increasing.

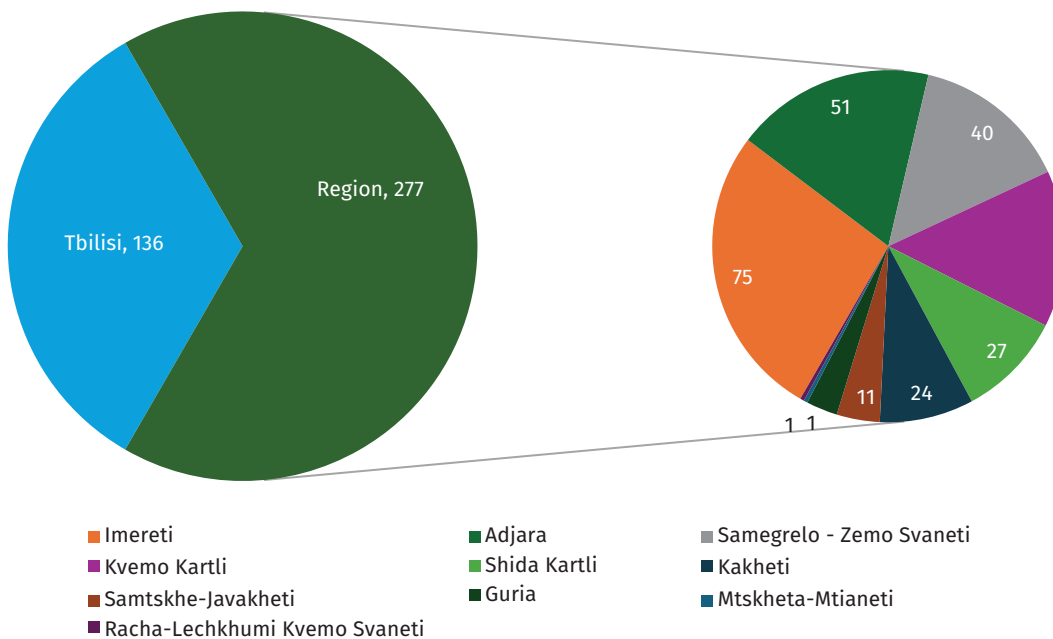
DIAGRAM 7.1 NUMBER OF MICROFINANCE ORGANIZATIONS AND BRANCHES



Source: NBG

Out of the 418 branches of the microfinance sector, 279 are located in the regions.

DIAGRAM 7.2 REGIONAL DISTRIBUTION OF THE BRANCHES OF MICROFINANCE ORGANIZATIONS

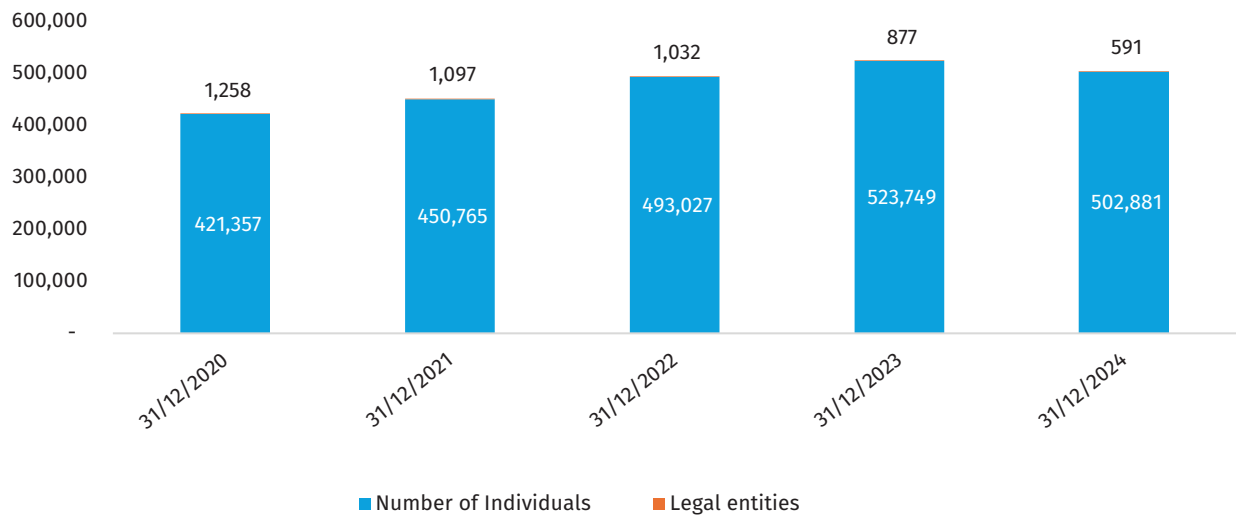


Source: NBG

The well-diversified network across regions enables the microfinance sector to offer financial products and services to customers nationwide. Some

99% of the users of the sector's loan products are individuals.

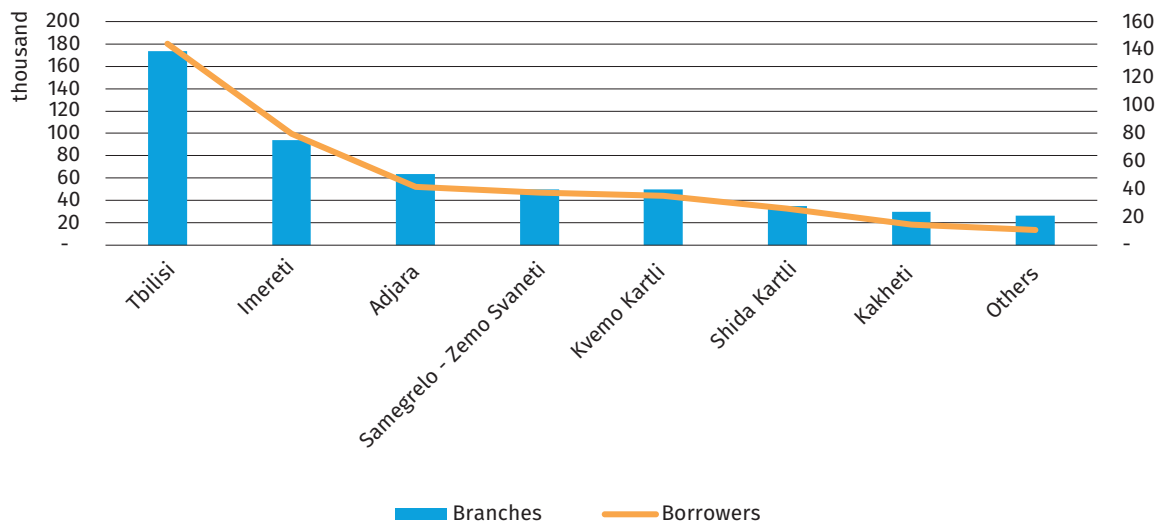
DIAGRAM 7.3 NUMBER OF BORROWERS AT MICROFINANCE ORGANIZATIONS



Source: NBG

Based on regional coverage, Tbilisi remains the leader with 180,000 borrowers, representing 37% of the total number of borrowers in the sector.

DIAGRAM 7.4 REGIONAL DISTRIBUTION OF THE BRANCHES AND BORROWERS OF MICROFINANCE ORGANIZATIONS

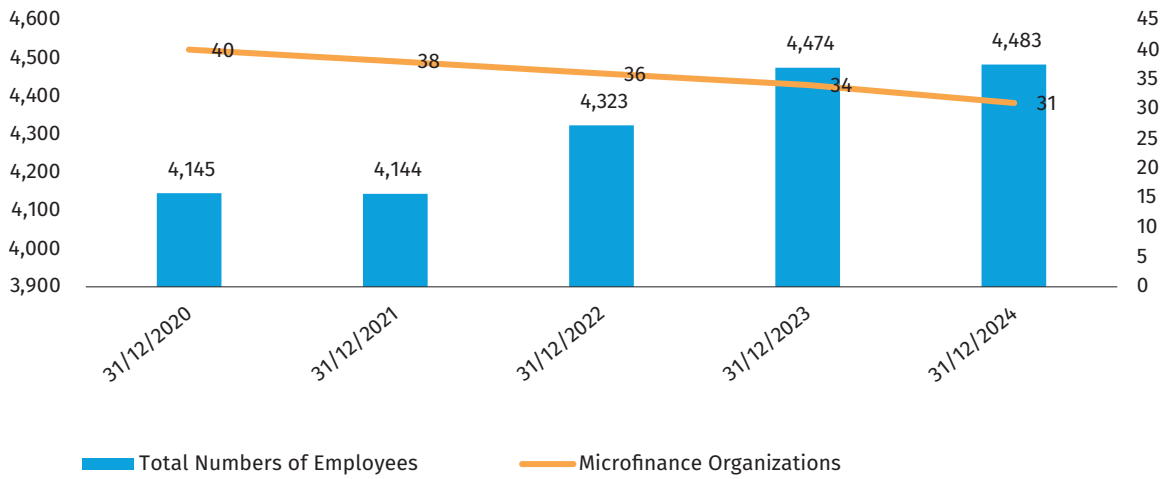


Source: NBG

The microfinance sector is quite diverse, as it consists of both small and large organizations with high degrees of networked regional coverage.

During 2024, a positive trend was maintained in terms of the number of employees in the sector.

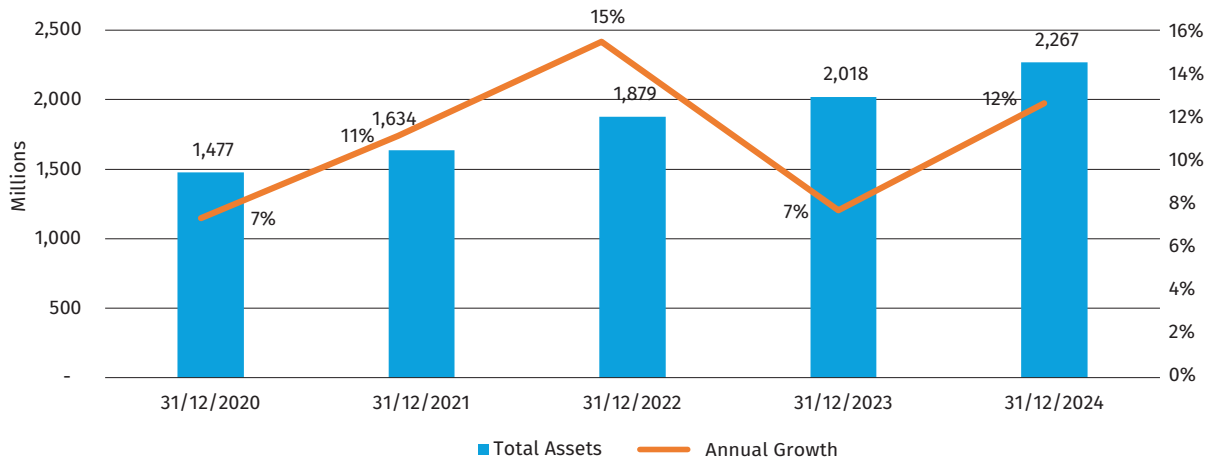
DIAGRAM 7.5 NUMBER OF STAFF AT MICROFINANCE ORGANIZATIONS



Source: NBG

The growth in the sector’s total assets was sustained in 2024, with an annual growth rate of 12%.

DIAGRAM 7.6 TOTAL ASSETS OF MICROFINANCE ORGANIZATIONS

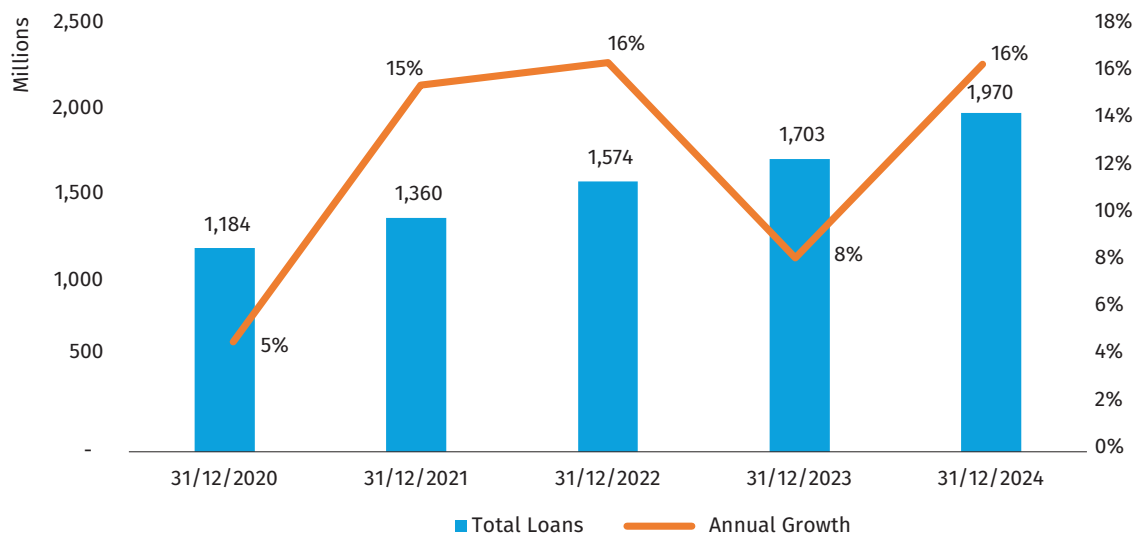


Source: NBG

The year 2024 was significant in terms of portfolio growth for the microfinance sector, with the annual growth rate nearly doubling compared to the

previous year, reaching 16%, which amounts to GEL 267 million. As a result, the sector’s total loan portfolio was recorded at GEL 1.97 billion.

DIAGRAM 7.7 LOAN PORTFOLIO OF MICROFINANCE ORGANIZATIONS

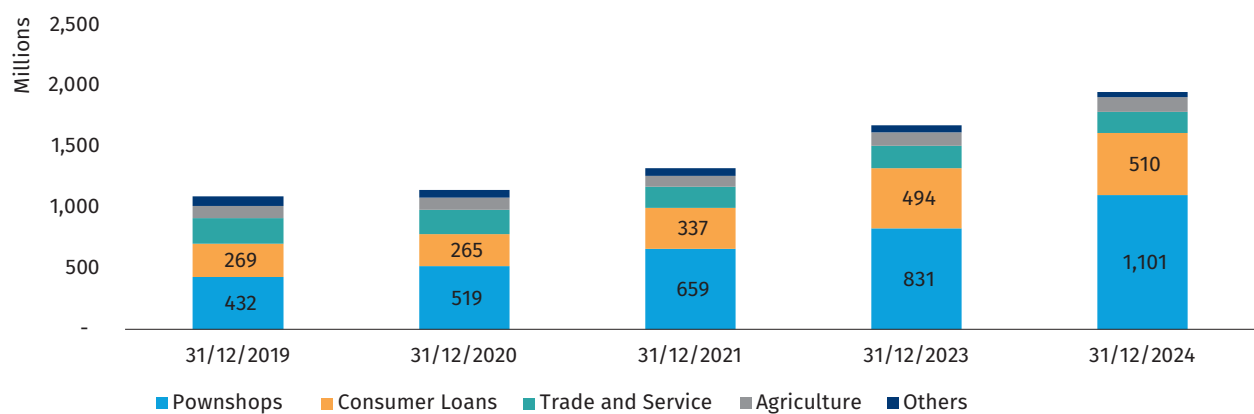


Source: NBG

The main focus of lending in the microfinance sector is loans issued to individuals. Loans secured by movable property and consumer loans accounted for 82% of the portfolio, amounting to GEL 1.6 billion. Of this, loans secured solely by gold totaled GEL 968 million, representing 49% of the total loan portfolio.

The growth of this portfolio was also influenced by the increase in global gold prices. The remaining 19% of the loan portfolio, amounting to GEL 317 million, is distributed across loans issued for agriculture, the trade and service sectors, and legal entities.

DIAGRAM 7.8 LOAN PORTFOLIO STRUCTURE

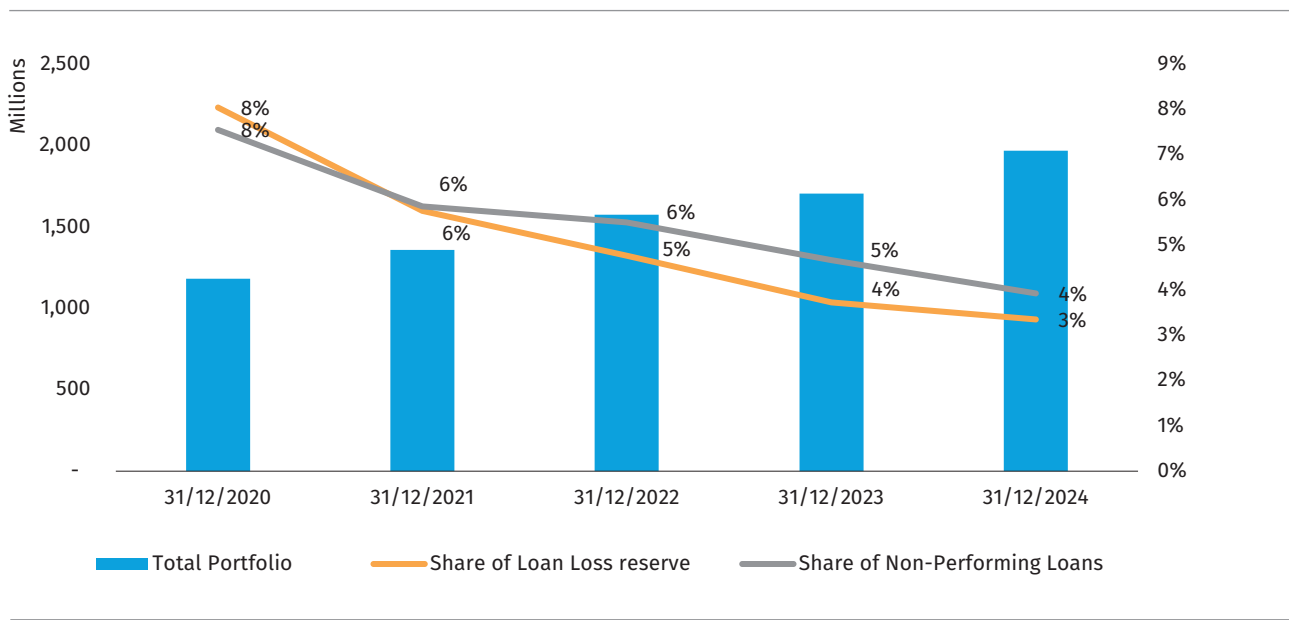


Source: NBG

The quality of the loan portfolio continues to show an improving trend over time, driven by both the

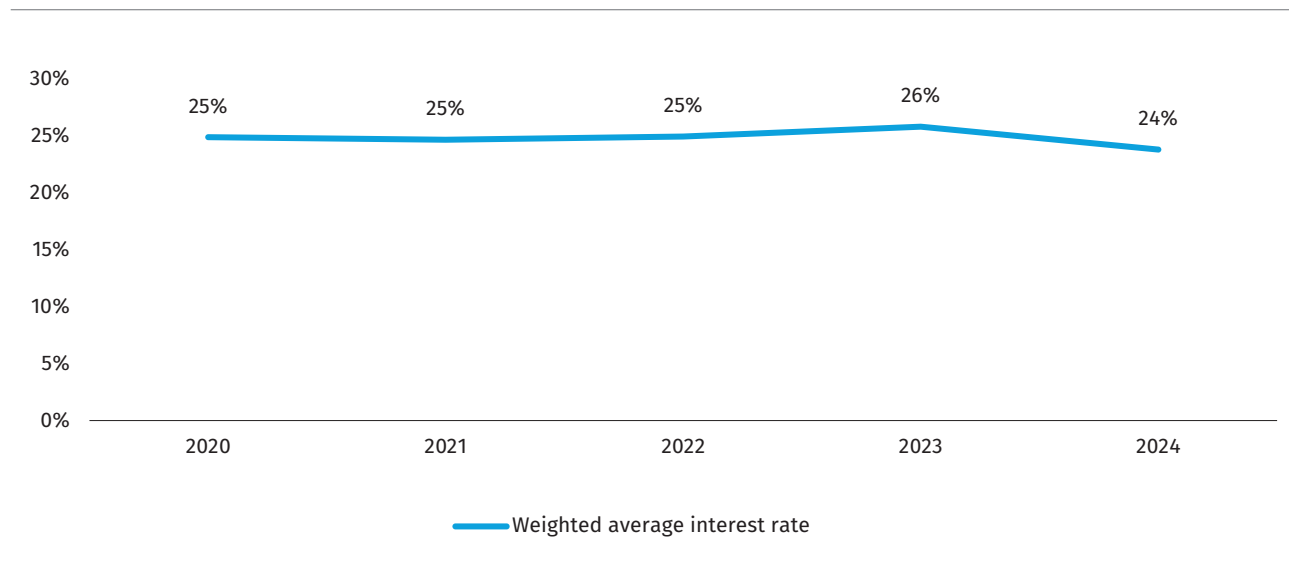
high share of loans secured by precious metals and the strong portfolio growth rate.

DIAGRAM 7.9 QUALITY OF THE LOAN



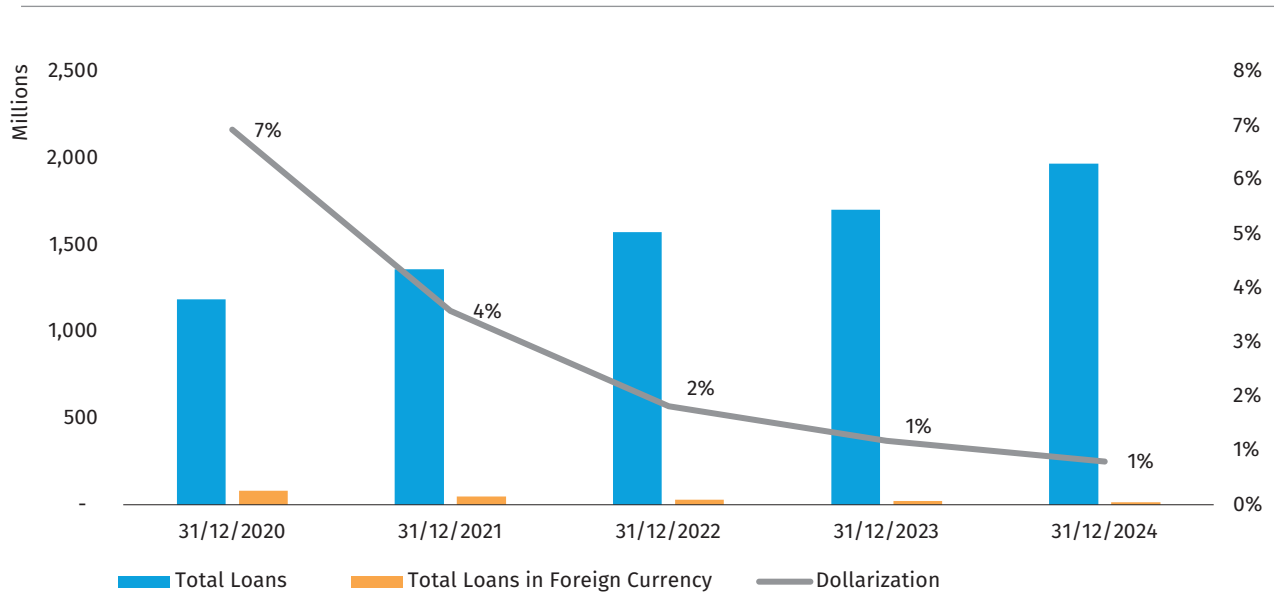
Source: NBG

DIAGRAM 7.10 WEIGHTED AVERAGE INTEREST RATES OF THE LOAN PORTFOLIO



Source: NBG

DIAGRAM 7.11 DOLLARIZATION OF THE CREDIT PORTFOLIO

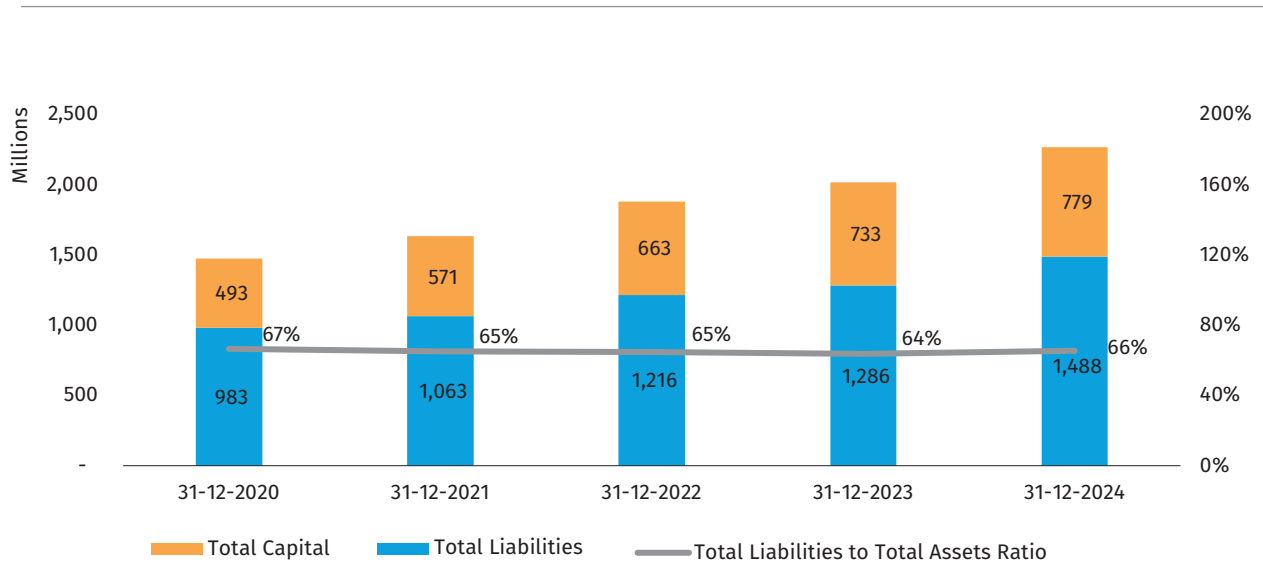


Source: NBG

With the implementation of legislative restrictions on foreign currency lending, loans denominated in foreign currency in the sector have had a declining trend and amounted to only GEL 15.7 million by the end of 2024.

The total volume of liabilities increased by GEL 202 million and, as a result, had a 66% share in the financing structure of the sector.

DIAGRAM 7.12 FUNDING STRUCTURE

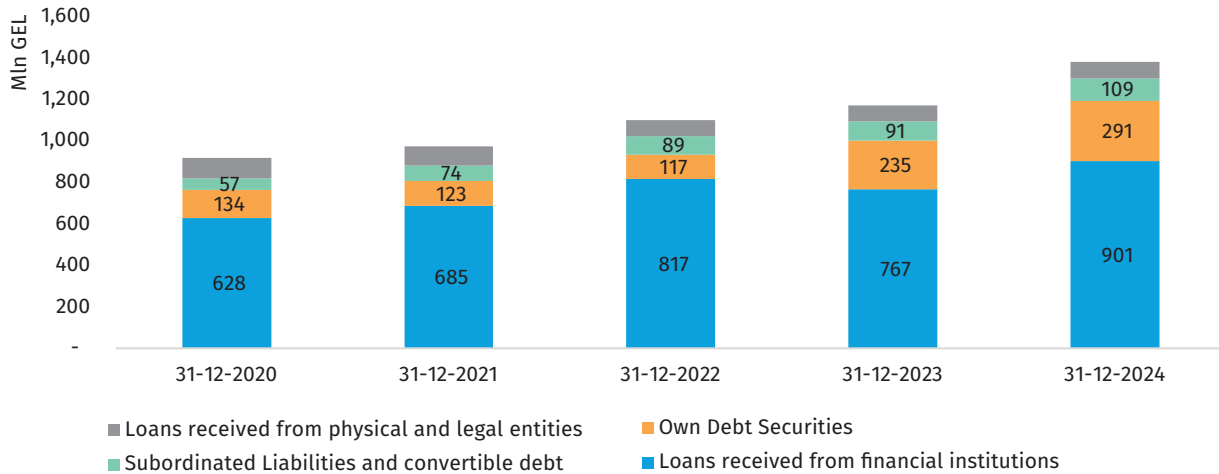


Source: NBG

In the structure of borrowed funds, the largest share was represented by funds attracted from financial institutions. Throughout the year, growth was recorded in funds attracted from resident

commercial banks. This was a result of the use of financial collateral instruments and active participation in the securities market.

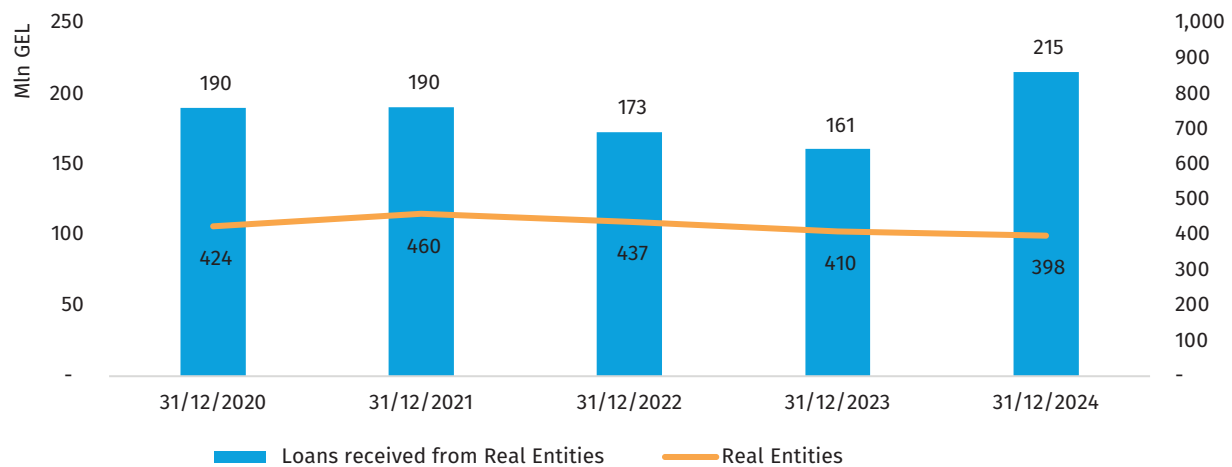
DIAGRAM 7.13 BORROWINGS STRUCTURE



Source: NBG

Although the number of creditor individuals did not increase throughout the year, there was an increase in monetary terms that amounted to GEL 54 million.

DIAGRAM 7.14 FUNDS RAISED FROM INDIVIDUALS AND NUMBER OF INDIVIDUAL CREDITORS

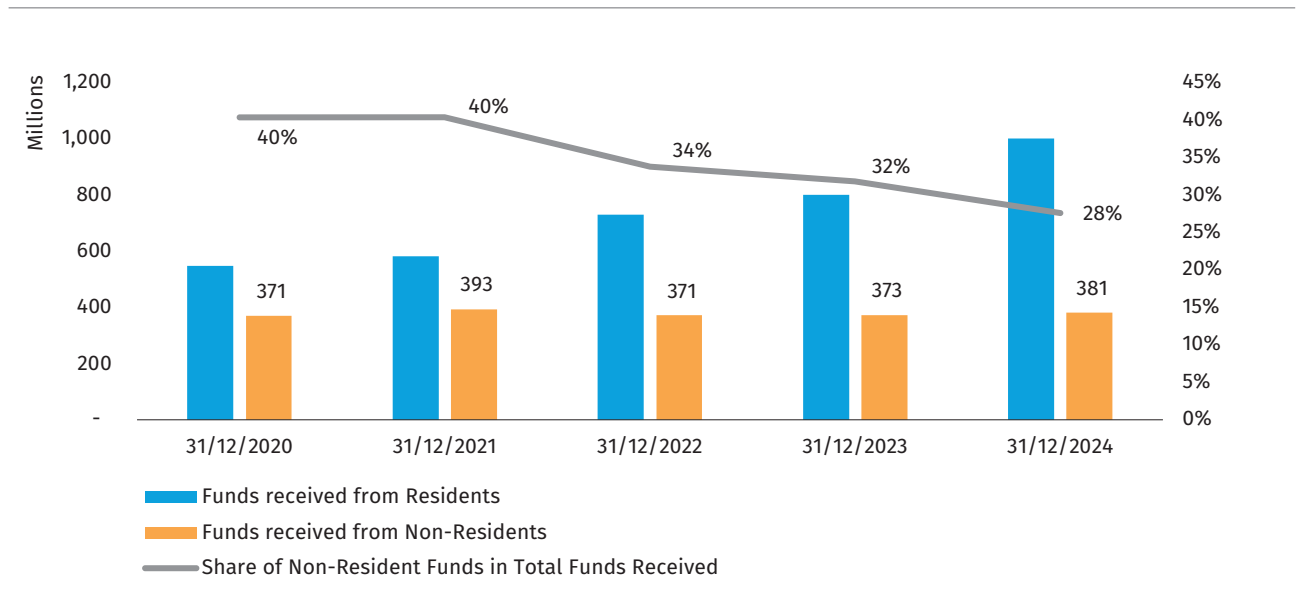


Source: NBG

Due to the increase in funds attracted from local financial institutions, including the activation of microfinance organizations in the securities market, the share of funds attracted from non-resident creditors in the total attracted funds decreased; however, an increase of GEL 8 million was recorded

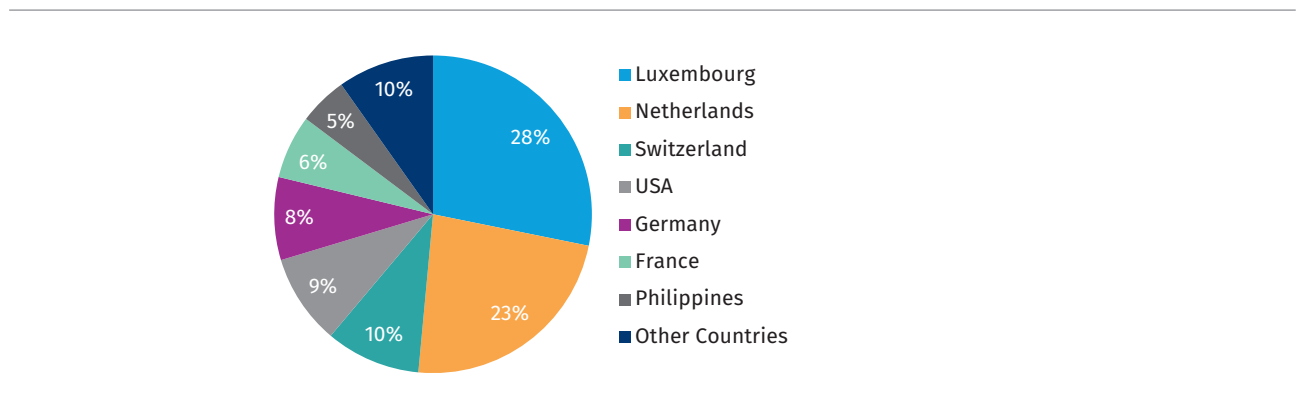
in monetary terms. Against the backdrop of increasing funds raised from resident creditors, the share of funds raised from non-resident creditors in the overall financing structure has significantly decreased.

DIAGRAM 7.15 NON-RESIDENT FUNDS



Source: NBG

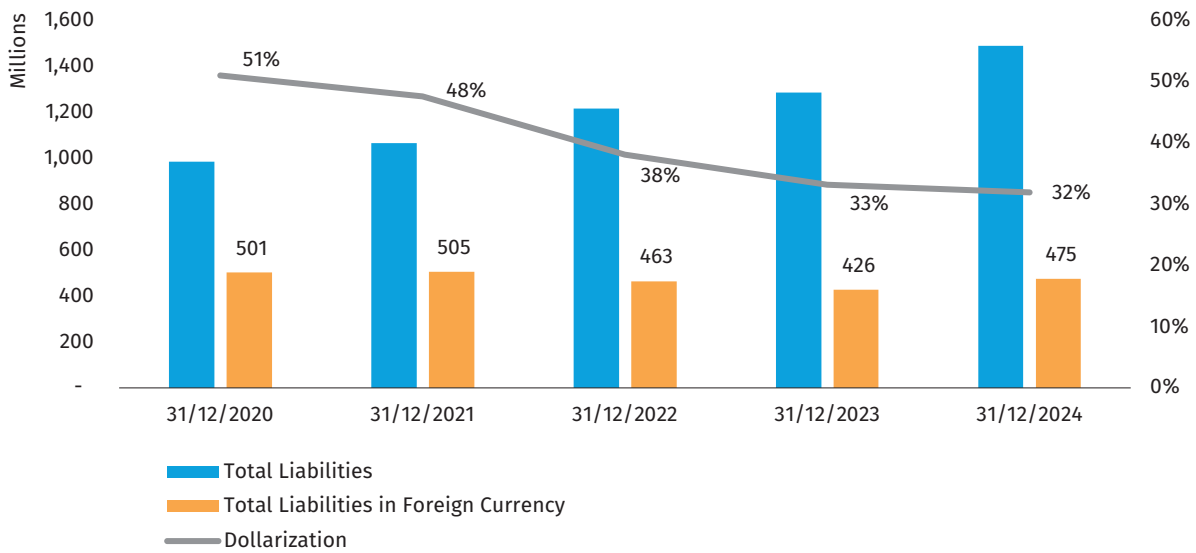
DIAGRAM 7.16 FUNDS OF NON-RESIDENTS BY COUNTRY



Source: NBG

Funds attracted in foreign currency increased by GEL 48 million. However, due to the significant growth in loans attracted in GEL, the share of foreign currency in total liabilities did not increase.

DIAGRAM 7.17 FUNDS ATTRACTED IN FX

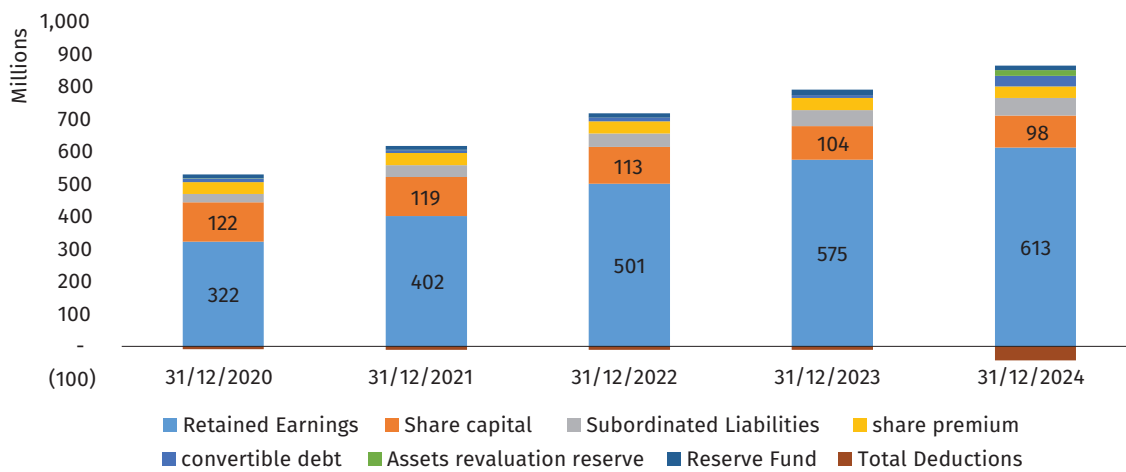


Source: NBG

The sector remains highly capitalized. The increasing trend of regulatory capital, as seen in previous years, continued in 2024, which was primarily due to retained earnings being reinvested in microfinance organizations. Consequently, the leverage ratio

(liabilities to capital) remains low and stable at around 2%. The reduction in authorized capital was due to the exit of microfinance organizations from the sector.

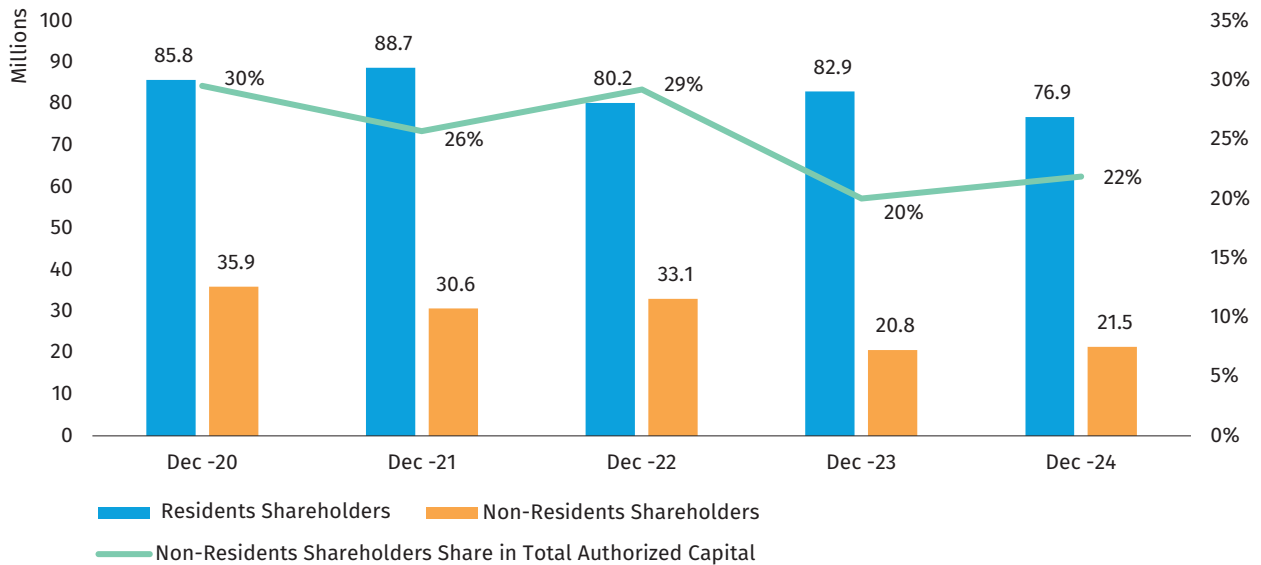
DIAGRAM 7.18 REGULATORY CAPITAL STRUCTURE



Source: NBG

In line with the decrease in the number of microfinance organizations, the shareholder structure has undergone a change.

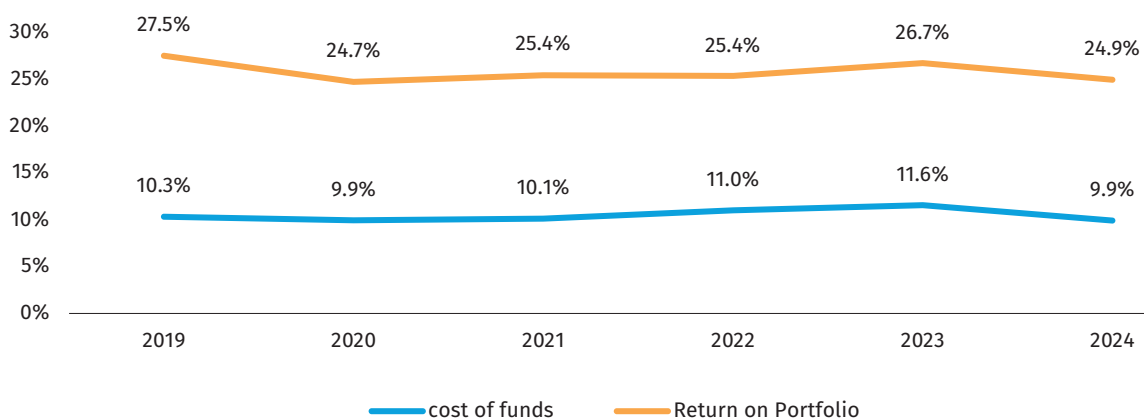
DIAGRAM 7.19 CAPITAL STRUCTURE BY RESIDENCY



Source: NBG

A total of 27 out of 31 microfinance organizations ended 2024 with a profit. Therefore, despite the exit of three organizations from the market, the sector's net profit reached its highest level.

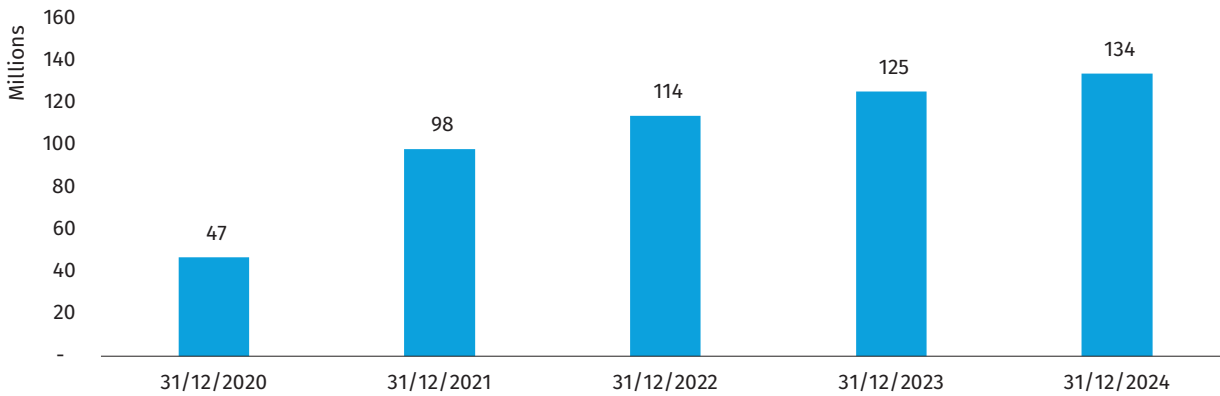
DIAGRAM 7.20 COST OF FUNDS AND PROFITABILITY OF THE PORTFOLIO



Source: NBG

The sector's margin stands at 18%, which, after accounting for non-interest and administrative expenses, yields an 18% return on equity and a 6% return on assets.

DIAGRAM 7.21 NET PROFIT DYNAMICS



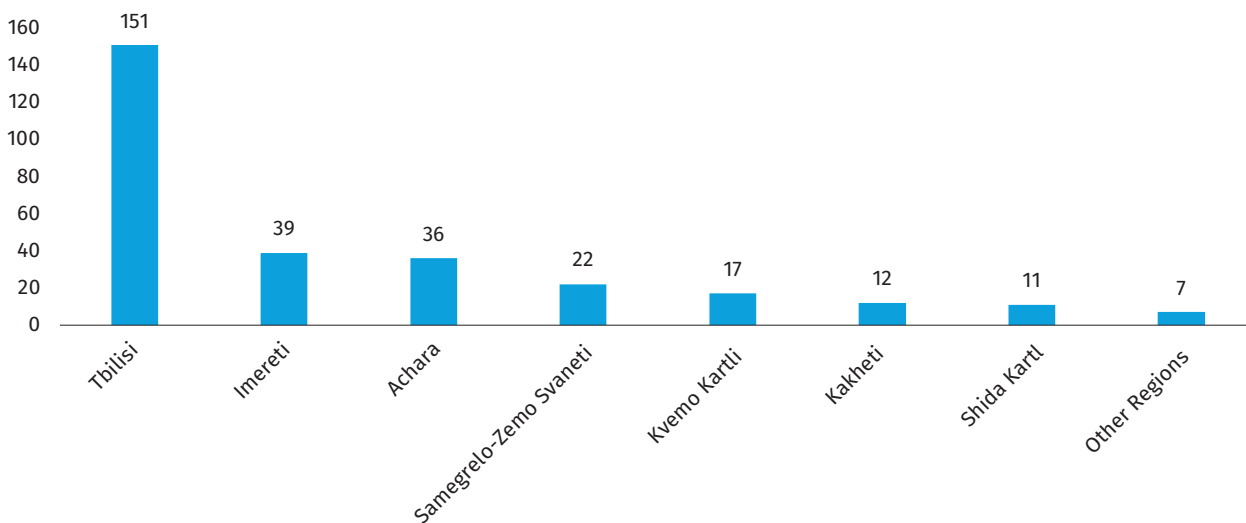
Source: NBG

7.3. LENDING ENTITIES

In 2024, the lending sector consisted of 158 organizations operating across 296 locations. The reduction in the number of lending entities by 11 compared to the previous year resulted

in a 6% decrease in the sector's total assets and net loan portfolio. This decline was primarily due to the merger of one large lending entity with a microfinance company.

DIAGRAM 7.22 REGIONAL DISTRIBUTION OF STRUCTURAL UNITS OF LENDING ENTITIES

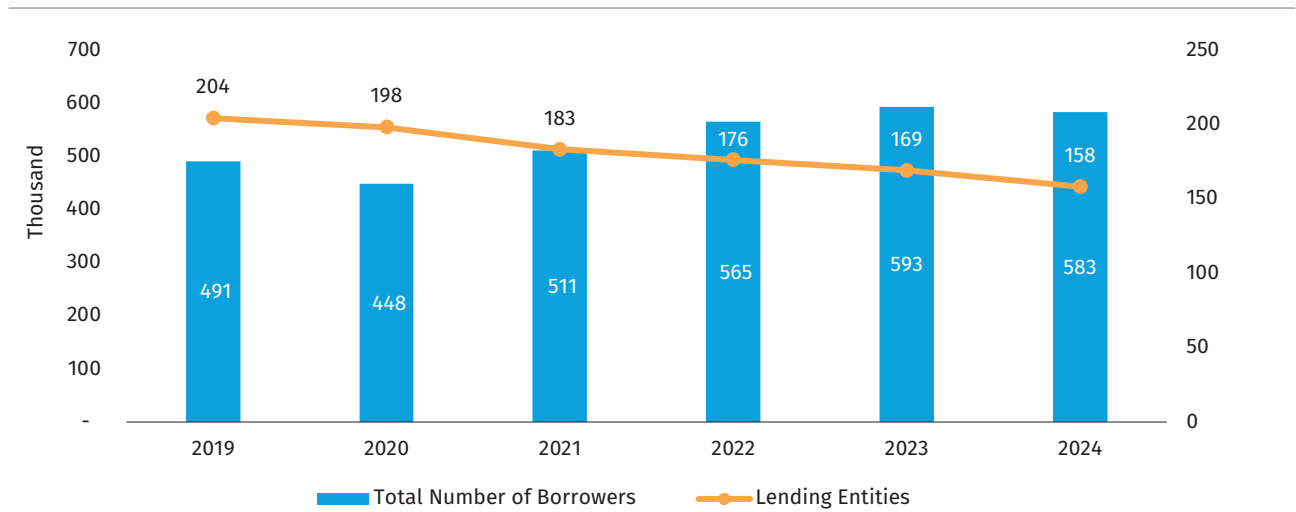


Source: NBG

It is important to note that more than half of the total number of borrowers in the non-banking sector come from lending entities and are primarily made up of individuals. This is due to the sector's focus

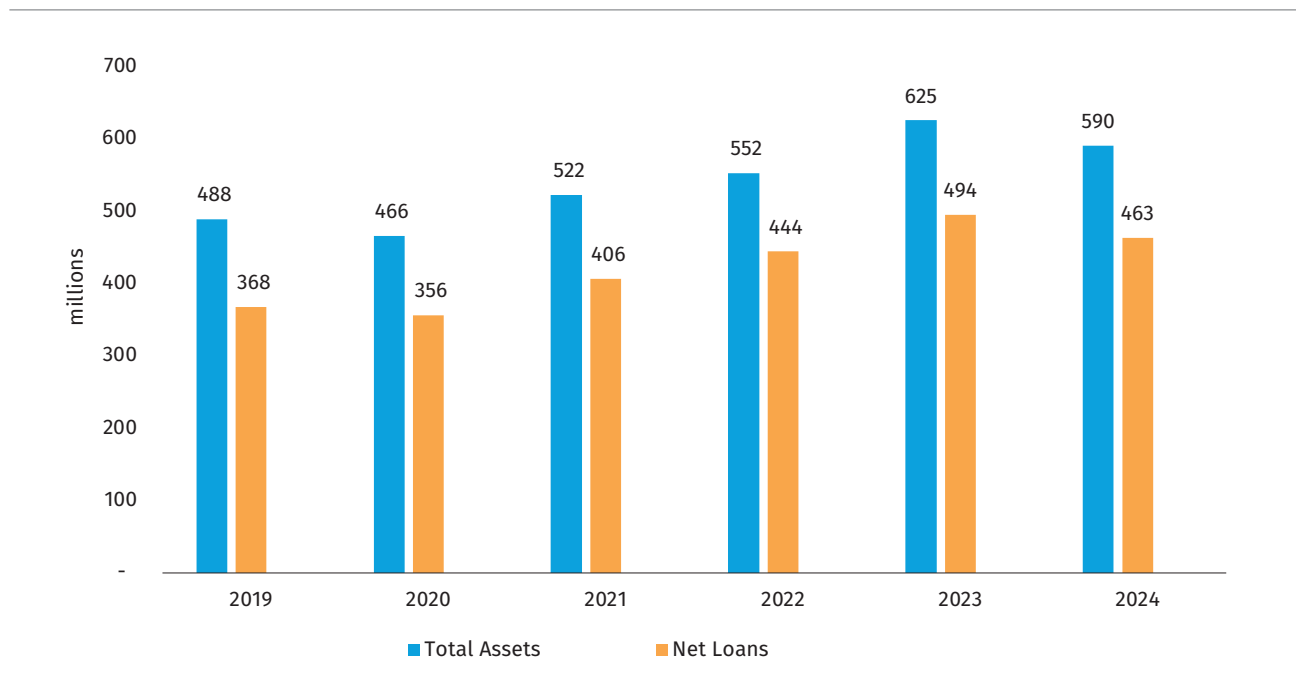
on providing granular or small-sized consumer and pawnshop products. Additionally, lending organizations are involved in the collection of problematic consumer loans.

DIAGRAM 7.23 LENDING ENTITIES AND NUMBER OF BORROWERS



Source: NBG

DIAGRAM 7.24 DYNAMICS OF TOTAL ASSETS AND NET LOANS

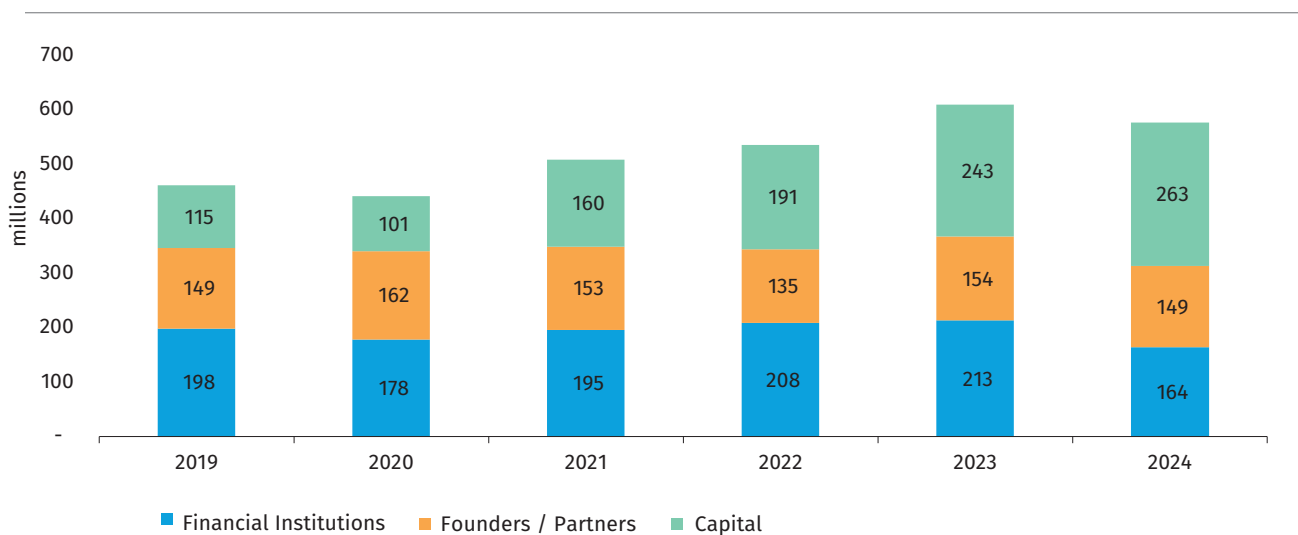


Source: NBG

The primary source of financing for the lending sector is funds received from partners and financial institutions. However, it is noteworthy that in recent

years, there has been a positive trend in capital growth.

DIAGRAM 7.25 SOURCES OF FUNDING FOR LENDING ENTITIES



Source: NBG

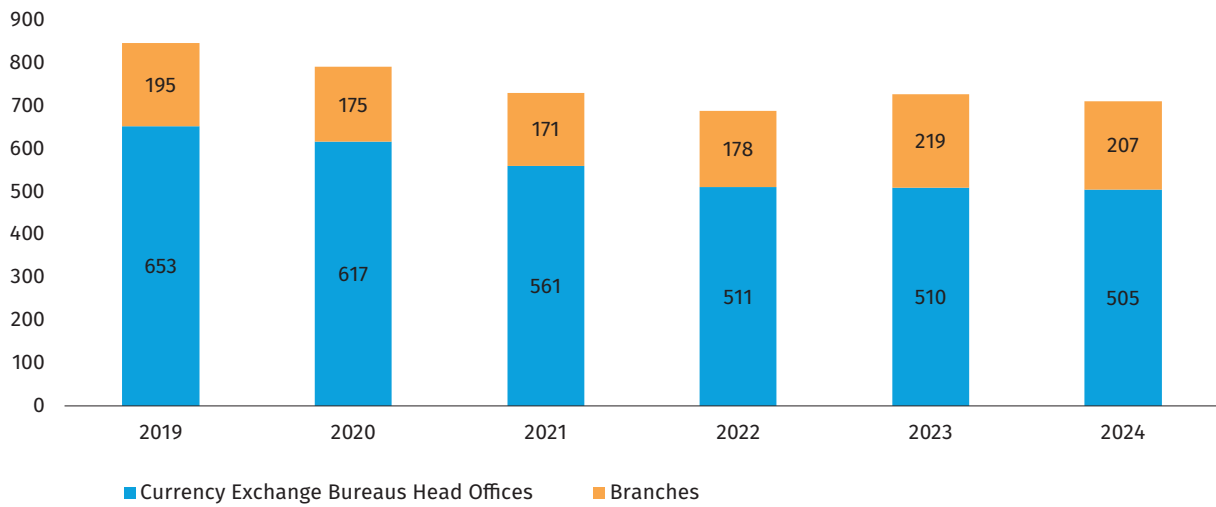
As of 31 December 2024, the return on equity and return on assets were 21% and 9% respectively.

7.4 CURRENCY EXCHANGE POINTS

During 2024, 55 new currency exchange offices were registered, and 59 branch licenses were issued; however, the registration of 60 currency exchange

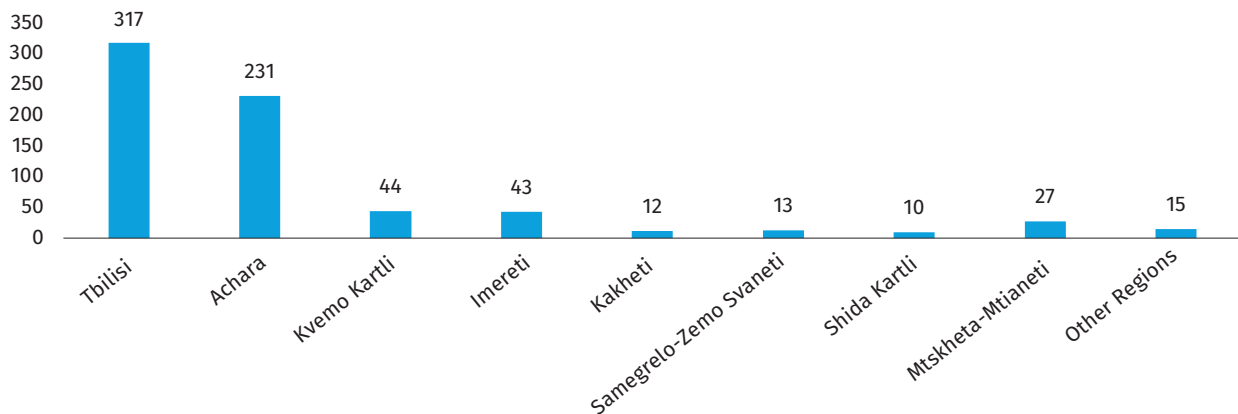
offices was canceled, and 71 branch licenses were terminated. Of the canceled currency exchange offices, most of which were located in Tbilisi, 43 had their registrations canceled based on their own application. The registrations of the remaining offices were canceled due to non-compliance with legal requirements. As of 31 December, the number of registered currency exchange offices was 505, which, taken together with 207 branches, are located in 712 locations across the country.

DIAGRAM 7.26 NUMBER AND BRANCHES OF CURRENCY EXCHANGE POINTS



Source: NBG

DIAGRAM 7.27 REGIONAL DISTRIBUTION OF STRUCTURAL UNITS OF CURRENCY EXCHANGE POINTS

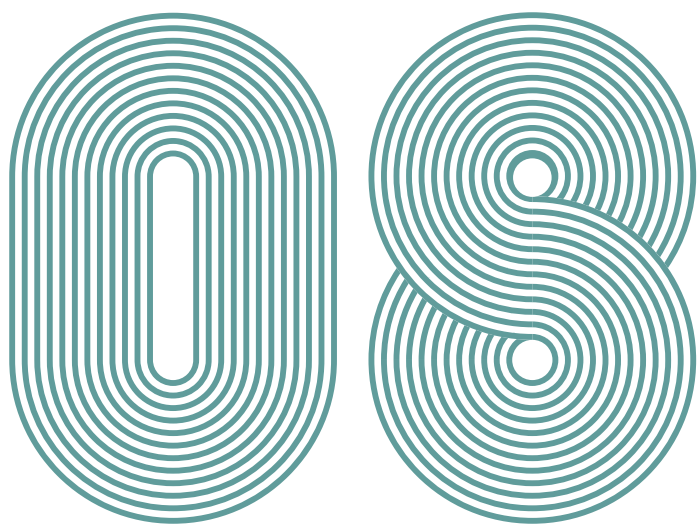


Source: NBG

7.5 CREDIT UNIONS

Legislative amendments implemented in 2017 established a maximum limit on the number of credit union members and defined the principles of credit union activities (which involved uniting individuals living in the same administrative unit of a self-

governing community under a common identity). These amendments aimed to eliminate unsound practices in the sector, particularly those involving credit unions providing financing for credit activities that were inappropriate for the cooperative's goals by attracting deposits from members. As of 31 December 2024, only one credit union continues to operate on the market, with assets of GEL 0.5 million.



SECURITIES MARKET

8.1 IMPLEMENTED ACTIVITIES FOR SECURITIES MARKET DEVELOPMENT AND MEASURES TO STRENGTHEN MARKET TRANSPARENCY

In 2024, the National Bank of Georgia undertook a series of proactive initiatives aimed at developing the securities market and enhancing its transparency. These efforts focused on implementing supervisory and regulatory measures designed to promote market stability, bolster investor confidence, and support the sustainable growth of the financial system.

As part of aligning the regulatory framework with European Union standards and international best practices, the NBG introduced several key regulatory changes:

- ◆ Two subordinate acts were adopted under the Law of Georgia "On Holding of Dematerialized Securities"⁴⁷: the "Regulation Governing the Recording and Account Keeping of Dematerialized Securities" and the "Regulation on Licensing and Regulation of the Central Depository"⁴⁸. These acts provide detailed regulations on the ownership of securities issued in Georgia, define the rights and obligations of parties involved in the process, and set forth the requirements for maintaining securities accounts.
- ◆ New regulations were introduced to govern the liquidation and insolvency (or bankruptcy)

of central depositories⁴⁹ and brokerage companies⁵⁰. These aim to enhance market stability during the liquidation process and ensure the maximum protection of investors and other market participants.

- ◆ A subordinate act supplementing the Law of Georgia on Securitization⁵¹, was approved. This regulation clarifies and expands upon the requirements of the Law, representing a significant step toward establishing a robust framework for structured financial products.
- ◆ An amendment was made to Decree No. 223/04 (dated 16 December 2020) "On Approval of the Regulation on Recognizing a Person as a Sophisticated Investor." The amendment simplifies the process for determining sophisticated investor status in certain cases.
- ◆ Legal acts derived from the Law of Georgia "On Voluntary Private Pension" have been approved. Among these, the "Regulation on the Specialized Depository of the Voluntary Private Pension Scheme" was adopted⁵². This regulation outlines the requirements for specialized depositories of voluntary private pension schemes that must be met by entities wishing to provide depository services to pension schemes. The decree also establishes conditions for the issuance and revocation of the necessary consent by the National Bank of Georgia for a financial institution to operate as a specialized depository. It defines the functions and duties of the specialized depository of a voluntary private pension scheme, as well as the procedures for submitting periodic and ongoing reports and the requirements for managing potential conflicts of interest within the specialized

47. "On Approval of the Regulation on Recording and Maintaining Accounts for Dematerialized Securities", Decree No. 48/04 of the Governor of the National Bank of Georgia dated 29 February 2024.

48. "On Approval of the Regulation on Licensing and Regulation of the Central Depository", Decree No. 46/04 of the Governor of the National Bank of Georgia dated 29 February 2024.

49. "On Approval of the Regulation on Liquidation and Declaration of Insolvency of the Central Depository", Decree No. 50/04 of the Governor of the National Bank of Georgia dated 29 February 2024.

50. "On Approval of the Regulation on Liquidation and Declaration of Insolvency of a Brokerage Company", Decree No. 49/04 of the Governor of the National Bank of Georgia dated 29 February 2024.

51. "On Approval of the Regulation on Securitization", Decree No. 74/04 of the Governor of the National Bank of Georgia of 29 March 2024.

52. "On Approval of the Regulation on the Specialized Depository of the Voluntary Private Pension Scheme", Decree No. 322/04 of the Governor of the National Bank of Georgia of 30 December 2024.

depository. Additionally, an amendment was made to Decree No. 167/04 of the Governor of the National Bank of Georgia, dated 22 September 2020, "On Approval of the Regulation on Licensing, Registration, Recognition, and Regulation of Asset Management Companies". In accordance with the Law of Georgia "On Voluntary Private Pension", additional requirements were imposed on licensed asset management companies intending to manage pension assets or establish/manage a pension scheme under the aforementioned law.

- ◆ In February 2024, a draft decree by the Governor of the National Bank of Georgia titled "On Approval of the Regulation on Granting, Maintaining, and Canceling the Status of Green, Social, Sustainability, and Sustainability-linked Bonds" was published for public consultation. If this regulation is adopted, it will enhance the ability to monitor the targeted use of funds raised through the issuance of public bonds by the issuer. Additionally, it will help identify misleading and/or false information regarding the positive environmental or social impact of a financial instrument and prevent its dissemination.

The year 2024 was also significant for the National Bank in terms of international relations:

- ◆ The National Bank joined the Diversity Network and the Growth and Emerging Markets Committee (GEMC), established by the International Organization of Securities Commissions (IOSCO). The Diversity Network was established with the support of the IOSCO Governing Board. This network will enable participating supervisory authorities to share advanced regulatory frameworks, experiences, ideas, and various initiatives in the field of diversity through webinars, seminars, and mentoring programs. At this stage, along with the National Bank of Georgia, the group includes supervisory authorities from 18 countries/jurisdictions, including the USA, Great Britain, Switzerland, France, Japan, India, Canada, Greece, and the European Union (represented by ESMA). Meanwhile, the Growth and Emerging

Markets Committee is the largest committee under the IOSCO umbrella and brings together 91 jurisdictions, including 10 G20 countries.

- ◆ The Association of National Numbering Agencies (ANNA) published information on the regulatory framework developed by the National Bank of Georgia in February and March 2024, based on the Laws on Dematerialized Securities and Securitization. The report notes that the approved regulations reflect the best practices and experience in the relevant field.

During 2024, the NBG also promoted awareness-raising in the field of the securities market. In particular, the following events were organized by the National Bank in 2024:

- ◆ A conference on mortgage covered bonds was held, aiming to promote the development of the mortgage covered bond market in Georgia and assess the steps taken in this direction by the National Bank of Georgia. Representatives from the European Bank for Reconstruction and Development (EBRD), Moody's, as well as commercial banks licensed in Georgia and other interested parties participated in the event. Presentations were made by representatives of the NBG, EBRD, and Moody's, who reviewed the Georgian banking sector and market development prospects. According to the EBRD representative, the Georgian legislative framework is fully compliant with the EU directive, while Moody's noted that mortgage covered bonds will have the opportunity to receive an investment rating.
- ◆ A webinar dedicated to the topic of indices was held in collaboration with FTSE Russell—a global provider of indices and benchmark solutions and one of the leading components of the London Stock Exchange Group.

In 2024, the NBG also carried out significant work in terms of preparing and publishing interactive statistics of the corporate securities market. In particular, interactive statistics of the local corporate bond market were prepared and published for interested parties on the NBG's website.

During the year, one licensed brokerage company, six registered investment funds, and one authorized investment fund were added to the list of supervised entities of the National Bank. It is noteworthy that the latter is the first authorized investment fund to be established in Georgia—this is a particularly important development since, according to Georgian legislation, only an authorized investment fund can conduct a public offering.

In terms of issuers of public securities, in 2024, four companies obtained status of a reporting enterprise and nine companies lost that status.

In 2024, fines were imposed on four brokerage companies for failure to submit reports or for making a submission with violations, also a fine was imposed on one brokerage company for violation of the requirements established by the Code of Ethics. In order to ensure transparency in the market, supervisory measures were taken against 15 issuers for failure to submit their 2023 annual reports or doing so with violations (resulting in 10 being fined). In 2024, the requirements set forth in the Corporate Governance Code for the submission and publication of relevant reports came into effect for issuers of public securities. Due to violations identified in relation to these requirements, 25 additional supervisory measures were taken (including seven fines being issued).

In 2024, the National Bank of Georgia also undertook supervisory actions against 22 issuers for failing to submit semi-annual reports or for submitting semi-

annual reports in violation of the legal requirements. Of these, 21 issuers were fined. Additionally, one issuer was fined for failing to submit a bond placement report to the NBG.

8.2 SECURITIES MARKET DATA

Like in previous years, the local securities market saw continued growth in 2024. Enactment of legislative/regulatory reforms and the introduction of new products will sustain this growth and further develop the capital market.

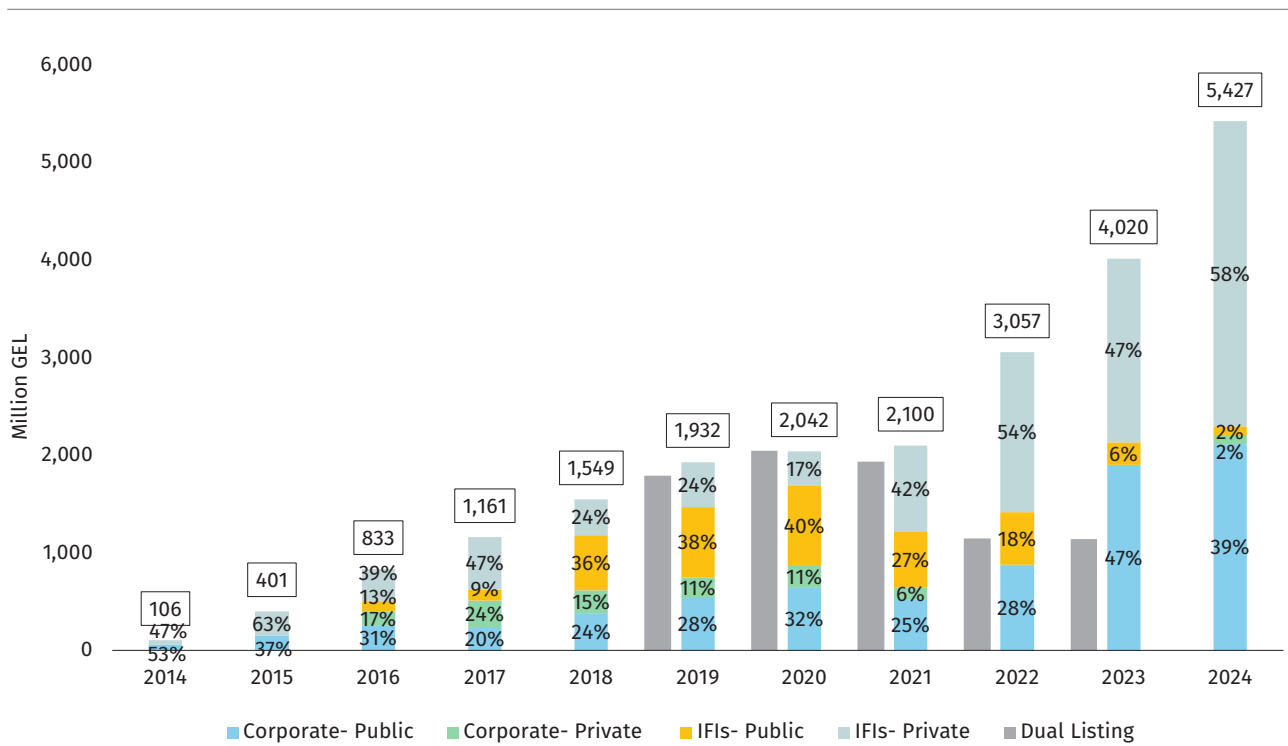
The Bonds Market

During 2024, the non-government bond market⁵³ continued its upward trend. Compared to the previous year, the market grew by 35.0%, reaching GEL 5.427 billion by the end of the year, which accounted for 5.91% of GDP. The balance of GEL-denominated bonds issued by international financial institutions increased by 52.4% in 2024, reaching 59.0% of the total balance of non-government bonds by the end of the year. In the corporate bond market segment⁵⁴, the annual growth rate was 15.6%. Consequently, by the end of 2024, the size of the corporate bond market reached GEL 2.197 billion, accounting for 40.5% of the total balance of non-government bonds. Over the past five years, the average growth rate of the corporate bond market has been 24.2%.

53. The data include public corporate bonds issued in the local market, private corporate bonds known to the National Bank of Georgia, and public and private bonds issued in the local market by international financial institutions. The data do not include non-government debt securities and certificates of deposit that are dual listed on the Georgian Stock Exchange.

54. The data cover both public and private corporate bonds issued in the local market and assigned an ISIN by the National Bank. The data do not include non-government debt securities and certificates of deposit that are dual listed on the Georgian Stock Exchange.

DIAGRAM 8.1 BALANCES OF NON-GOVERNMENT BONDS AT PERIOD-END, 2014-2024

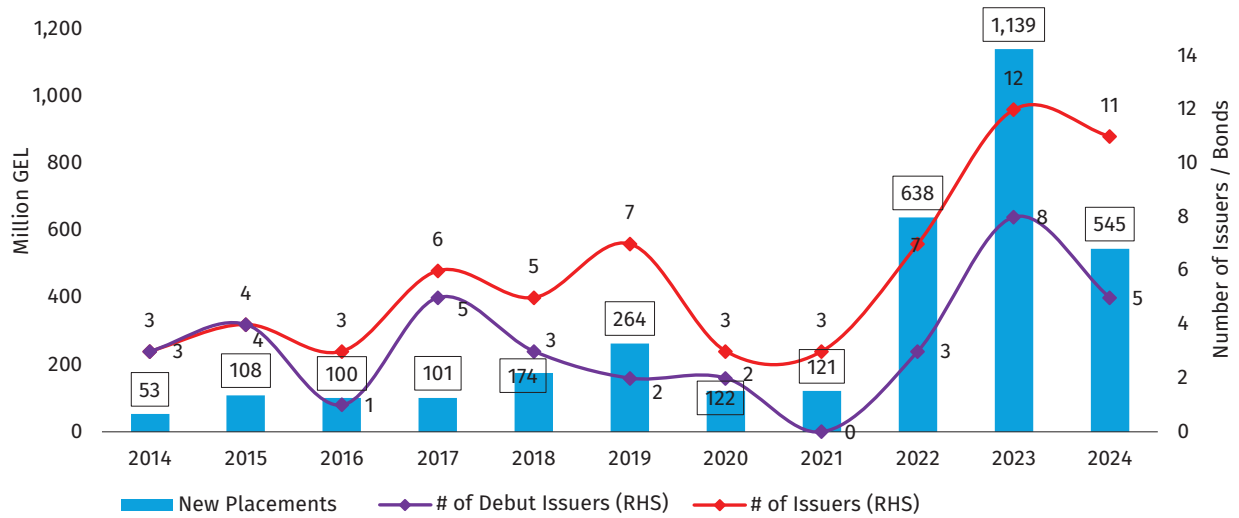


Sources: NBG, Georgian Stock Exchange, Bloomberg

Regarding the public corporate bond market, in 2024, 11 issuers conducted public corporate bond issuances (compared to 12 in 2023). Of these, five issuers entered the bond market for the first time (compared to eight in 2023). In 2024, 21 bonds were

issued (compared to 20 in 2023), with a total value of GEL 545 million (compared to GEL 1.139 billion in 2023). Notably, one of these bonds, valued at GEL 54 million, had the status of a sustainability bond.

DIAGRAM 8.2 PLACEMENTS OF PUBLIC CORPORATE BONDS DURING THE PERIOD, 2014-2024

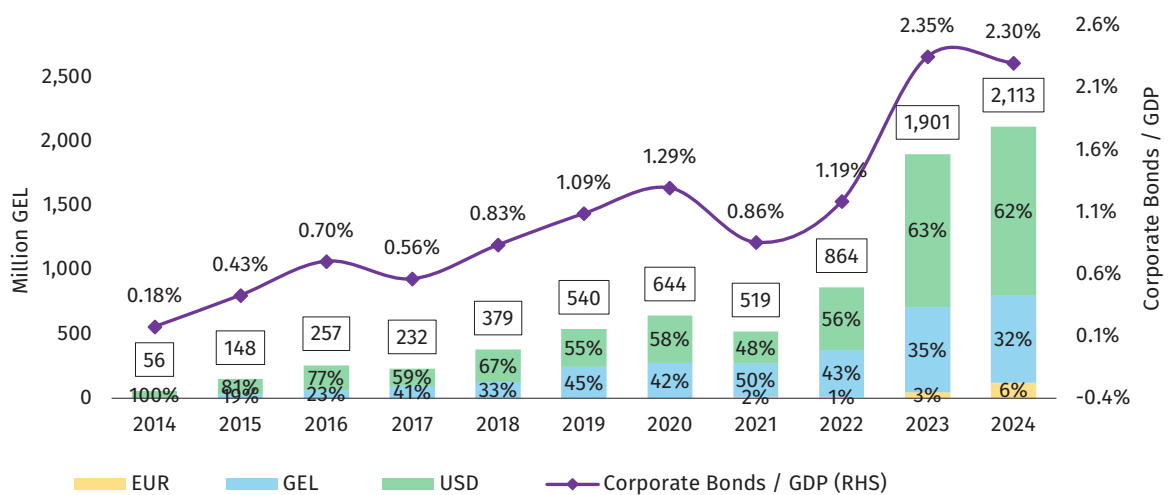


Source: NBG

As a result, the balance of the publicly placed corporate bond market reached GEL 2.113 billion by the end of 2024 (compared to GEL 1.901 billion in 2023), which accounted for 2.30% of GDP (compared

to 2.35% in 2023). Of this, the share of corporate bonds denominated in GEL was 32% (compared to 35% in 2023).

DIAGRAM 8.3 BALANCES OF PUBLIC CORPORATE BONDS AT THE END OF THE PERIOD, 2014-2024

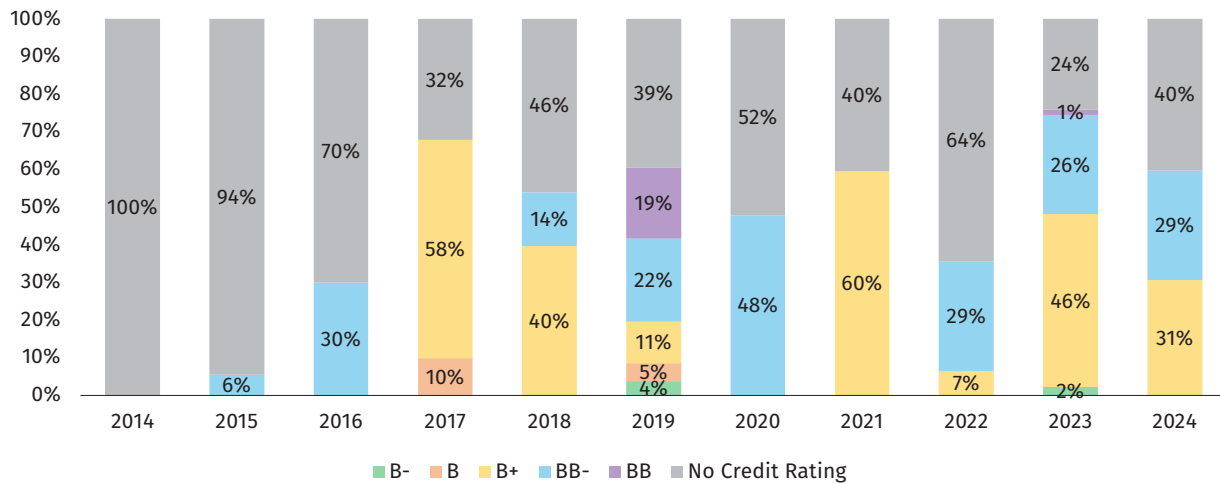


Source: NBG

In 2024, 60% of the total value of issued corporate bonds were placed by issuers with an international credit rating (compared to 76% in 2023). Of those, nearly half of the total value was placed by issuers

with a BB/BB- rating (compared to 37% in 2023), while the other half was placed by issuers with a B+ rating.

DIAGRAM 8.4 PUBLIC CORPORATE BOND PLACEMENTS BY ISSUER CREDIT RATING, 2014-2024

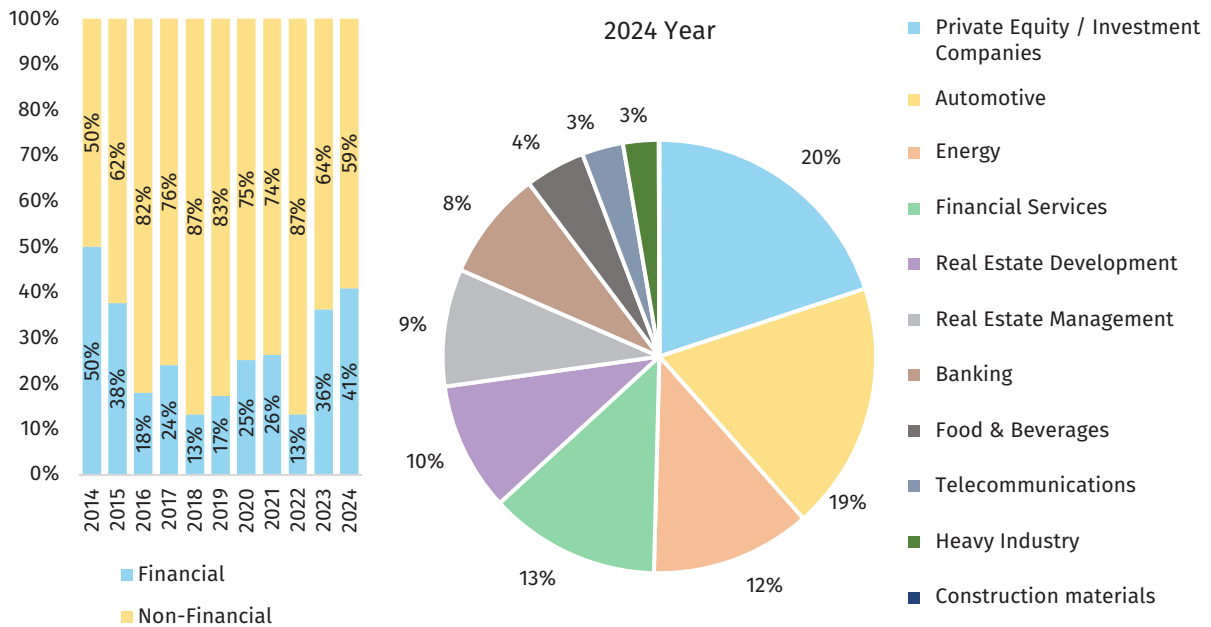


Source: NBG

At the end of 2024, non-financial profile issuers accounted for the majority of the volume of the public corporate bond market, holding 59% (compared to 64% in 2023). The market was also diversified, encompassing issuers from 11 different industries. In terms of the balance of corporate bonds, the

investment activity sector held the largest share at 20% (compared to 21% in 2023). The next three largest sectors—automobile trade and services, electricity production, and other financial services—collectively represented 43% of the public corporate bond market.

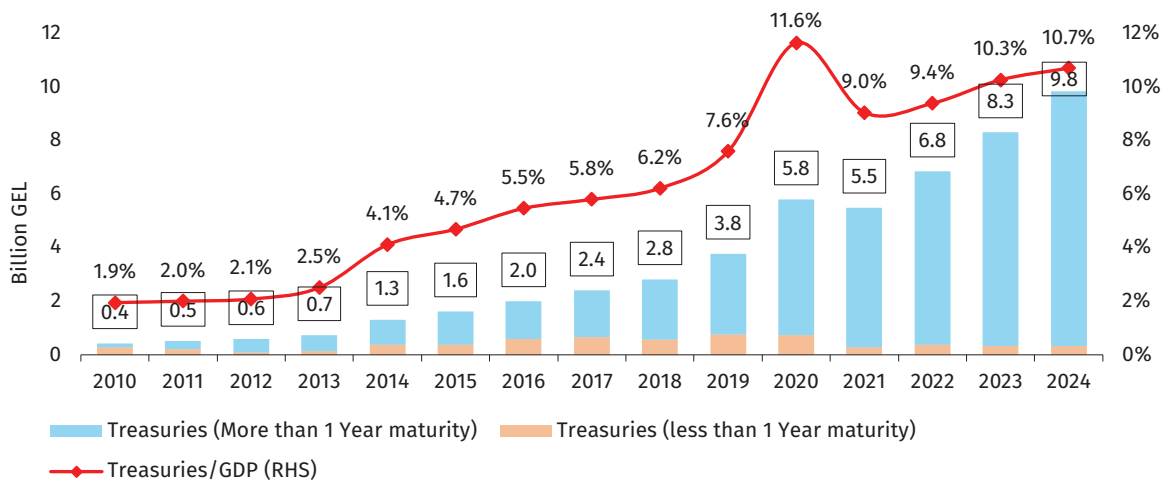
DIAGRAM 8.5 DISTRIBUTION OF CORPORATE BOND BALANCES BY SECTOR AND INDUSTRY, 2024



Source: NBG

During 2024, the Treasury bond market grew by 18.5% (compared to 21.4% in 2023) and reached USD 9.8 billion at the end of the year, which amounted to 10.7% of GDP (10.3% in 2023).

DIAGRAM 8.6 BALANCES OF TREASURY SECURITIES BY MATURITY, 2010-2024

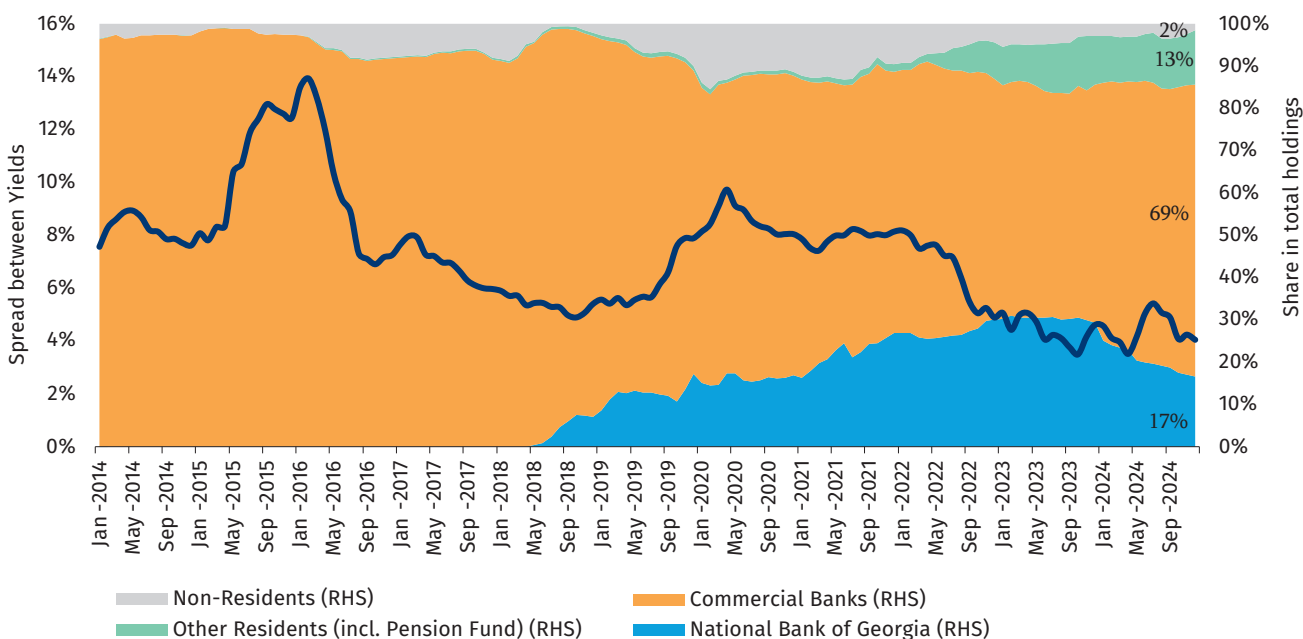


Sources: NBG, Ministry of Finance of Georgia

At the end of 2024, as in the previous year, the largest shares of Treasury bonds were held by commercial

banks, the National Bank of Georgia⁵⁵, and the Pension Fund.

DIAGRAM 8.7 BALANCES OF TREASURY SECURITIES BY OWNERSHIP, 2014-2024



Sources: NBG, Ministry of Finance of Georgia

In 2024, secondary market activity⁵⁶ varied across different segments of the bond market. In the corporate bond market, the activity rate for foreign currency-denominated bonds reached 15%, which was a notable increase compared to 4% in 2023. For

GEL-denominated corporate bonds⁵⁷, the activity rate stood at 9%. In contrast, the secondary market activity for Treasury securities declined to 3%, down from 13% in the previous year⁵⁸.

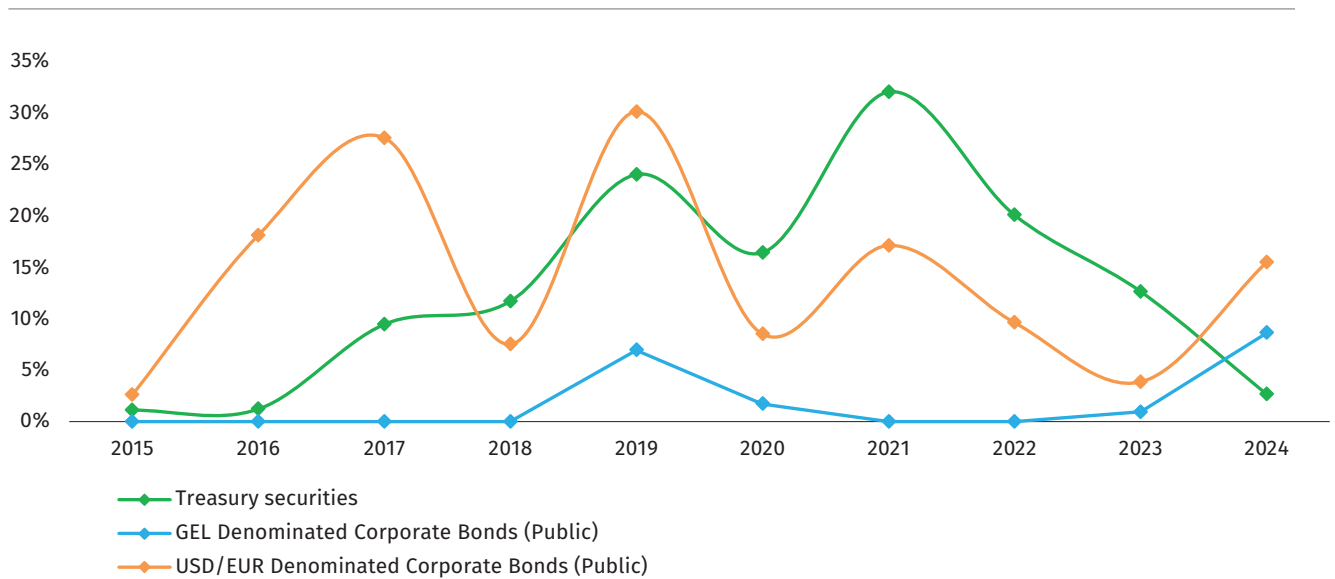
55. From 2018 to 2023, the National Bank of Georgia conducted open market operations through the purchase of Treasury bonds on the secondary market. These operations have currently been suspended.

56. It is worth noting that the aforementioned secondary market activity indicator is the result of one-off transactions.

57. The decline in Treasury bond liquidity is largely attributable to the National Bank's suspension of secondary market purchases of Treasury securities as part of its open market operations.

58. The graph shows secondary market activity as the ratio of the volume of secondary market transactions during the year to the average annual balances of securities

DIAGRAM 8.8 SECONDARY MARKET ACTIVITY FOR DEBT SECURITIES ISSUED IN GEORGIA, 2015-2024⁵⁹



Sources: NBG, Georgian Stock Exchange

8.3 OVERVIEW OF MARKET PARTICIPANTS

By the end of 2024, 2 (two) stock exchanges, 1 (one) central securities depository, 10 (ten) brokerage companies, and three independent securities registrars were operating in the Georgian securities market. Of the 10 (ten) brokerage companies, three (3) were not members of the stock exchange.

Brokerages

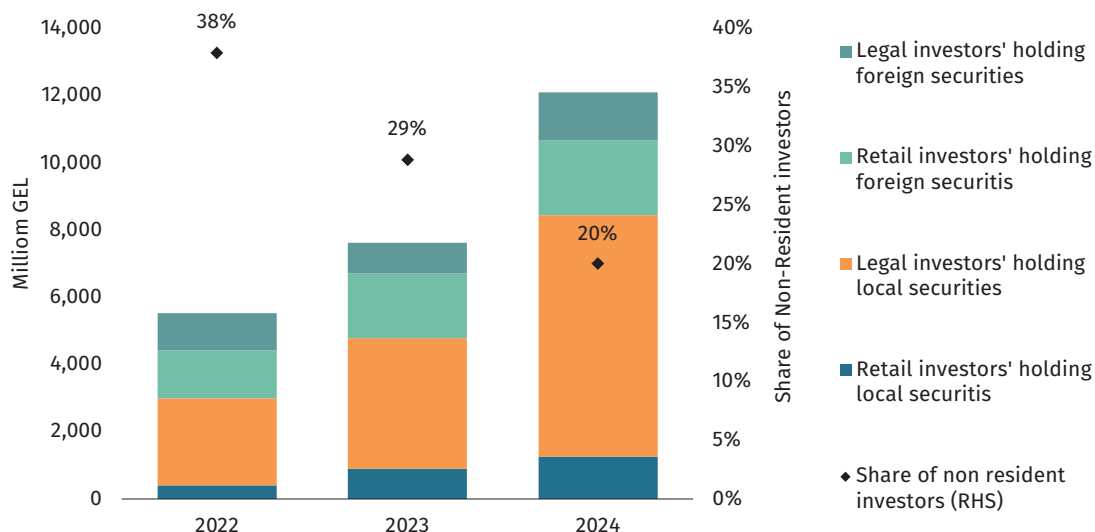
As of 31 December 2024, the total volume of the assets of brokerage companies operating in Georgia (excluding clients' money and securities held in nominal ownership) amounted to GEL 40 million.

The total value of securities held on the securities accounts of brokerage companies' clients at the end of 2024 amounted to GEL 12.1 billion, marking a 59% increase compared to 2023 (without considering the exchange rate effect). This increase is primarily related to domestic securities accounts; 20% of the outstanding balance of clients' securities accounts is attributed to non-resident investors.

As of December 2024, a total of 101,523 clients were receiving brokerage services from brokerage companies and banks, of which the majority (98%) were resident natural persons. Compared to the end of 2023, the number of clients of brokerage companies increased by 50% by the end of 2024. It should also be noted that 99% of the outstanding balance of client securities and 99% of the number of clients are concentrated in the two largest brokerage companies.

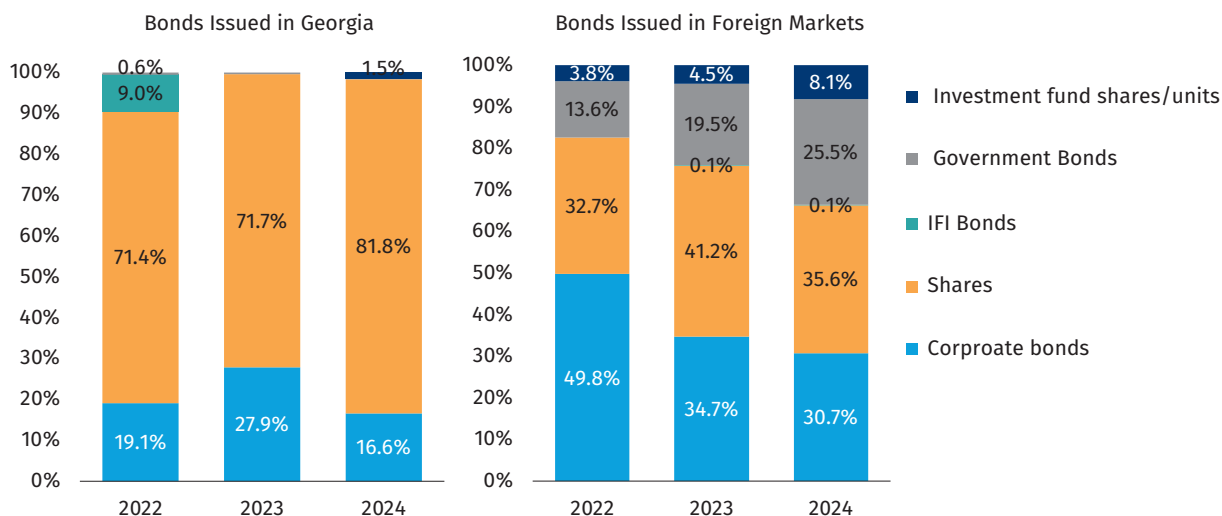
59. The graph shows secondary market activity as the ratio of the volume of secondary market transactions during the year to the average annual balances of securities.

DIAGRAM 8.9 TOTAL VALUE OF SECURITIES OF CLIENTS REGISTERED IN THE SECURITIES ACCOUNTS OF BROKERAGE COMPANIES (GEL)



Sources: NBG, Monthly reports of brokerage companies

DIAGRAM 8.10 DISTRIBUTION OF SECURITIES OF CLIENTS REGISTERED IN THE SECURITIES ACCOUNTS OF BROKERAGE COMPANIES (SECURITIES ISSUED IN FOREIGN COUNTRIES AND GEORGIA)



Source: Monthly reports of brokerages and commercial banks

Stock Exchange

As of 31 December 2024, securities from 23 issuers were admitted to the trading system of the Georgian Stock Exchange. During the reporting period, the total value of transactions recorded in trading sessions and on the exchange amounted to GEL

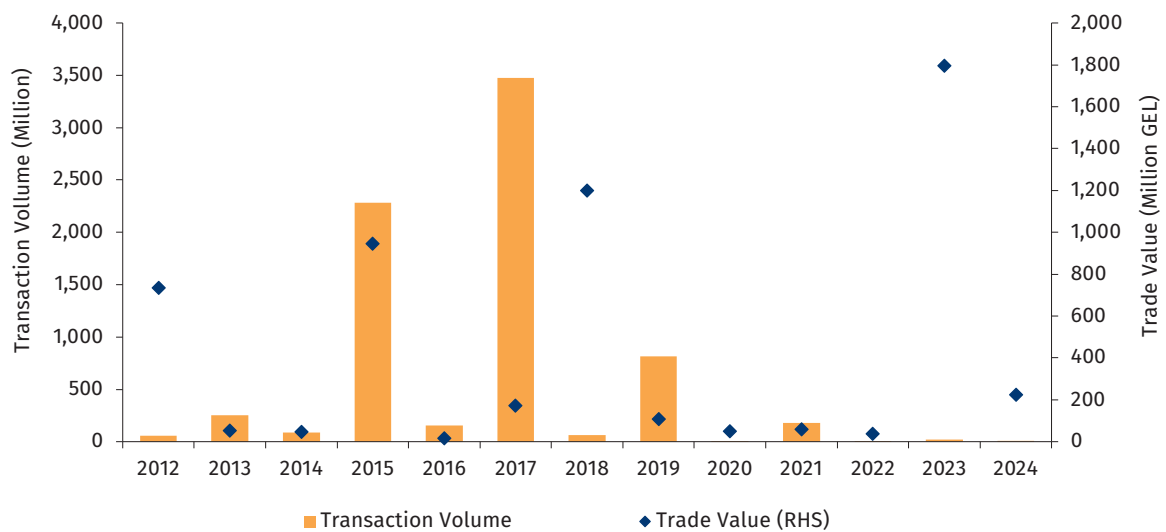
225 million, involving 7.4 million securities. Of this total, transactions worth approximately GEL 0.4 million were concluded in the trading sessions of the exchange, while the value of transactions recorded on the exchange amounted to GEL 224 million.

TABLE 8.1 AGGREGATE INFORMATION BASED ON THE RATES RECORDED IN TRADING SESSIONS AND ON THE STOCK EXCHANGE, 2022-2024

Year	Number of deals		Number of securities		Value of securities (GEL)	
	2024	2023	2024	2023	2024	2023
Stock exchange	42	29	931,647	3,804,161	357,528	162,430
Recorded	360	123	6,531,321	15,525,632	224,245,684	1,795,211,906
Total	402	152	7,462,968	19,329,793	224,603,212	1,795,374,336

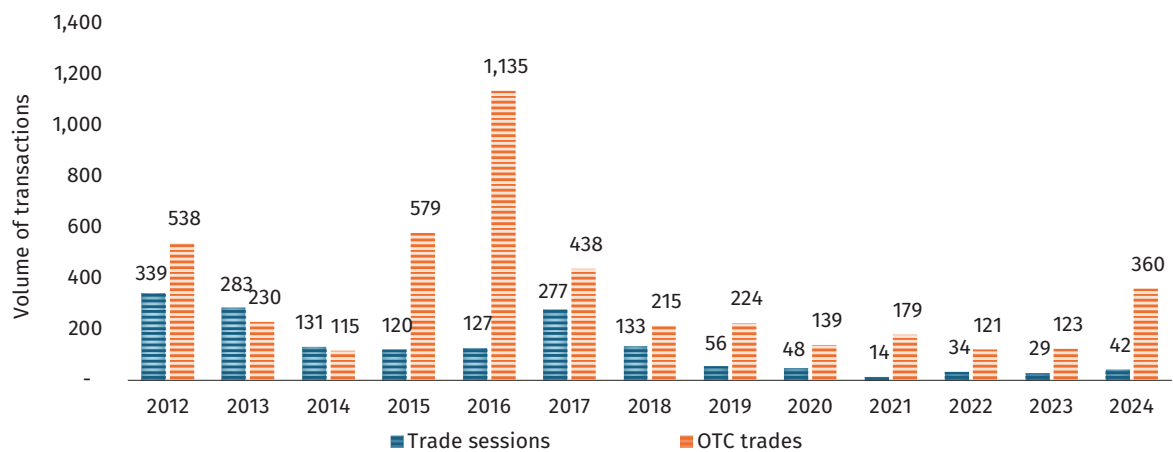
Source: NBG

DIAGRAM 8.11 KEY TRADE INDICATORS (TRANSACTIONS OFFERED IN TRADING SESSIONS AND RECORDED ON THE STOCK EXCHANGE), 2012-2024



Source: Annual Report of the Georgian Stock Exchange

DIAGRAM 8.12 NUMBER OF TRANSACTIONS RECORDED IN TRADING SESSIONS AND ON THE STOCK EXCHANGE BY YEAR, 2012-2024



Source: Annual Report of the Georgian Stock Exchange

8.4 INVESTMENT ACTIVITY OF THE PENSION AGENCY

Updates to the Legislative Framework

In June 2024, significant amendments were made to the Law of Georgia on Funded Pensions, most of which are set to take effect in 2025. These amendments primarily address the establishment of a new governance structure for the Pension Agency and the development of a more effective supervision model.

A key element of the reform involves restructuring the governance of the Pension Agency by consolidating the functions of the Supervisory Board and the Investment Board into a single Governing Board. This unified structure is intended to enhance efficiency and strengthen the professional management of the Pension Agency. Since the launch of the Pension agency's investment operations in 2019, both the pension asset portfolio and the range and volume of permitted investment instruments have expanded significantly in alignment with broader capital market development reforms. These developments have highlighted the need for a more robust and responsive pension fund governance model.

Under the new framework, members of the Georgian Government will no longer hold seats on the Governing Board of the Pension Agency. Previously, under a hybrid model, the Supervisory Board included the Minister of Finance, the Minister of Economy and Sustainable Development, and the Minister of IDPs from the Occupied Territories, Labor, Health, and Social Protection. The revised model⁶⁰ introduces a board composed of both professional⁶¹ and ex-officio member (limited to a maximum of two ex-officio members), with a total of no fewer than nine and no more than 15 members. Appointments

to the Governing Board will be made by the Prime Minister of Georgia, based on the recommendations of a Selection Commission.

Another important aspect of the amendments is the expanded supervisory role of the National Bank of Georgia. Since 2019, the extent of the NBG's oversight was limited to the Pension Agency's investment activities. However, starting from 1 May 2025, this supervisory mandate will be broadened to include all aspects of the Pension Fund's operations—including administrative, operational, and other functions. Additionally, the NBG will be empowered to define minimum suitability criteria for executive directors appointed by the Governing Board.

Regarding investment policy changes, a notable update includes the introduction of a new class of asset—alternative assets—within the Pension Fund's conservative portfolio, which currently holds nearly 99% of total pension assets. Under the revised regulations, alternative assets will be permitted up to 15% in the conservative portfolio, 20% in the balanced portfolio, and 25% in the dynamic portfolio. Additionally, the amendment restricts the involvement of external asset management companies in the management of pension assets. Consequently, Pension Fund participants will no longer have the opportunity to choose a private asset management company to manage their pension savings. The Pension Fund will retain the sole authority to delegate the management of a certain part of the portfolio to an external asset manager.

Results of Investment Activities

As of 31 December 2024, the volume of the Pension Fund amounted to GEL 6.1 billion, with net total returns of GEL 1.44 billion. The net nominal returns of the Pension Fund's conservative portfolio, from

60. The Governing Board is the highest governing body of the Pension Fund, consisting of no less than nine and no more than 15 members. If there are no more than 10 members in the Governing Board, one member is an ex officio member, and if there are more than 10 members, there may be two ex officio members. An ex officio member may not be a state or political official.

61. A person of good faith who has sufficient education and work experience, including at least five years of professional experience in a management position, may be elected to the position of professional member of the Governing Board. The majority of the members of the Governing Board shall be professional members with at least 10 years of professional experience in the financial sector in the areas of finance, investment, economics, risk management or actuarial work, or at least 10 years of experience as a director in any of these areas in the financial sector.

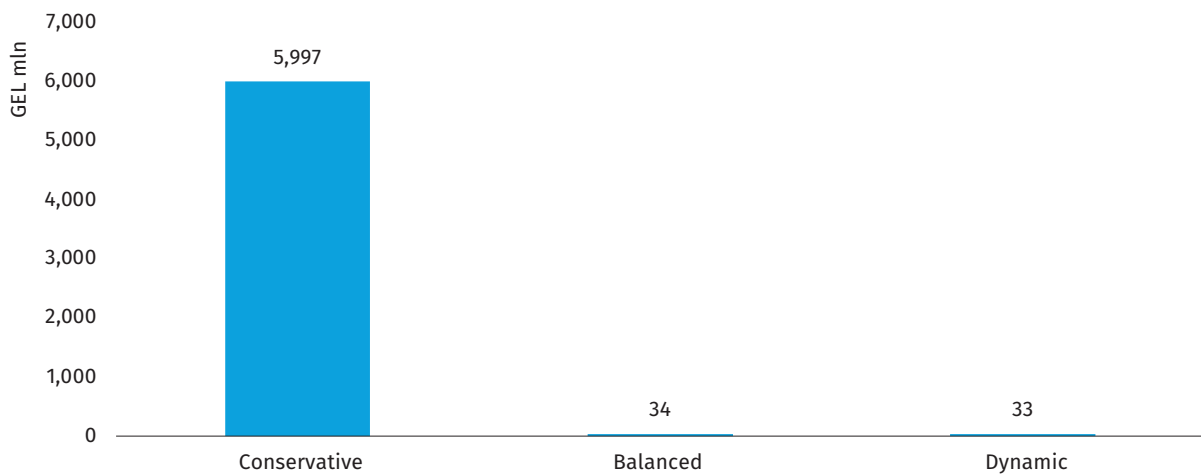
the launch of the Fund on 1 January 2019 until December 2024, amounted to 75.84%. Real returns, accounting for inflation, during the same period were 25.33%.

For the Pension Fund’s balanced and dynamic portfolios, which were launched on 6 August 2023, the net nominal returns up to December 2024 were 18.52% and 19.55% respectively. The real returns for the same period, considering inflation, were 14.29%

and 15.29% respectively. Over the course of 2024, the real returns for the individual portfolios were 9.51% for the conservative portfolio, 10.68% for the balanced portfolio, and 11.50% for the dynamic portfolio.

As of 31 December 2024, total pension assets were distributed as follows: GEL 33.1 million in the dynamic portfolio, GEL 33.5 million in the balanced portfolio, and GEL 5,997 million in the conservative portfolio.

DIAGRAM 8.13 DISTRIBUTION OF PENSION ASSETS BY PORTFOLIOS, DECEMBER 2024



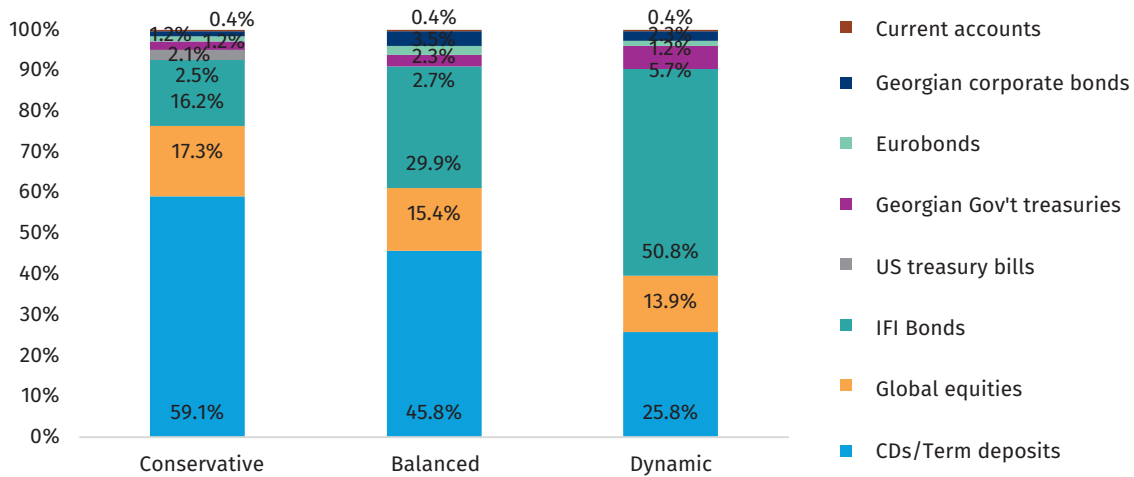
Sources: NBG, Pension Fund

As of 31 December 2024, the distribution of assets by the investment portfolios was as follows:

- ◆ *Conservative Investment Portfolio:* 2.1% of the portfolio was allocated to current transactional accounts, 17.3% to local government bonds, 16.2% to global stocks, 0.4% to Eurobonds, 1.2% to local corporate bonds, 1.2% to U.S. Treasury bonds, 2.5% to international financial institution bonds, and 59.1% was allocated to local certificates of deposit and term deposits.
- ◆ *Balanced Investment Portfolio:* 2.7% of the portfolio was allocated to current transactional

- accounts, 15.4% to local government bonds, 29.9% to global stocks, 0.4% to Eurobonds, 2.3% to local corporate bonds, 3.5% to U.S. Treasury bonds, and 45.8% was allocated to local certificates of deposit and term deposits.
- ◆ *Dynamic Investment Portfolio:* 5.7% of the portfolio was allocated to current transactional accounts, 13.9% to local government bonds, 50.8% to global stocks, 0.4% to Eurobonds, 1.2% to local corporate bonds, 2.3% to U.S. Treasury bonds, and 25.8% was allocated to local deposit certificates and term deposits.

DIAGRAM 8.14 DISTRIBUTION OF PENSION ASSETS BY PORTFOLIO, 31 DECEMBER 2024

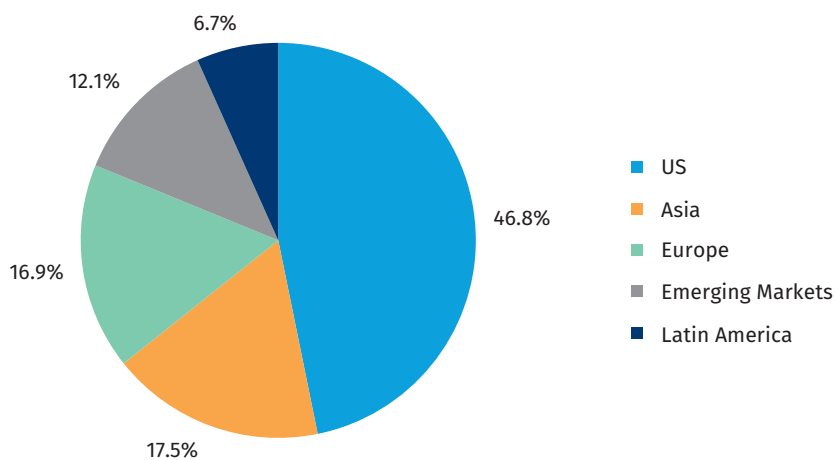


Sources: NBG, Pension Fund

One of the main differences between the Pension Fund's investment portfolios is the relative proportion of global stocks. As of the end of December, the share of stocks in the dynamic portfolio was 50.8%, in the balanced portfolio it was 29.9%, and in the conservative portfolio it was 16.2%. Additionally, the

stocks are diversified geographically. According to the data from the end of December 2024, 46.8% of the Pension Agency's existing stocks came from the U.S. market, 17.5% from Asia, 16.9% from Europe, 12.1% from emerging markets, and 6.7% from Latin America.

DIAGRAM 8.15 GEOGRAPHICAL DISTRIBUTION OF SHARES IN PENSION ASSETS, 31 DECEMBER 2024

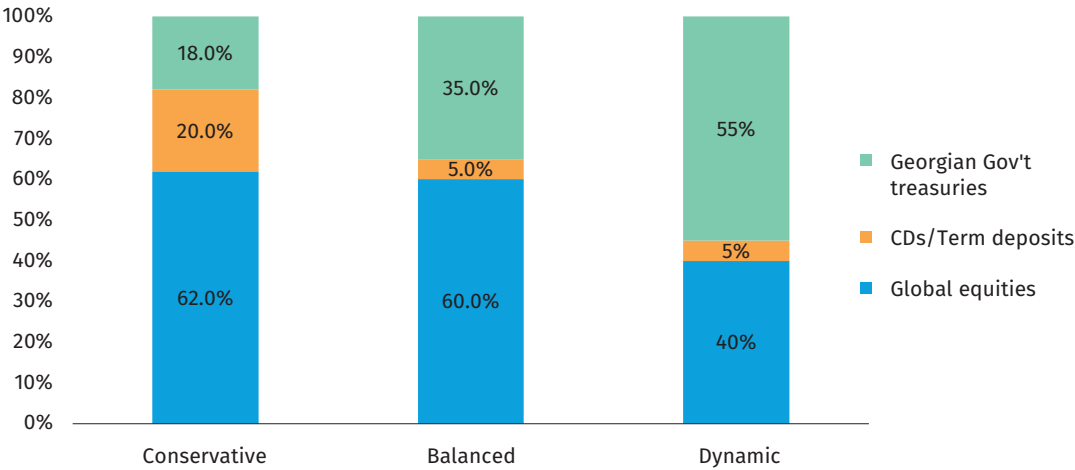


Sources: NBG, Pension Fund

In 2024, the Pension Agency’s investment policy document was also updated, which includes a revised framework for the asset allocation strategy. According to this document, the Investment Board defined new benchmark portfolios. In addition, a weighted index of foreign stocks for the benchmark portfolio was defined as follows:

- ◆ 20% - Vanguard FTSE Pacific ETF (Ticker VPL)
- ◆ 20% - Vanguard FTSE Europe ETF (Ticker VGK)
- ◆ 40% - SPDR S&P 500 ETF (Ticker SPY)
- ◆ 20% - Vanguard Emerging Markets Stock Index (Ticker VWO)

DIAGRAM 8.16 BENCHMARK PORTFOLIOS OF THE PENSION FUND



Sources: NBG, Pension Fund

It is noteworthy that in 2024, the Pension Agency joined the World Bank’s Reserve Advisory and Management Partnership (RAMP) program, which includes more than 70 public asset management organizations from around the world. Within the framework of this program, the Pension Agency receives technical support from the World Bank Treasury in investment management issues, including governance, portfolio and risk management, asset allocation strategy, and investment operations. The National Bank of Georgia has been a member of RAMP since 2009, and the Pension Agency became the second organization from Georgia to join the program.

Selection of a Specialized Depository

In 2024, the Pension Agency held a competition to select a specialized depository. JSC “Bank of Georgia” was declared the winner of the competition, and the organization signed a specialized depository service agreement with the Pension Agency for a period of five years. Within the framework of that agreement, the Pension Agency will have the opportunity to continue investing in local or international securities in cooperation with the specialized depository. As the specialized depository of the Pension Agency, JSC “Bank of Georgia” will ensure the accounting and storage of pension assets in accordance with the legislation of Georgia and the agreement signed with the Pension Agency, and will independently monitor each investment decision of the Pension Agency.

8.5 OVERVIEW OF ASSET MANAGEMENT COMPANIES AND INVESTMENT FUNDS

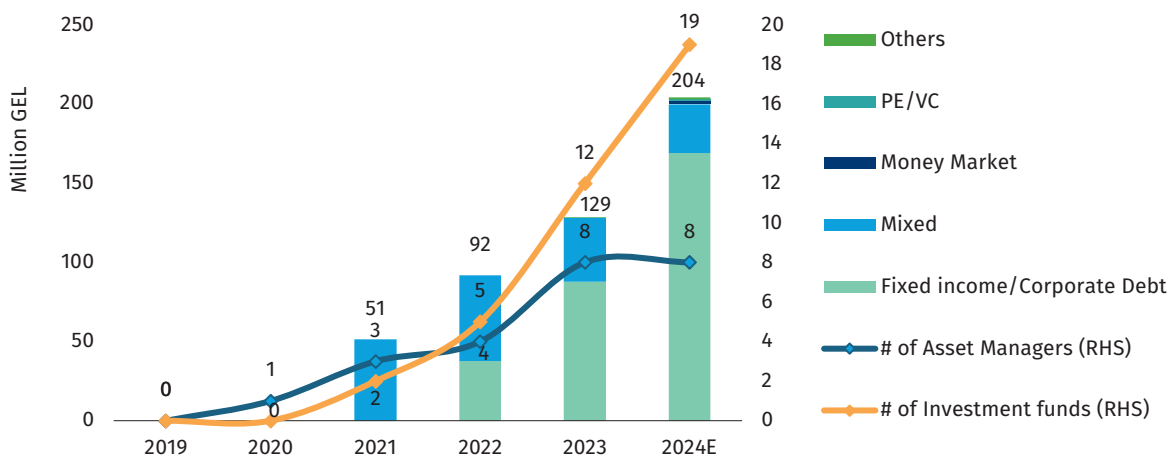
In 2020, Georgia’s regulatory framework for investment funds underwent a comprehensive update, aligning it with EU directives. Over recent years, both the NBG and the private sector have actively engaged in awareness-raising initiatives. These efforts have significantly invigorated the market: the first investment fund was established in 2021 and by 31 December 2024, Georgia was home to 19 operational investment funds and eight asset management companies. Additionally, the total volume of investment fund portfolios has

quadrupled over the past three years, reaching GEL 204 million as of 31 December 2024.

In 2024, the market saw the registration of the first authorized investment fund, the "Foresight Lari Money Market Fund", along with six other registered investment funds. These include JSC "Diversified Credit Portfolio 2", JSC "Diversified Credit Portfolio 3", the "Aurum Impact Capital" joint investment fund, the "Hedged Dollar Money Market Fund", JSC "Future Laboratory Ventures", and JSC "Corporate Credit Portfolio Fund". The market now encompasses funds that invest in debt and fixed income instruments, as well as private and venture capital, "mixed", and other types of funds.

Currently, three market participants, all commercial banks, offer specialized depository services.

DIAGRAM 8.17 INVESTMENT FUNDS AND ASSET MANAGEMENT COMPANIES



Sources: NBG, Reports of investment funds and asset management companies



**MONEY LAUNDERING
INSPECTION AND
SUPERVISION**

In accordance with the National Bank of Georgia's "Supervisory Framework for Combating Money Laundering and the Financing of Terrorism", the National Bank of Georgia, as part of its 2024 Risk-Based Supervisory Strategy, planned and implemented measures based on the remote identification and assessment of risks for both the sector and individual financial institutions.

To facilitate remote identification and assessment of risks, the NBG received and processed reports on the supervision of money laundering and the financing of terrorism from each supervised entity in this field twice during 2024 (see Table 9.1). The only exceptions to this were microbanks, investment funds, and asset management companies, from which reports were received and processed once during the year.

TABLE 9.1 REMOTE SUPERVISION, 2024

Financial Sector	Number
Commercial Bank	16
Microbank	1
Microfinance Organization	34
Payment Service Provider	34
Brokerage	10
Investment Fund	3
Asset Management Company	8
Securities Registrar	3
Credit Union	1
Currency Exchange Point	457
Lending Entity	242

Source: NBG

In 2024, to remotely evaluate the compliance of commercial banks' compliance control systems with the legislation on the prevention of money laundering and financing of terrorism, as well as the requirements set by the NBG and international best practice, supervision questionnaires for the compliance control systems of commercial banks were requested, and a corresponding analysis was conducted.

The supervisory activities conducted during 2024 encompassed a variety of on-site inspections, including complex, thematic, special, control, and quick check inspections, as well as remote follow-up inspections. Throughout the reporting year, the focus of these on-site inspections was tailored to address specific threats and risks identified within

the sector. The key topics of focus included the following:

For commercial banks:

- ◆ The adequacy of the processes of classifying clients (including those identified/verified through remote channels) according to risk, reassessment of risk, and implementing preventive measures corresponding to the risk.
- ◆ The process of identification and verification of the beneficial owners of clients with complex ownership structures; the bank's knowledge of clients related to offshore and high-risk jurisdictions by governance and ownership structure, as well as of the transactions and parties involved in such areas.
- ◆ Compliance with international sanctions

regimes (related to the Russian Federation, Belarus, and the Islamic Republic of Iran).

- ◆ The effectiveness of the process of determining the origin of cash.
- ◆ The process for detecting suspicious or unusual transactions. This included evaluating the effectiveness of identifying the use of shell or transit companies, measures taken to implement UN resolutions related to terrorism financing and proliferation financing (TF/PF), the adequacy of software used for these purposes, and the bank's awareness of transactions conducted by charitable and non-profit (non-commercial) legal entities.

For payment service providers:

- ◆ The adequacy of the processes of classifying clients according to their risk, reassessment of risk, and implementing preventive measures corresponding to the risk.
- ◆ The process of identifying suspicious/unusual transactions (including measures taken in terms of the implementation of UN resolutions (TF/PF), and software adequacy).
- ◆ The effectiveness of the risk management process related to virtual assets and non-resident merchants.

For microfinance organizations:

- ◆ The adequacy of customer risk classification, risk reassessment, and risk due diligence measures.
- ◆ The study of transactions carried out through

fast money transfer systems (related to Russia, Belarus, Kazakhstan, Armenia, and Azerbaijan) and assessment of the adequacy of the organization's knowledge and measures taken.

- ◆ The process of identifying suspicious/unusual transactions (including measures taken in terms of the implementation of UN resolutions (TF/Proliferation), and software adequacy).
- ◆ The effectiveness of the process for determining the origin of cash.

In 2024, a total of 36 representatives from the financial sector were inspected to assess compliance with Georgian legislation on combating money laundering and the financing of terrorism. To address identified deficiencies, the Money Laundering Inspection and Supervision Department of the National Bank of Georgia conducted remote follow-up inspections for six entities under its supervision. Particular attention was given to compliance with international sanctions and the examination of transactions conducted through money transfer systems. To this end, the effectiveness of processes related to compliance with international sanctions regimes – particularly those associated with the Russian Federation, Belarus, and the Islamic Republic of Iran – was reviewed in commercial banks.

Throughout 2024, the total amount of monetary fines imposed for violations of Georgian legislation on combating money laundering and the financing of terrorism amounted to GEL 961,300.

TABLE 9.2 AMOUNT OF FINES IMPOSED, 2024

Financial Sector	Amount of Fine (GEL)
Commercial Bank	181 000
Microfinance Organization	314 500
Payment Service Provider	318 500
Lending Entity	98 000
Brokerage	4 300
Currency Exchange Point	45 000

Source: NBG

In addition to the monetary fines imposed as a result of on-site inspections, corrective measures were actively employed against representatives of the financial sector throughout 2024. To promptly

address identified weaknesses and enhance the level of compliance among financial sector representatives, numerous recommendations were issued based on the results of on-site inspections.

TABLE 9.3 NUMBER OF RECOMMENDATIONS ISSUED, 2024

Financial Sector	Number of Recommendations
Commercial Bank	12
Microfinance Organization	64
Payment Service Provider	44
Brokerage	4
Lending Entity	8
Currency Exchange Point	27

Source: NBG

In 2024, significant steps were taken to implement and refine the supervisory framework for Virtual Asset Service Providers (VASPs). These actions included the development of legal acts and the assessment of the AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) aspects of the registration applications submitted by interested parties. Based on international practices, recommendations from authoritative international bodies, experiences shared by various regulators and experts, and feedback from the private sector, the following legal acts were developed and approved:

- ◆ Decree No. 133/04 of 29 May 2024 of the Governor of the National Bank of Georgia, which approved the *"Procedure for Defining and Enforcing Monetary Fines on Virtual Asset Service Providers and Their Administrators"*.
- ◆ The *"Guidelines on Suspicious Indicators of Money Laundering and Terrorism Financing for Virtual Asset Service Providers (VASPs)"* were developed and shared with the sector on 31 May 2024.

It is important to note that in 2024 Moneyval positively assessed the measures taken by Georgia regarding virtual assets and VASPs to combat money laundering and terrorism financing. This led to an

improvement in Georgia's technical compliance rating under Recommendation 15, with the advancement from "Partially Compliant" to "Largely Compliant" reflecting the results of the series of supervisory measures implemented by the NBG.

Particularly noteworthy are the actions taken by the NBG in 2024 regarding compliance with international sanctions regimes. To share experiences, the Money Laundering Inspection and Supervision Department closely collaborated with various international organizations and agencies. In 2024, a guideline was developed and approved for conducting payment operations in light of the trade restrictions imposed by various sanctions regimes. This guideline aims to support compliance with the trade restrictions specified by sanctions regimes, as outlined in the second clause of the *"Procedure for Ensuring Compliance with Sanctions Regimes by Accountable Persons under the Supervision of the National Bank of Georgia"*, as approved by Decree No. 208/04 of the Governor of the National Bank of Georgia on 4 August 2023.

In 2024, to ensure compliance with AML/CFT legislation, the *"Regulation on Completing and Submitting Anti-Money Laundering and Counter-Terrorism Financing Supervision Reports"* was

updated for microfinance organizations, payment service providers, brokerage companies, securities registrars, credit unions, currency exchange points, and lending entities. Additionally, the "Regulation on Completing and Submitting Anti-Money Laundering and Counter-Terrorism Financing Supervision Reports" and corresponding report forms were developed and approved for investment funds and asset management companies.

To improve the process of identifying and mitigating risks within organizations, the Money Laundering Inspection and Supervision Department assessed the risk assessment documents of commercial banks at both organizational and group levels.

Throughout 2024, similar to previous years, the products developed and presented by financial

institutions were reviewed individually with the involvement of the Money Laundering Inspection and Supervision Department.

The National Bank of Georgia places special emphasis on implementing preventive supervisory measures that ensure systematic information sharing about supervisory expectations with financial sector representatives and enhance their level of compliance. To this end, the training of financial sector representatives was actively conducted throughout the year, familiarizing them with the methodological guidelines and supervisory documents, ensuring effective implementation in practice, and assisting in effectively managing current challenges. The topics of the training modules and the number of attendees by sector are presented in Table 9.4.

TABLE 9.4 TRAINING MODULES, 2024

Training Module	Commercial Banks	Virtual Asset Service Providers	Lending Entities	Investment Funds/Asset Management Companies
Review of the updated procedure for completing and submitting Money Laundering and Terrorism Financing Risk Supervisory Reporting	-	-	182	8
Compliance with applicable standards for combating money laundering and terrorism financing	-	44	-	-
Challenges and international practices related to money laundering and terrorism financing	15	12	-	-

Source: NBG

In parallel with thematic training, during 2024, communication with representatives of the financial sector was intensive. Individual and group meetings were actively held to share information and familiarize parties with supervisory expectations.

In addition, throughout the year, representatives of the financial sector received daily feedback on issues relevant to them, on the effective implementation of legislative requirements, and on the use of methodological guides in practice.



OVERSIGHT OF PAYMENT SYSTEMS

Reliable, efficient, and effective payment systems are critically important for fostering economic development and growth. These systems ensure the seamless movement of financial resources within an economy, significantly impacting the effectiveness of both monetary and fiscal policies. Additionally, they play a vital role in the development of both large and small- to medium-sized businesses, which is crucial in the modern economy. Furthermore, payment systems create infrastructure that enables payment service providers to develop innovative and customer-centric payment products.

In this context, the National Bank of Georgia plays a significant role as both an **operator** and **supervisor** of the payment system. As an operator, the National Bank of Georgia manages the Real-Time Gross Settlement (RTGS) system, ensuring its operation is secure, efficient, and reliable. As a supervisor, the National Bank of Georgia ensures that the country's payment system remains stable and secure, promoting transparency in payment services and enhancing trust and reliability.

Moreover, the National Bank of Georgia acts as an **initiator of changes** in the payment sector, particularly by introducing reforms that embrace innovations and new financial technologies. As part of these reforms, the National Bank of Georgia has initiated the renewal of the existing payment infrastructure and the implementation of a completely new instant payment system, which will be in line with international standards. This ensures that the country's payment system is adapted to global trends and supports the long-term development of the national economy, as well as meeting customer demands in the payment sector. The National Bank of Georgia's long-term goal is to connect with various foreign payment systems, which will improve the efficiency of cross-border payments, benefiting financial institutions, customers, and businesses alike.

Given the increased importance of payment systems and the rapid development of financial innovations and digital technologies, strengthening the oversight of payment systems is of the utmost importance. In

this regard, in 2024, based on the criteria established by the relevant regulatory act, the National Bank granted the status of significant payment system to six systems. Among these, one – the National Bank of Georgia's Real-Time Gross Settlement (RTGS) system – was recognized as a systemically important payment system, while the remaining five systems were designated as prominently important payment systems. Recognizing payment systems as significant will significantly improve the payment infrastructure's compliance with international standards, the management of risks in and affecting payment systems, and the overall reliability and stability of the country's payment system. This is ensured by the *"Regulation on Oversight of Payment Systems and Payment System Operators"*, which was adopted by the National Bank of Georgia in 2023. This applies to significant payment systems and is in line with the Principles for Financial Market Infrastructures (PFMI) of the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions (CPSS-IOSCO), as well as the oversight requirements of the European Central Bank for payment systems. Part of the oversight rule requirements (such as the legal framework for the functioning of the payment system, operational risks, access to the system, transparency, as well as efficiency and effectiveness requirements) also apply to all other payment systems, which ultimately contributes to increasing the efficiency of Georgia's entire payment system.

Based on the Association Agreement between Georgia and the European Union, and in accordance with the requirements of Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services (PSD2), the Dispute Resolution Commission – which became operational in December 2023 – fully carried out its activities in 2024. The Dispute Resolution Support Division of the Payment Systems Department of the National Bank of Georgia, which functions as the commission's apparatus, provided the commission with the necessary actions for dispute resolution – in terms of both content and technical and organizational aspects.

With this development, consumers were given the opportunity to apply directly to a special commission focused on the payment services sector instead of going to court. For consumers, the Dispute Resolution Commission represents a fast, effective, and free mechanism for dispute resolution. The commission is an independent body and its establishment aims to protect the rights of payment service users, ensure their fair treatment, and strengthen consumer confidence in digital payments.

10.1 IMPORTANT PAYMENT SYSTEMS

The National Bank of Georgia continuously strives to enhance the legislative framework, reliability, efficiency, and effectiveness of payment systems. In this regard, efforts continued in 2024 to align the financial market's payment systems infrastructure with international standards.

Specifically, based on the *"Regulation on Defining Subcategories of Significant Systems and Granting the Status of a Significant System to a Payment System"*, as adopted by the Governor of the National Bank of Georgia in 2023, the NBG granted the status of a significant system to six payment systems on 1 April 2024. Among those, one system – the NBG's Real-Time Gross Settlement (RTGS) system – was recognized as being a **systemically important** payment system. The remaining five were designated as **prominently important** payment systems.

Four of these prominently significant systems – the card payment systems of JSC "United Financial Corporation" and JSC "Georgian Card," as well as the internal payment systems of JSC "Bank of Georgia" and JSC "TBC Bank" – received this status due to their significant market share, which exceeds 25%. While the card payment system of JSC "Liberty Bank" was recognized as a prominently significant system based on the socially and publicly significant services it provides. The registry of significant systems is published on the website of the National Bank of Georgia under the section ["Important Payment Systems"](#).

Following their designation as important systems, those systems developed a time-bound plan in agreement with the NBG to align their operations with the requirements of the oversight regulation. In this regard, the NBG has actively engaged in consultations with the operators of significant systems, both individually and collectively, providing methodological support and sharing its experience from the self-assessment process of the NBG's RTGS system.

The self-assessment by the operators of important systems was conducted in stages throughout 2024 and is expected to be completed by 1 March 2025. Based on the results of these activities, measures to enhance the reliability, efficiency, and effectiveness of significant payment systems will be identified, along with a plan and timeline for their implementation.

The NBG assesses the annual data of both important payment systems and other systems operating in Georgia by 1 April each year, determining their compliance with the recognition criteria and granting important system status to the relevant entities.

Payment Market Monitoring and Transparency

For the purpose of monitoring the payment sector, the National Bank of Georgia actively conducted analyses of various market segments throughout 2024. One of the key areas of focus was the card business sector. Since 2023, the NBG has been collecting information from commercial banks regarding revenues and expenses related to card business to assess the efficiency of card business operations, commission structures, and market profitability. Following data collection for 2024, an appropriate methodology for analysis will be developed based on several years of data. In this regard the NBG is actively collaborating with World Bank experts, who provide technical assistance in analysis and methodology development. The conducted analysis will enable the NBG to evaluate the potential impact of various types of commissions on market segments, which will be significant for effective market regulation in the future.

To ensure the efficient functioning of the payment market and the implementation of transparency principles, active work continued on the project to create a unified portal for service providers' commissions. Various components of the technical specifications were detailed, and logical schemes for transfer commission calculators were processed. Subsequently, a software provider company created an initial test version of the portal. Moreover, a special API was developed, which in the future will allow third parties to use the information published on the website and other information collected by this portal for placement on their own resources, permitting the development of their own platforms based on reliable and accurate information. With the involvement of the NBG team and the provider company, testing of the system's main components was conducted. In the second half of 2024, active work continued on addressing issues identified during testing and developing the remaining components of the system. Due to the complexity and scale of the project, its completion is planned for 2025.

With the launch of the project, a draft *"Regulation on Accessibility of Commission Information for Payment Account Services"*, as developed in accordance with the Payment Account Directive (Directive 2014/92/EU), will be approved. As a result of this, users will be able to easily compare product/service tariffs, calculate the cost of desired services/products using calculators on the website, and promptly receive information on current exchange rates from commercial banks. This will simplify user access to financial services and promote the formation of a competitive environment.

Dispute Resolution Commission

The Dispute Resolution Commission reviews disputes between payment service users and payment service providers that arise from rights and obligations under the Organic Law of Georgia "On the National Bank of Georgia", the Law of Georgia "On Payment Systems and Payment Services", and subordinate normative acts based on these laws. The review of complaints is free of charge, and during

administrative proceedings, the commission is guided by the principles of competitiveness, fairness, transparency, objectivity, impartiality, and equality of the parties. The legislation stipulates a maximum of 90 calendar days for dispute resolution, which may be extended by no more than 30 calendar days considering the complexity and technical specifics of the dispute, as well as the course of the dispute and the investigation of the matter.

During its first year of operation, the Dispute Resolution Commission at the National Bank of Georgia reviewed 90 disputes between users and payment service providers, including banks. Most of the complaints submitted by users were related to unauthorized payment transactions on their accounts.

As a result of the reviews of the disputes, 85% of cases were resolved in favor of the users. Consequently, providers compensated users a combined total of GEL 300,000. In terms of provider accountability, it is noteworthy that during the investigation process, commercial banks satisfied user demands and provided compensation for unauthorized payment transactions in 16 cases before the commission had made a decision.

10.2 TRANSACTIONS IN THE RTGS SYSTEM

The most crucial component of Georgia's payment system is the NBG's Real-Time Gross Settlement (RTGS) system, which serves as the primary mechanism for interbank settlements in the national currency, the lari. In 2024, the RTGS system was designated as a systemically important payment system, subjecting it to oversight regulations. Even before being granted significant system status, the NBG conducted self-assessments of the RTGS system twice based on the Principles for Financial Market Infrastructures (the last self-assessment was conducted in 2021 within the framework of the World Bank and International Monetary Fund's joint "Financial Sector Assessment Program"⁶²). The

62. See: <https://www.imf.org/en/Publications/CR/Issues/2021/09/17/Georgia-Financial-System-Stability-Assessment-465911>

implementation of these principles in Georgian legislation are represented by the "Regulation on Payment System and Payment System Operator Oversight (Oversight)" that was adopted in 2023. Currently, a project for the complete renewal of the existing system is underway. A decision has been made to conduct a full-scale self-assessment of the new system, while targeted/thematic assessments continue to be carried out on the existing system.

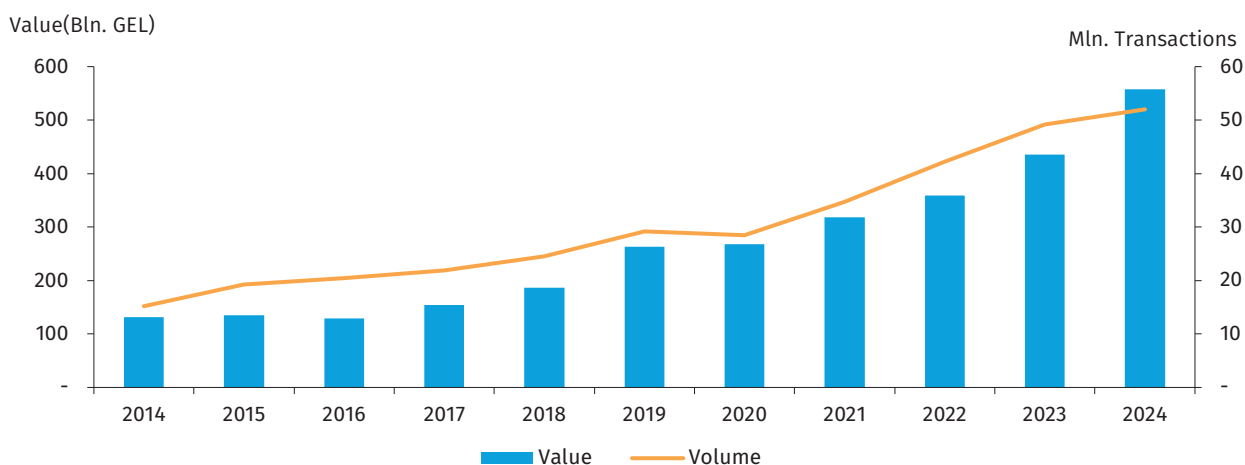
As of December 2024, the participants in the RTGS system included 17 commercial banks licensed in Georgia, the National Bank of Georgia, and the Treasury Service of the Ministry of Finance. Among them, two participants joined in 2024, and one participant joined in January 2025. The RTGS system processes both large-value interbank payments and retail payments of participant clients. Additionally, the RTGS system ensures the settlement of operations processed in the Government Securities Settlement System (GSSS) operating in Georgia and international card systems. The RTGS system has in place a business continuity plan created according

to best international practices, which is regularly tested based on pre-developed scenarios. These measures facilitate rapid and effective responses in case of technical or external disruptions during system operations, reduce the risk of losses, and minimize system downtime.

In 2024, similar to in previous years, the RTGS system ensured high-quality uninterrupted operations. System availability for participants exceeded 99.8%, which is significant considering the RTGS system's role as a settlement agent for other systems (GSSS and card systems).

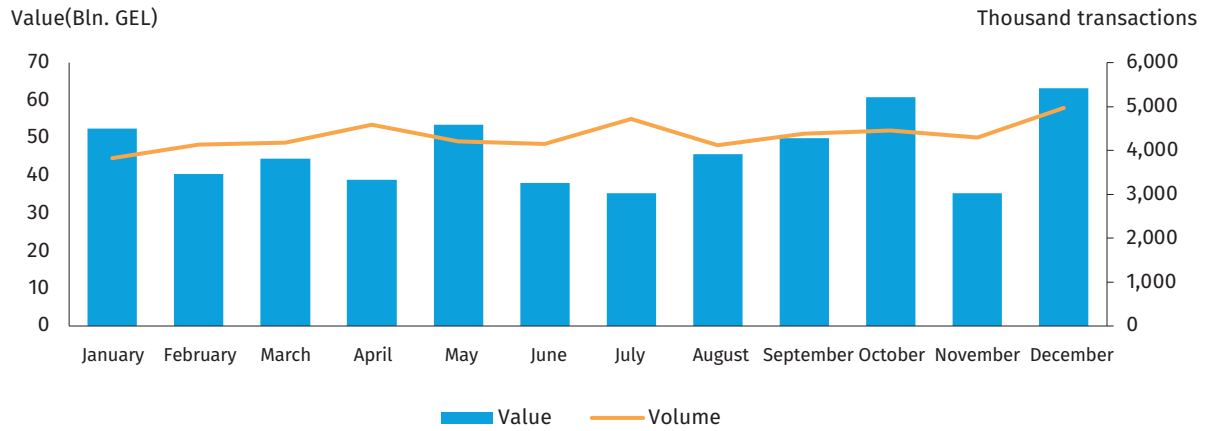
In 2024, the RTGS system processed 52 million payment transactions amounting to GEL 557.8 billion, which is 5.7% higher in volume and 28% higher in value compared to the previous year's figures. The number of payments between commercial banks increased by 4.1%, while the amount increased by 14.9%. The dynamics of the value and volume indicators of payments made through the RTGS system can be seen in the diagrams below.

DIAGRAM 10.1 TRANSFERS THROUGH THE RTGS SYSTEM, 2014-2024



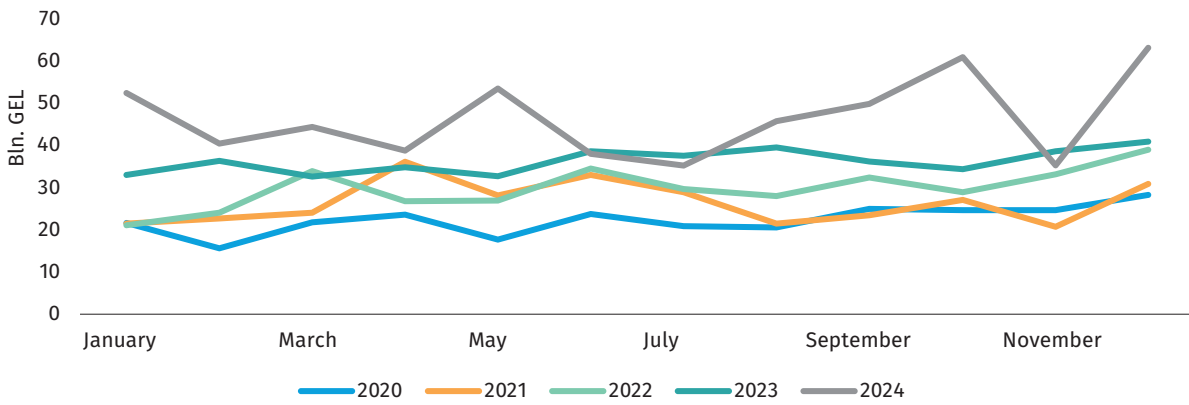
Source: NBG

DIAGRAM 10.2 TRANSFERS THROUGH THE RTGS SYSTEM, 2024



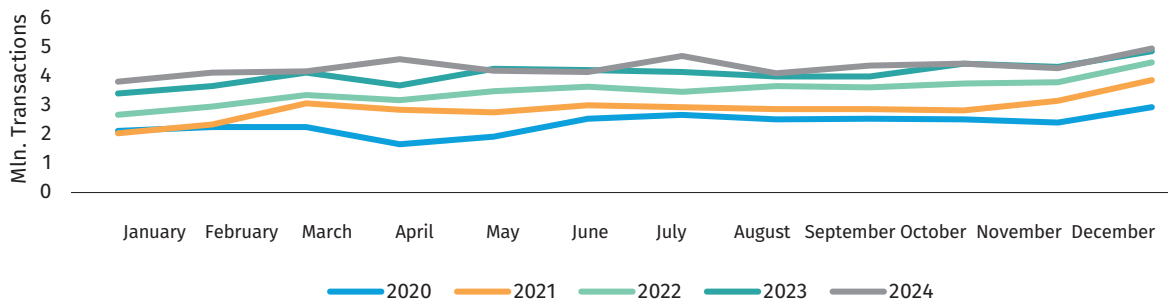
Source: NBG

DIAGRAM 10.3 AMOUNT OF RTGS TRANSACTIONS BY MONTH AND YEAR, 2020-2024



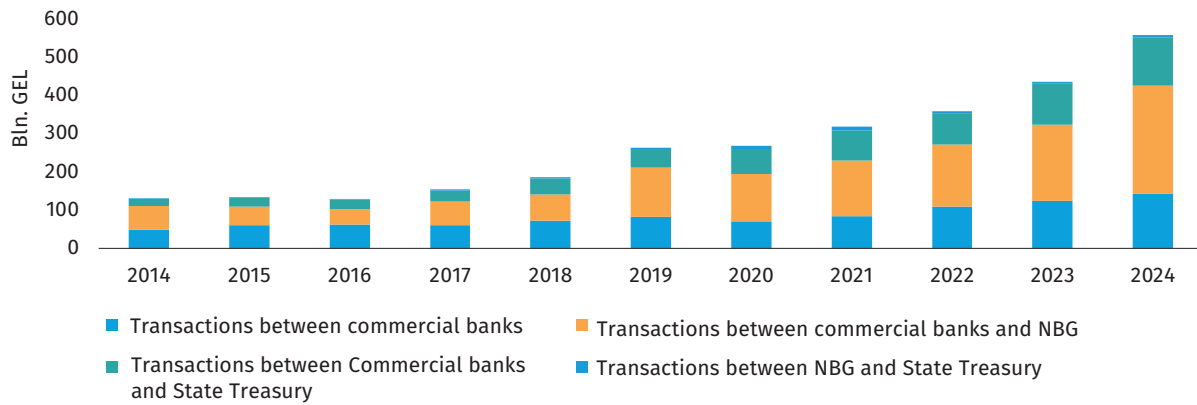
Source: NBG

DIAGRAM 10.4 AMOUNT OF RTGS TRANSACTIONS BY MONTH AND YEAR, 2020-2024



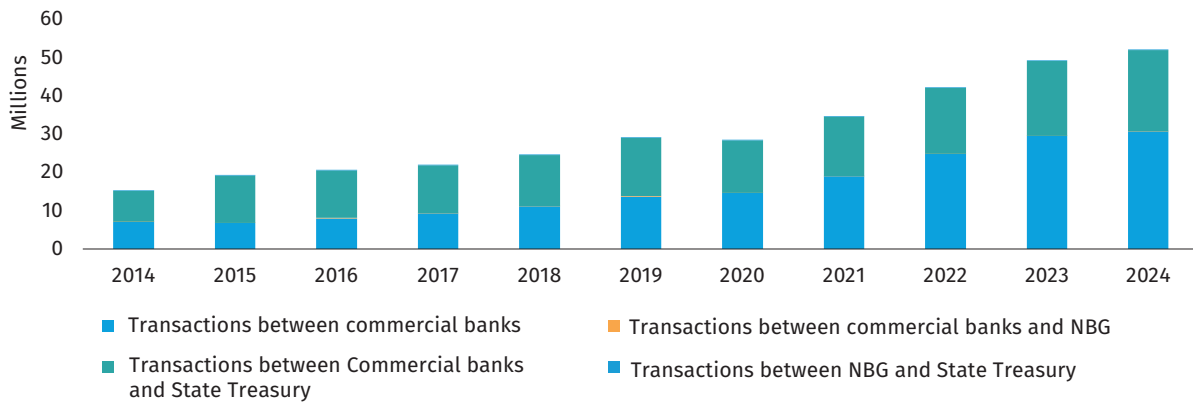
Source: NBG

DIAGRAM 10.5 AMOUNT OF RTGS TRANSACTIONS BY MEMBERS, 2014-2024



Source: NBG

DIAGRAM 10.6 NUMBER OF RTGS TRANSACTIONS BY MEMBERS, 2014-2024

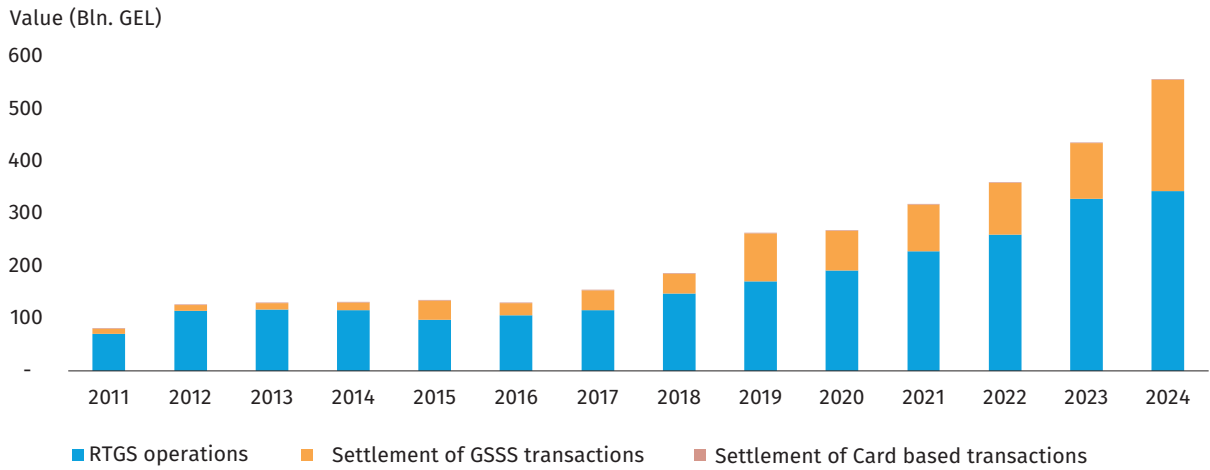


Source: NBG

Similar to previous years, in 2024 the role of the RTGS system as a settlement agent for other systems remained significant. Over the year, the amount of final settlement operations for other systems increased by 101%, and the share of these in total

operations conducted through the RTGS system amounted to 38.6% (see Diagram 10.7). This growth was largely driven by an increase in operations within the Government Securities Settlement System (GSSS).

DIAGRAM 10.7 AMOUNT OF RTGS TRANSACTIONS BY SETTLEMENT, 2011-2024

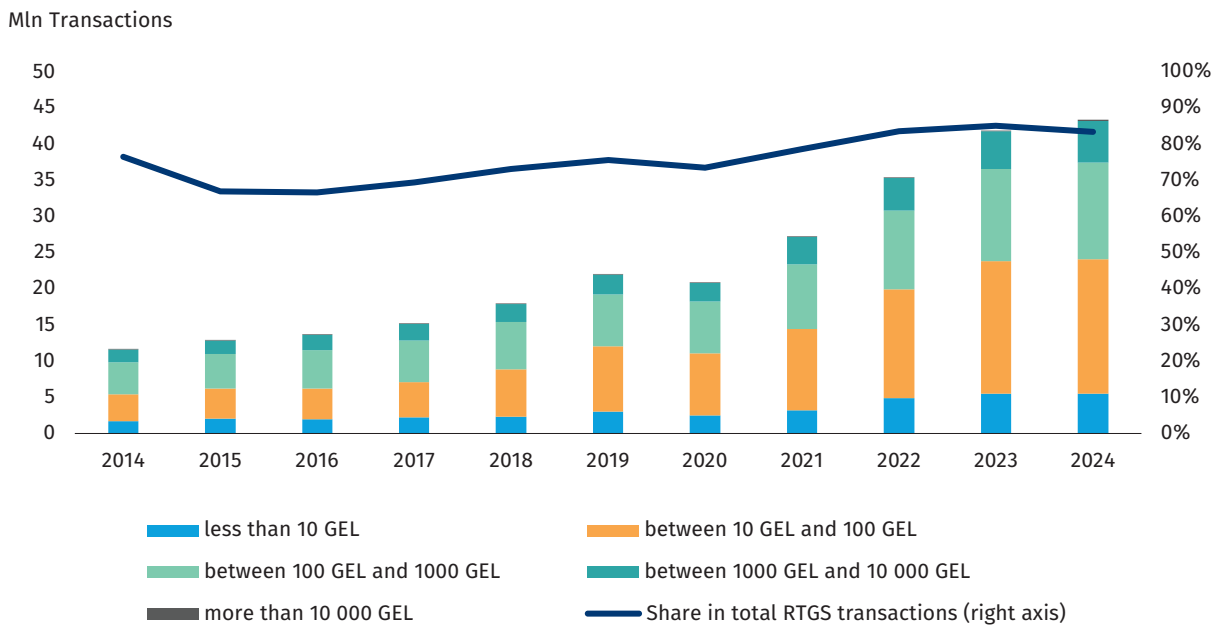


Source: NBG

The RTGS system plays a crucial role not only in handling large-value transactions but also in processing retail payments. In 2024, the share of commercial bank client payments in total RTGS payments amounted to 26.7% in value and 83% in

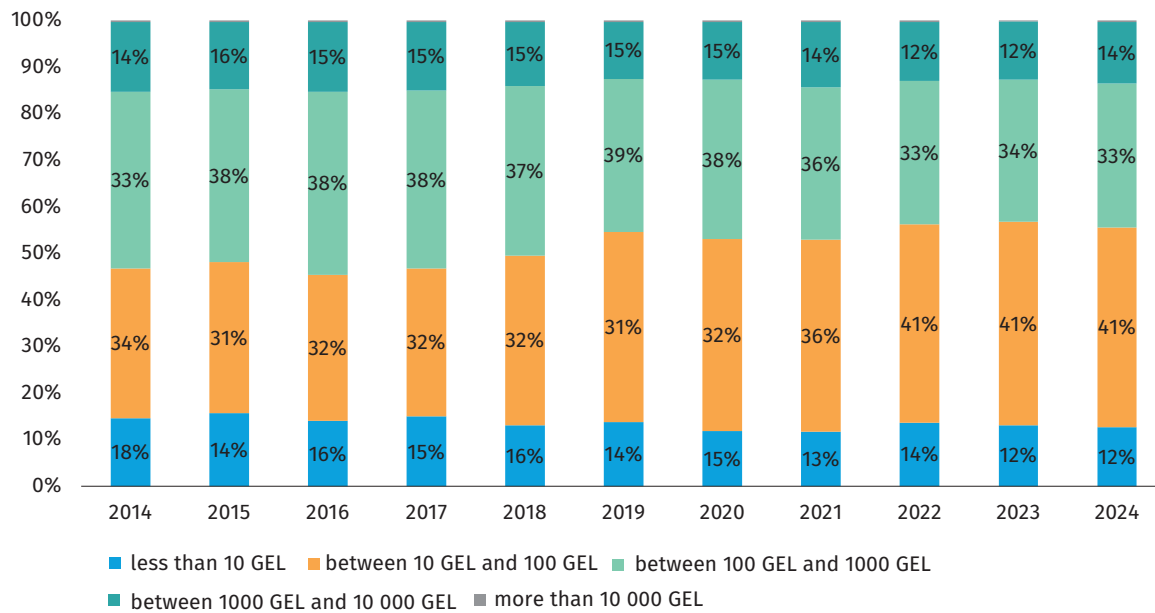
volume. It is noteworthy that the largest portion of retail payments by volume (43%) fall within the range of GEL 10-100, followed by 31% for payments ranging from GEL 100-1,000 (see Diagrams 10.8 and 10.9).

DIAGRAM 10.8 NUMBER OF PAYMENTS BY BANK CLIENTS BY AMOUNT LIMITS



Source: NBG

DIAGRAM 10.9 DISTRIBUTION OF PAYMENTS BY BANK CLIENTS BY AMOUNT



Source: NBG

10.3 ELECTRONIC MEANS OF PAYMENT

The constant use of innovations and digital technologies in everyday life has played a significant role in the development of cashless payments and has facilitated the creation of new products that better meet the needs of modern consumers.

In Georgia, the most frequently used electronic payment method is card instruments, through which the number of cashless payments increased by 24.5% in 2024 and accounted for 70.6% of the total number of cashless payments, which is 2 PP higher than in 2023. Notably, 54% of the value and 60% of the volume of cashless payments made with card instruments issued in Georgia were conducted through mobile applications such as Google Pay and Apple Pay. Considering that both of these mobile applications were only introduced in Georgia over the past five years, their accounting for such a high share of payments indicates the rapid growth in the use of mobile applications for payments. There is a

slight difference in the use of mobile applications by transaction type. Specifically, card payments made through mobile applications in commercial service outlets accounted for 51% of the total value and 63% of the total volume of card payments, while in e-commerce, card payments made through mobile applications accounted for 46% of the total value and 49% of the total volume.

The share of contactless payments in the total card payments made at commercial service outlets has traditionally been high, and in 2024 accounted for 97% of the value and 99% of the volume.

Over the past eight years, payments made through mobile banking has been the absolute leader in terms of growth in both volume and value, resulting in mobile banking becoming the second most frequently used payment method after card instruments since 2020. In 2024, the number of payments made through mobile banking increased by 14% compared to 2023 and accounted for 25% of the total number of cashless payments, which is 2 PP lower than the previous year's figure.

Over the past 12 years, the frequency of card instrument usage has been characterized by a high and steady growth rate, ranging from 22% to 60%. The share of card instrument use in total cashless payments increased from 43% in 2012 to 83% in 2019-2021. In parallel with these developments, there has been active growth in the development of mobile banking, which in 2015 began as a relatively new payment channel for the Georgian market through which only 0.5% of cashless payments were made. From 2015 to 2023, the number of payments made through mobile banking increased by an average of 128%, which led to its share of total cashless payments increasing to 27% in 2023. In 2024, the number of payments made through mobile banking increased by a more modest 13.7% and accounted for 25% of the total cashless payments, which is 2 PP lower than the similar figure for 2023. This is the first time since 2015 that the share of payments made through mobile banking in total cashless payments has not increased. During 2024 the number of payments made through internet banking increased slightly by 1.2% and accounted for 3% of total cashless payments, which is 1 percentage point lower than the figure for 2023. As for non-remote initiated payment orders, the share of these decreased slightly by 0.1% and accounted for 1% of the total number of cashless payments.

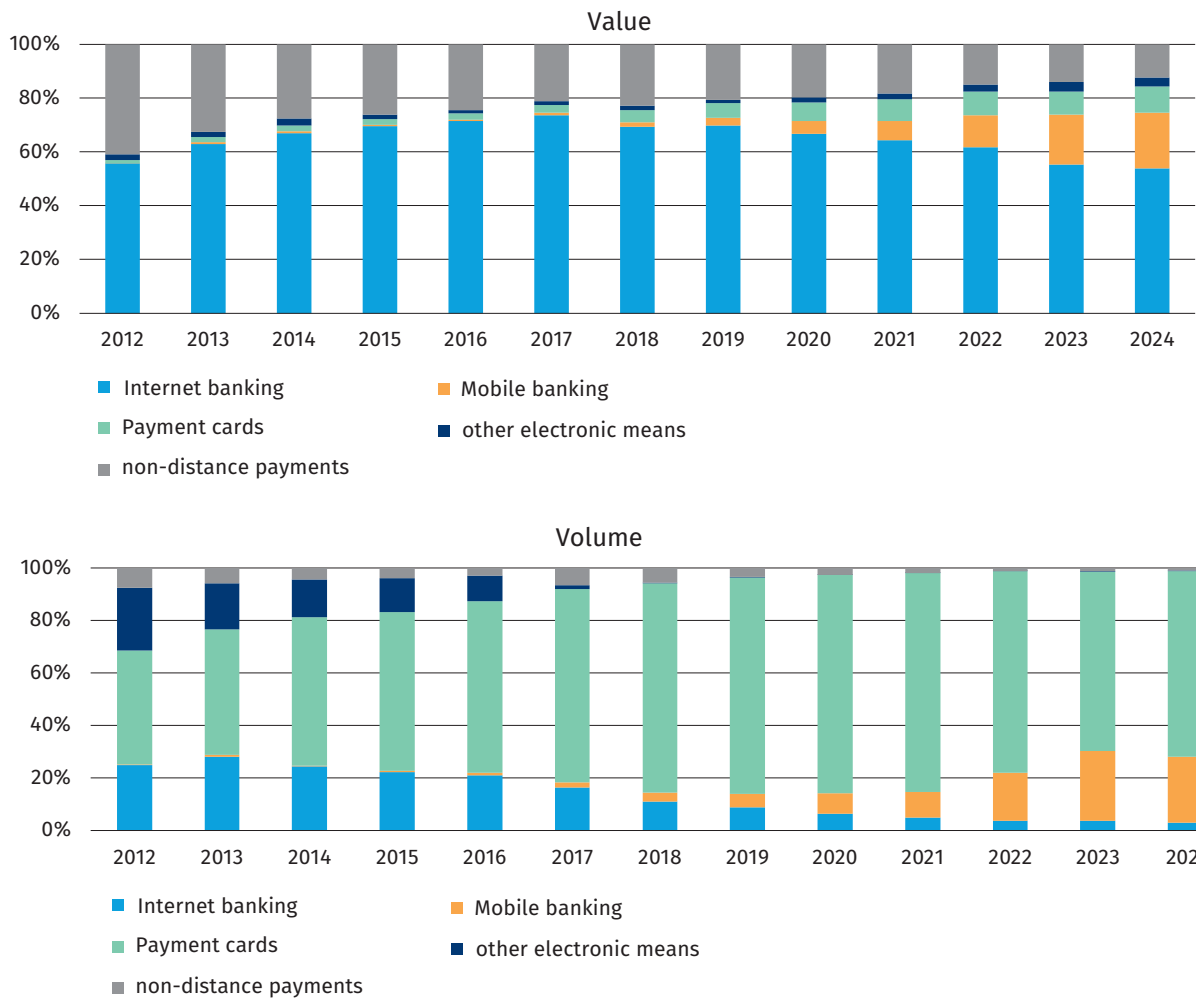
Significant changes have also occurred in terms of value indicators since 2012. Traditionally, the largest share of cashless payments by consumers have been made through internet banking. Since 2012, the value of payments made through internet banking has been characterized by a steady double-digit growth rate⁶³, which led to its share in total cashless payments rising from 56% in 2012 to 74% in 2017. During this period, the increase in the share of payments made through internet banking came mainly at the expense of a decrease in the share of

payments made through non-remote means, which at that time was the second most used method of cashless payments. Specifically, the share of non-remote means decreased from 41% in 2012 to 21% in 2017, but remained the second most intensively used method of payment in terms of value. Since 2018, the intensive growth of payments made through card instruments and especially through mobile banking has had a noticeable impact on the overall picture of the value of cashless payments. As a result, despite the double-digit growth rate, the share of the value of cashless payments made through internet banking decreased from 74% in 2017 to 55% in 2023. In parallel, the share of payments made through mobile banking increased sharply, reaching 19% in 2023 and for the first time exceeding the value of payments made through non-remote means. In this regard, mobile banking is second only to payments made through internet banking. These trends continued in 2024. Specifically, the value of payments made through internet banking increased by only 3.7% and accounted for 54% of the total value of cashless payments, which is 1 percentage point lower than the similar figure for 2023. The value of payments made through mobile banking increased by 18% and accounted for 21% of the total value of cashless payments, which is 2 PP higher than the figure for the previous year. The trend of a decreasing share of payments made through non-remote means continued, and moved into third place in 2023. In 2024, the value of payments made through non-remote means decreased again, falling by 6.1% compared to the previous year and accounted for 12% of the total value of cashless payments, which is 2 PP lower than the similar figure for 2023.

The statistical data on cashless payments, broken down by their initiation methods, are shown in Diagrams 10.10 and 10.11.

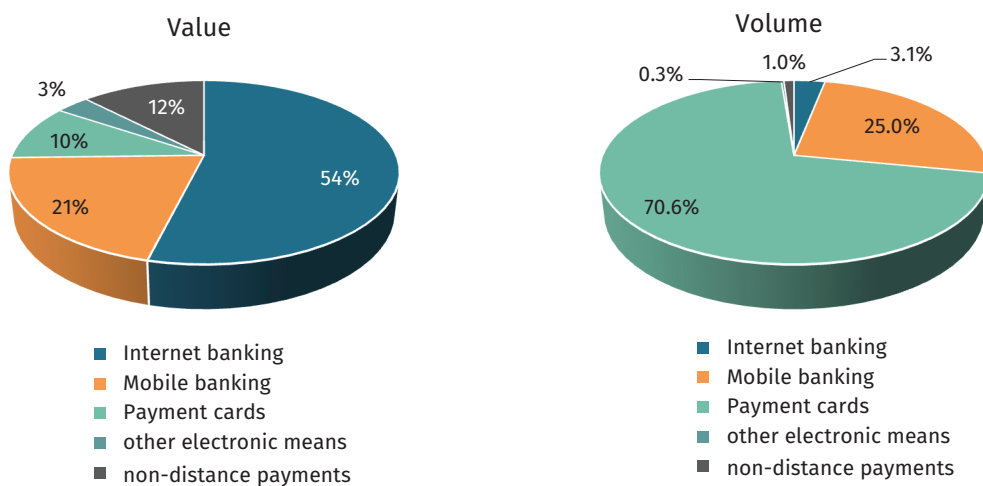
63. The exception to this was 2020, when the impact of the pandemic saw the value of payments made through internet banking decrease by 2.2%.

DIAGRAM 10.10 USE OF CASHLESS PAYMENT INITIATION MEANS, 2012-2024



Source: NBG

DIAGRAM 10.11 DISTRIBUTION OF NON-CASH PAYMENTS IN GEORGIA BY MEANS OF INITIATION, 2024



Source: NBG

10.4 CARD INSTRUMENT MARKET

Mobile applications for initiating card operations, such as Google Pay and Apple Pay, are becoming increasingly popular. As of 2024, seven commercial banks and one non-bank payment service provider have implemented mobile payment applications, contributing to the growth of card operations conducted through these apps. Compared to 2023, transactions via mobile applications increased by 53% in volume and by 33% in value.

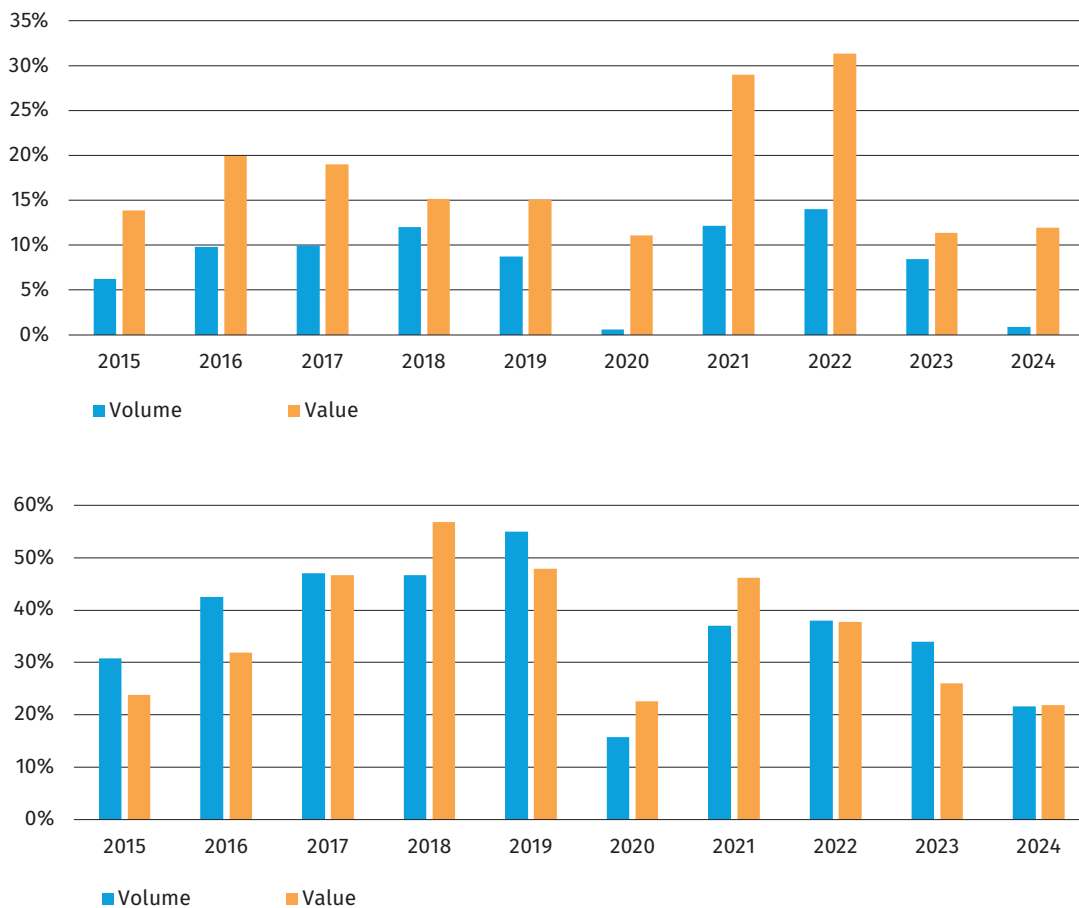
In 2024, the annual growth rate of cash withdrawal transactions using card instruments was 11.9%, which is only 0.5 PP higher than the growth rate in 2023. The comparative figures of 29% and 31% for 2021 and 2022, respectively, were significantly higher than in previous years, a matter warranting further investigation (see Diagram 10.12).

Regarding the value of cashless card payment transactions, the annual growth rate in 2024 continued to significantly exceed that of cash withdrawal transactions, reaching 21.8%. However, this figure is 4 PP lower than the corresponding figure for 2023.

A similar trend is observed in the volume of transactions performed with card instruments: in 2024, the growth in the number of cash withdrawal transactions compared to the previous year was 1%, which is 7 PP lower than the corresponding figure for 2023. Meanwhile, the growth rate of cashless card payments significantly exceeds that of cash withdrawal transactions, standing at 21.6%.

See Diagram 10.12 for the annual growth in the volume and value of card transactions from 2015 to 2024.

DIAGRAM 10.12 ANNUAL GROWTH OF CARD OPERATIONS IN VALUE AND VOLUME



Source: NBG

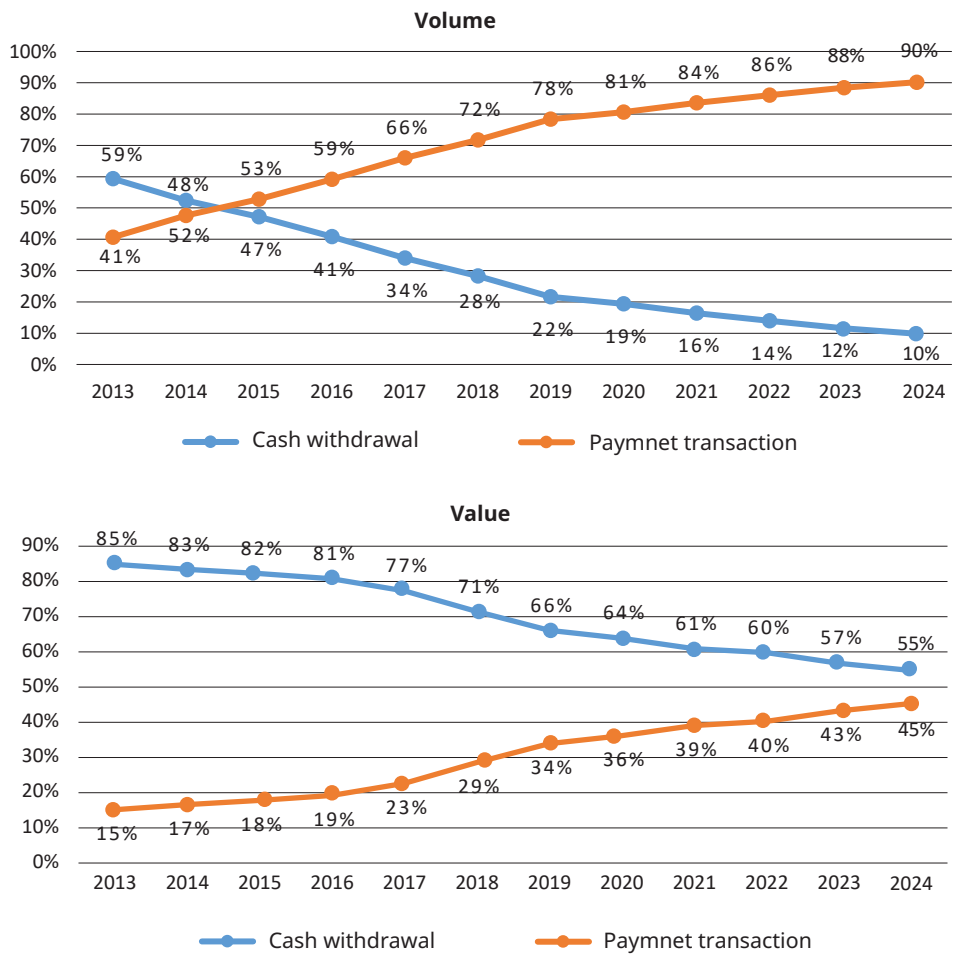
The dynamics of cash withdrawals and cashless payments made with card instruments positively reflect the growth in the share of cashless payments. Over the past 10 years, the share of cashless payments in total card transactions has steadily increased, in terms of both value and volume.

While cashless card payments have exceeded cash withdrawal transactions in terms of volume since 2015, and accounted for 90% of all card payments in

2024, they still lag behind cash withdrawals in terms of value. In 2024, cashless payments accounted for 45% of the total value of card payments, which is 2 PP higher than the corresponding figure for 2023.

Given the current trends, it is likely that cashless payments with payment cards will surpass cash withdrawal transactions in terms of value within the next 2-3 years (see Diagram 10.12).

DIAGRAM 10.13 DYNAMICS OF THE SHARE OF CASH WITHDRAWALS AND NON-CASH PAYMENTS MADE WITH CARD INSTRUMENTS IN 2013-2024

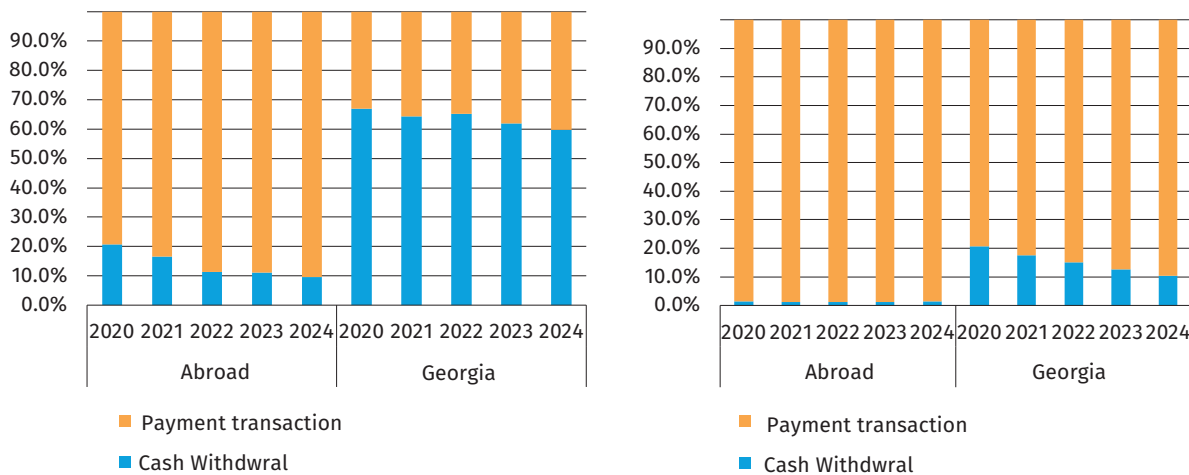


Source: NBG

In 2024, a total of 1.07 billion transactions were performed with card instruments issued in Georgia with a total value of GEL 85.2 billion. Of these, 94% of the number of transactions and 89% of the value were performed within the country, which reflects a slight difference from the similar indicators of the previous year. It is worth noting that the share of non-cash payments in transactions carried out with Georgian cards abroad is significantly higher (in both volume and value) compared to transactions carried out with the same cards in Georgia. In

particular, according to the data for 2024, the share of cash withdrawal transactions in the total amount of transactions carried out with Georgian cards abroad is 9.7% (1.3% in volume), while with the same cards in Georgia the share is 59.8% (10.4% in volume). In addition, it is noteworthy that the trend of an increasing share of transactions through payment (physical) POS terminals with cards issued in Georgia is almost equally evident in transactions performed both within the country and abroad (see Diagram 10.14).

DIAGRAM 10.14 DYNAMICS OF THE SHARE OF CASH WITHDRAWALS AND PAYMENTS MADE WITH A CARD INSTRUMENT AT POS TERMINALS ABROAD AND IN GEORGIA, 2020-2024



Source: NBG

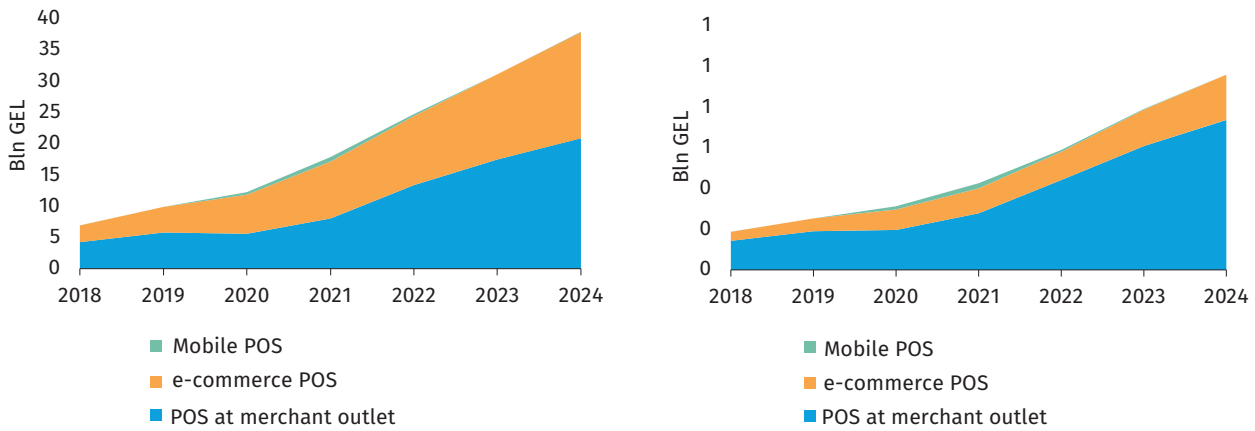
In 2024, the proportion of e-commerce transactions within the total number of cashless payment operations in both Georgia and abroad experienced a slight change, accounting for 23% of the total by volume. In monetary terms, this figure increased by 1 percentage point compared to 2023, reaching 45%.

Notably, the volume share of cross-border e-commerce payments within total e-commerce transactions significantly decreased compared to 2013, falling by 10 PP and settling at 17%. Despite this reduction in volume, the monetary share of

e-commerce transactions abroad remained almost unchanged, constituting 28% of total e-commerce payments. This represents a decrease of just 1 percentage point from the 2013 figures.

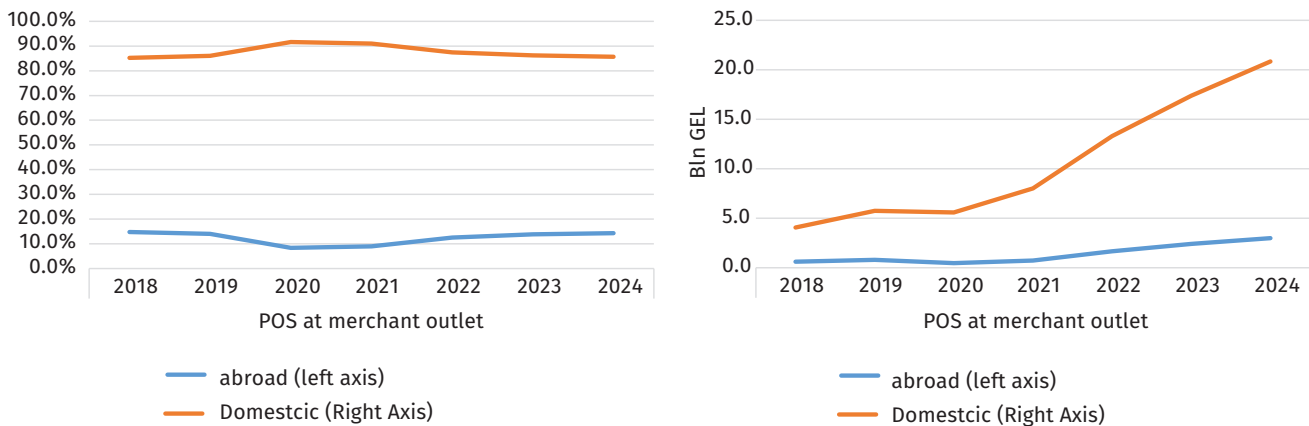
Regarding payments made abroad through physical POS terminals, the share of these in total payments made via POS terminals remained practically unchanged. These transactions accounted for 14% in monetary terms and 3.5% by volume (for the dynamics of cashless payment operations, see Diagrams 10.15 and 10.16).

DIAGRAM 10.15 DYNAMICS OF NON-CASH PAYMENT TRANSACTIONS MADE WITH CARDS ISSUED IN GEORGIA, 2018-2024



Source: NBG

DIAGRAM 10.16 DYNAMICS OF PAYMENTS MADE WITH GEORGIAN CARDS AT POS TERMINALS IN GEORGIA AND ABROAD, 2018-2024



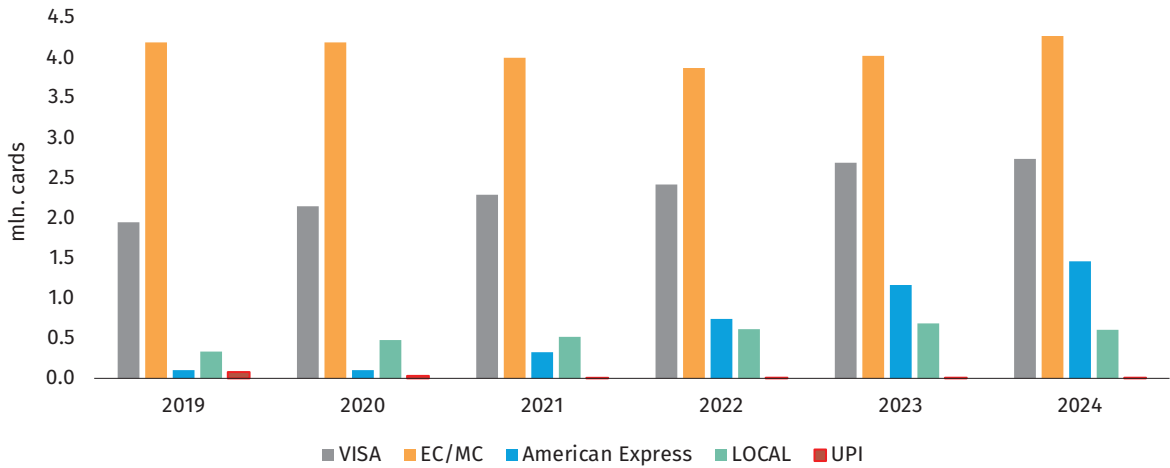
Source: NBG

As of 31 December 2024, the number of debit and credit payment cards issued by commercial banks in Georgia reached 9.6 million, which is an 8% increase over the corresponding figure for 2023. The number of payment cards issued per capita is 2.6. Of the issued cards, 90% are chip-based⁶⁴ and 6% are credit cards.

The majority of cards issued in Georgia belong to international card schemes, accounting for 94% of the total cards issued. The dynamics of payment cards issuance by card scheme over the years are illustrated in Diagram 10.17.

64. Non-chip cards primarily represent specific, limited-use payment instruments, such as social cards, the use of which for payments is significantly low.

DIAGRAM 10.17 NUMBER OF CARDS ISSUED BY COMMERCIAL BANKS BY CARD SCHEME

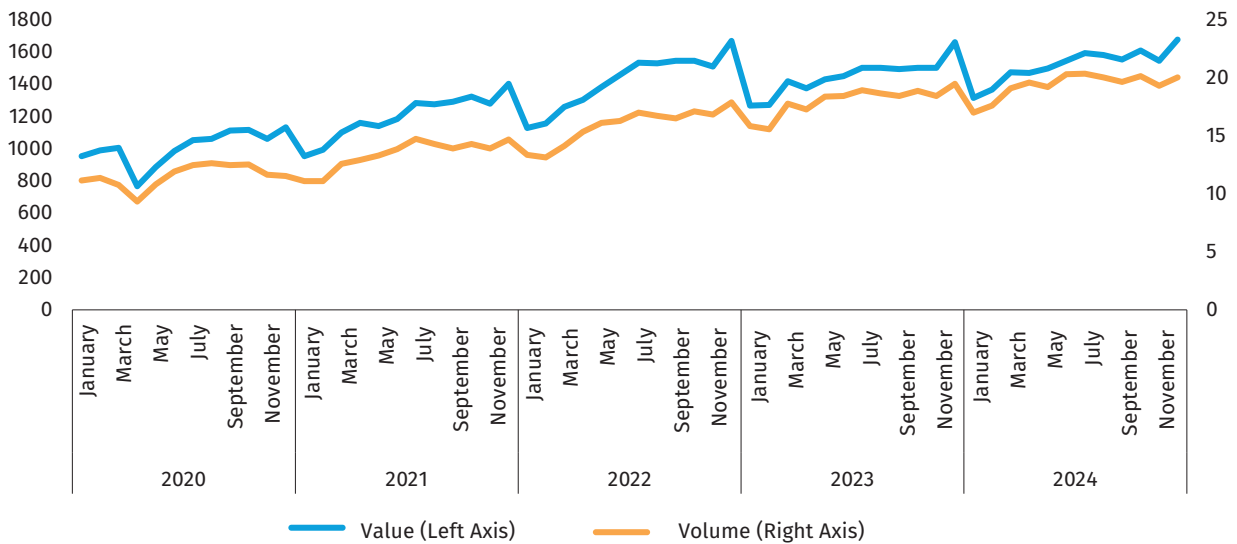


Source: NBG

Throughout 2024, the average monthly number of active cards⁶⁵ was 4.56 million, which constitutes 49.6% of the average monthly number of issued cards. This figure slightly exceeds the corresponding figure for 2023 by 0.3 PP. In 2024, the average monthly number of transactions per active card was

19.4, with an average monthly transaction amount of GEL 1,520. This represents a monthly increase of 1.4 transactions and approximately GEL 70 compared to the previous year's figures. For the dynamics of the average monthly number and value of transactions per active card, see Diagram 10.18.

DIAGRAM 10.18 AVERAGE NUMBER AND VALUE OF MONTHLY PAYMENTS MADE WITH AN ACTIVE CARD



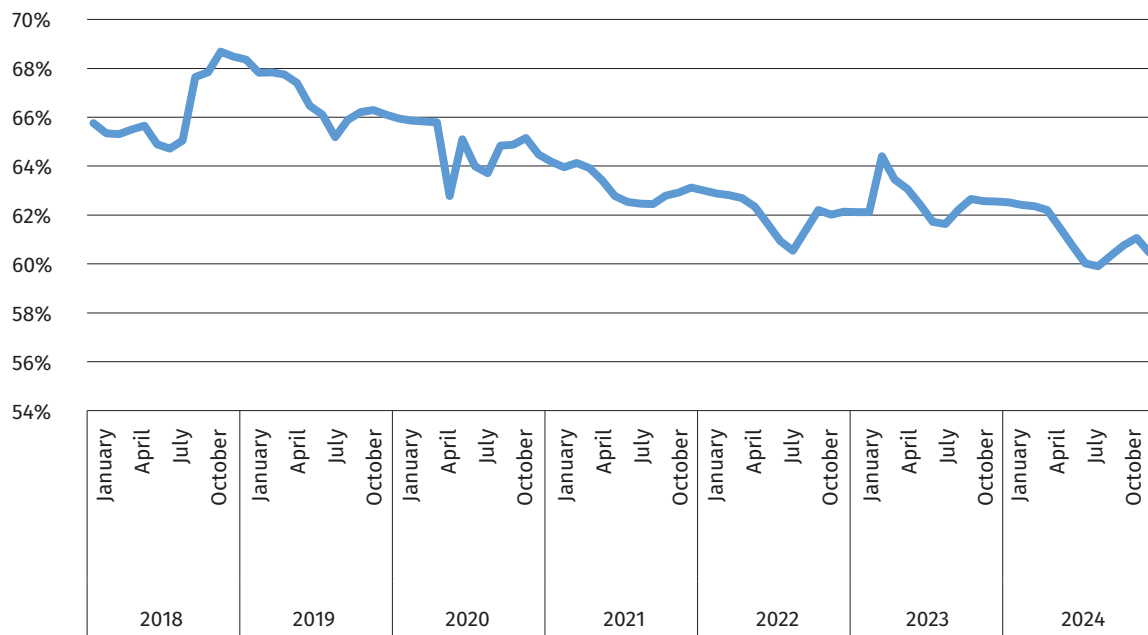
Source: NBG

65. An active card is defined as an issued payment card that has been used for at least one transaction during the reporting period.

As of December 2024, there were approximately 117.7 thousand payment POS terminals installed in Georgia, representing an 11% increase compared to the same period of the previous year. Of these,

60.4% are located in the capital city; however, despite this concentration, over the past five years there has been a noticeable decreasing trend in the share of payment POS terminals located in Tbilisi.

DIAGRAM 10.19 SHARE OF THE NUMBER OF PAYMENT POS TERMINALS LOCATED IN TBILISI IN TOTAL PAYMENT POS TERMINALS, 2019-2024



Source: NBG

In 2024, payment terminals and ATMs in Georgia processed a total of 1 billion transactions, amounting to GEL 82.5 billion. These figures represent a 22% increase in the total number of transactions and a 16% increase in monetary terms compared to 2023.

In 2024, 97% of transactions and 95% of the total amount were conducted using Georgian payment instruments, with the remainder being made with foreign payment instruments. Additionally, 88% of the total number of card transactions (accounting for 41% of the total amount) were non-cash payment operations.

10.5 NON-BANK PAYMENT SERVICE PROVIDERS

Provider Payments (excluding e-money transactions)
 In 2024, payment service providers processed 119.9 million transactions totaling GEL 13.3 billion. Compared to 2023, the number of payments decreased by 12.9%, while the total value increased

by 1.4%. The dynamics of providers' payments (excluding e-money) are illustrated in Diagram 10.20. Self-service kiosks are traditionally the most frequently used method of making payments in Georgia, enabling the initiation of electronic payments with cash. Transactions conducted via kiosks accounted for 94% of the total number of such payments and 97% of the total value in 2024, representing increases of 5 and 2 PP, respectively, over the corresponding figures for 2023.

DIAGRAM 10.20 PAYMENTS MADE BY PAYMENT SERVICE PROVIDERS (EXCLUDING ELECTRONIC MONEY)

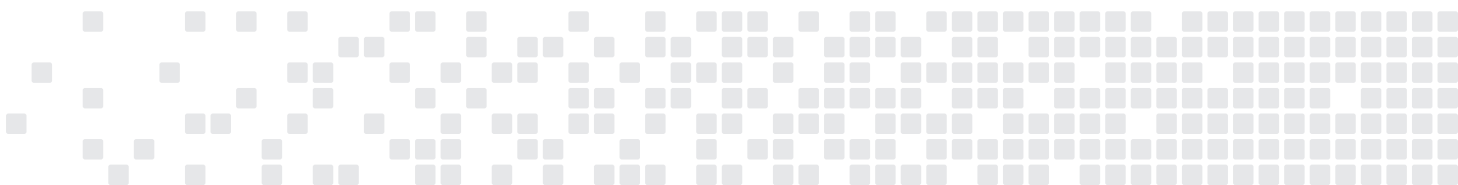


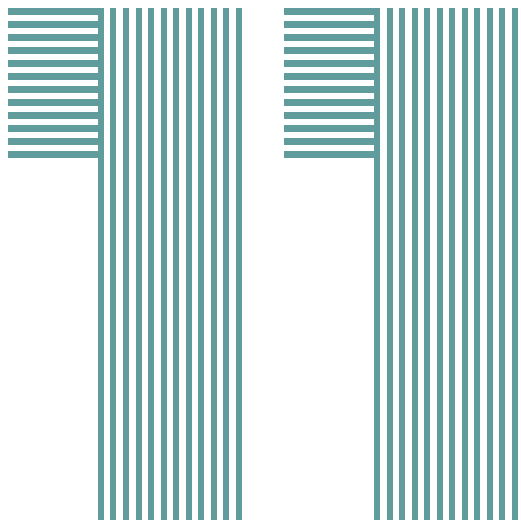
Source: NBG

Payments with Electronic Money

In the electronic money payment market prepaid transportation cards have traditionally held a significant position. In 2024, the average amount per transaction using these cards was GEL 0.46, a trend which is markedly different from other electronic money payments. As these transportation cards are actively used for paying fares in urban public

transport the number of individual transactions made with these cards significantly exceeds that of other electronic money transactions, accounting for 95% of the total annual number of electronic money transactions and 12.6% of the total transaction value. Excluding such transportation payments, in 2024 electronic money providers processed 10.8 million transactions totaling GEL 344.6 million.





PAYMENT SERVICE PROVIDERS
SUPERVISION AND VIRTUAL ASSET
SERVICES

Throughout 2024, Payment Service Providers Supervision and Virtual Asset Service Providers Registration Department was actively engaged in the process of reviewing of registration documentation and information submitted by interested parties and registration. It also maintained continuous and active communication with market participants. Additionally, it was also involved in reviewing the virtual asset service schemes of financial sector representatives who are authorized to provide virtual asset services under the applicable legislation.

In the course of 2024, the department continued the prudential supervision of already registered payment service providers. Specifically, it carried out the assessment of applications submitted by providers that meet the criteria prescribed for significant providers, defined under Article 5.1 of the *"Rule on Registration and Regulation of Payment Service Providers"* (the Regulation Rule) approved by the Order No. 77/04 of the Governor of the National Bank of Georgia dated 1 May 2023. Consequential amendments were also made to the registration Ordinances of the providers, and information about significant providers has been published on the official website of the National Bank of Georgia.

Starting from 1 January 2024, the *"Rule on Capital Adequacy Requirements for Payment Service Providers"* (the Capital Rule), approved by the Order No. 79/04 of the Governor of the National Bank of Georgia on 1 May 2023, came into force. The Capital Rule sets minimum regulatory capital requirements and defines the methodology for calculating regulatory capital for significant providers. The minimum regulatory capital requirement also applies to payment initiation service providers.

In 2024, significant providers, in accordance with the requirements set by the Capital Rule, began submitting relevant regulatory capital reporting forms to the NBG, following the International Financial Reporting Standards (IFRS) with specified periodicity. It is also noteworthy that, starting from 1 January 2025, a new obligation specified by the Capital Rule came into force for significant providers. According to this obligation, the

significant providers are required to submit their annual audited financial statements to the National Bank of Georgia by 15 July of the following year after the end of each calendar year. These financial statements must be prepared in accordance with the International Financial Reporting Standards (IFRS established by the International Accounting Standards Board and the audit of these financial statements must be conducted in compliance with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants.

In 2024, changes were introduced to the Decree No. 87/04 on *"Rule on Determining, Imposing, and Executing Monetary Fines on Payment Service Providers and Their Administrators"*, approved by the Governor of the National Bank of Georgia on 13 June 2017. These changes were necessitated by amendments to the Regulation Rule and the adoption of the Capital Rule. Specifically, monetary fines were established for violations of: regulatory norms of significant provider the criteria for administrators suitability control of qualifying holdings; registration of changes; requirements for a head office, operational premises and electronic systems; and the provision of money transfer services by payment service providers and other violations. Additional fines were specified for violations of the requirements set by the Capital Rule, including those related to Tier 1 and Tier 2 capital, minimum regulatory capital, and regulatory capital calculation requirements.

With the involvement of the Department also prepared changes to the Regulation Rule regarding the recording and reporting of customer complaints. According to these changes, payment service providers are required to record complaints in accordance with Annex 12 of the *"Rule on Protection of Consumer Rights in the Provision of Services by Financial Organizations"*, approved by the Governor of the National Bank of Georgia on 9 March 2021, decree 32/04. Under this, providers must electronically retain complaint records for at least six years from the date of their receipt,

except for records under consideration by the Dispute Resolution Commission of the National Bank of Georgia or those involved in court disputes. Providers must also submit these records to the NBG on a monthly basis by the 10th of each month. This change will come into effect for providers on 15 April 2025.

During 2024, with the involvement of the department, changes were made to the order of the Governor of the National Bank of Georgia on *"Rule on Approving the Procedure for Liquidation of Payment Service Providers"*, with the Specifically, the previous regulation on this matter was being replaced by Decree No. 144/04 of the Governor of the National Bank of Georgia, dated 5 June 2024. The need for these changes arose from amendments to the Organic Law of Georgia "On the National Bank of Georgia" and the Law of Georgia "On Payment Systems and Payment Services". The Rule now includes provisions for the issuance and satisfaction of relevant funds by the NBG in special cases where a supervised entity (including a payment service provider) lacks the funds to cover liquidation costs so as to ensure the smooth conduct of the liquidation process.

In 2024, the National Bank of Georgia developed a draft governor decree *"On Approving the Rule on Determining, Imposing, and Executing Monetary Fines on Virtual Asset Service Providers and Their Administrators"*, which was approved by the Governor of the National Bank of Georgia on 29 May 2024, under Decree No. 133/04. It established the amounts of monetary fines, as well as the rules for their imposition and execution, for violations of obligations by virtual asset service providers and their administrators. These obligations were initially set under Decree No. 94/04 of the Governor of the National Bank of Georgia on 13 June 2023.

Throughout 2024, the Department continued its communication with international organizations to adopt international best practices and improve supervisory policies. Notably, the National Bank of Georgia has participated in the assessment

system initiated by the International Organization of Securities Commissions (IOSCO), which forms the basis for issuing recommendations regarding the markets for crypto and digital assets (CDA) and decentralized finance (DeFi). Additionally, communication was established with the European Securities and Markets Authority (ESMA), and future steps for continued collaboration were planned.

Payment Service Providers

The supervision of payment service providers by the National Bank includes the registration and cancellation of registration of providers, their inspection and regulation, issuance of written instructions, imposition of additional requirements, restrictions and sanctions, as well as initiation of the liquidation process in the event of cancellation of registration.

By the end of 2024, a total of 34 payment service providers were registered with the National Bank of Georgia. During the year, three interested parties successfully completed the registration process and were granted the status of payment service providers. No cancellation and liquidation procedures were initiated against any entity. It is noteworthy that in 2024, there was a significant increase in requests for registration as new types of payment service providers, specifically for account information service and payment initiation service providers. Over the year, a total of eight applications for the implementation of open banking services were submitted to the National Bank of Georgia, with two providers successfully completing the registration process.

Throughout the year, 14 payment service providers were granted significant provider status, thereby subjecting them to the relevant obligations specified by legislation.

The changes related to the registration and cancellation of registration of payment service providers during 2024 are presented in Table 11.1 below.

TABLE 11.1 CHANGES RELATED TO THE REGISTRATION AND CANCELLATION OF REGISTRATION OF PAYMENT SERVICE PROVIDERS DURING 2024

Change	Number of Providers
Number of providers at the beginning of 2024	31
Registered	3
Registration cancelled and liquidation commenced	0
Number of providers at the end of 2024	34
Providers under liquidation proceedings	3
Provider liquidation completed	2

Source: NBG

Throughout 2024, the majority of providers (23) offered acquiring services, which was an increase of six providers compared to the previous year. The number of money remittance providers also grew by four, totaling 20 providers in 2024. There were no significant changes in the electronic money market. Ten providers issued electronic money instruments, with the majority (nine providers) being issuers of prepaid card instruments. During 2024, two

providers registered with the NBG for open banking services, both offering account information service as well as payment initiation service. Throughout the year, 24 providers offered more than one payment services, while 10 providers offered only a single service.

The number of providers in terms of the payment services offered is shown in Table 11.2.

TABLE 11.2 NUMBER OF PROVIDERS BY PAYMENT SERVICES OFFERED

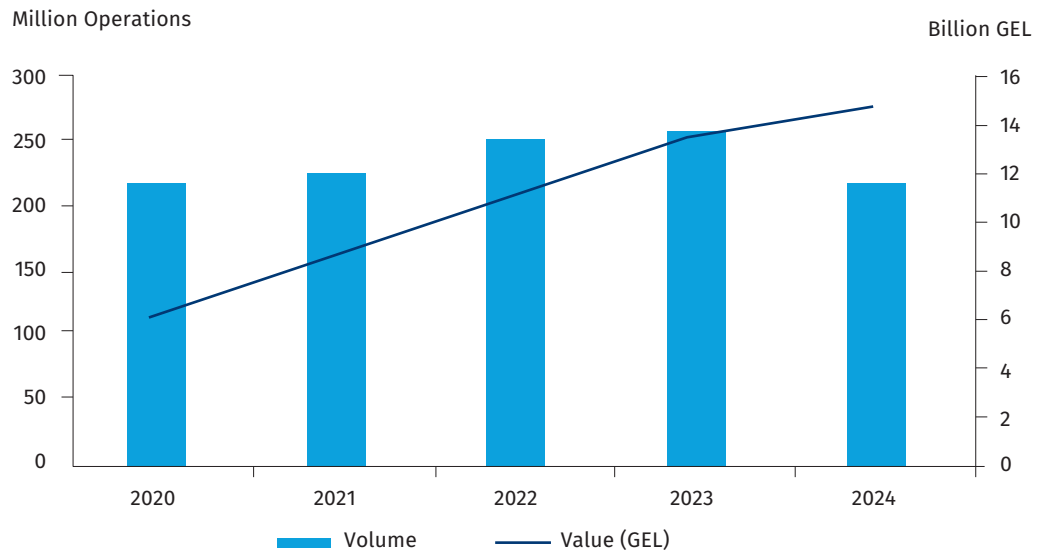
N	Payment Services	Number of providers performing the relevant payment service
1	Making a payment within the user's own funds using a payment card or other electronic means	10
2	Issuance of a payment instrument, including an electronic money instrument	10
3	Acquiring	23
4	Money Remittances	20
5	Issuance of electronic money, execution of payment transactions using electronic money, mobile phone, Internet or other electronic means	19
6	Payment initiation Service	2
7	Account Information Service	2

Source: NBG

During 2024, 213.6 million payment transactions were carried out by registered payment service providers, with a total value of GEL 14.7 billion. Compared to the previous year, the number of transactions

decreased by 17%, while their value increased by 9%. The dynamics of payment transactions performed by payment service providers registered with the NBG by year are shown in Diagram 11.1.

DIAGRAM 11.1 DYNAMICS OF PAYMENT TRANSACTIONS PERFORMED BY PAYMENT SERVICE PROVIDERS REGISTERED WITH THE NBG



Source: NBG

In 2024, electronic money payments accounted for 43% of the total number of transactions and for 3% of the total value of transactions⁶⁶. The majority of these electronic money transactions were initiated through the provider’s own website, representing 38% of the transaction volume and 73% of the transaction value. Additionally, by mobile phones applications were initiated for 50% of the total transaction volume and 19% of the transaction value.

Throughout 2024, the number of transactions conducted via self-service kiosks decreased by 6% compared to 2023, while the total value of such transactions increased by 11%. By the end of the year, a total of 115.1 million transactions were conducted through kiosks, amounting to GEL 13.9 billion. As of December 2024, the total number of kiosks in the country reached 14,628 units, marking a 1% increase from the previous year.

By the end of 2024, nine providers had issued a total of 7.5 million prepaid cards, with 93% of these being transport and social cards. Throughout the year, 3.3 million card transactions were conducted using provider cards (excluding social and transport cards),

totaling GEL 453 million. Of these transactions, only 4% by volume and 5% by value were conducted outside the country. Notably, 47% of these card transactions by volume and 14% by value were carried out at merchant outlets.

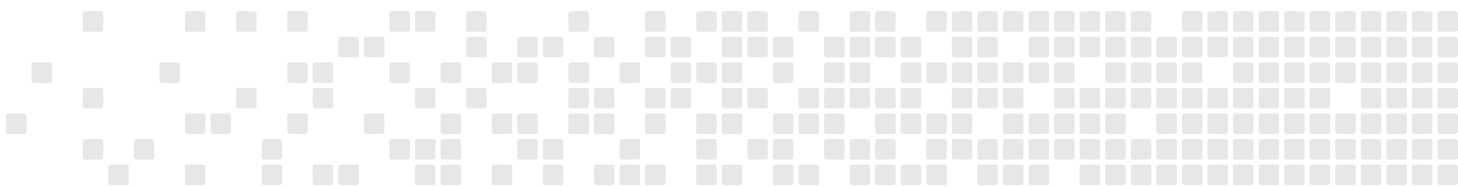
Virtual Asset Service Providers

The regulation of virtual asset services by the National Bank of Georgia has enhanced transparency in this sector, making the country more attractive to foreign investors. Since the regulation came into effect in early July 2023, 54 companies have applied for registration as virtual asset service providers. As of 31 December 2024, 20 virtual asset service providers were registered, with 11 of these companies already operating before the regulatory framework was established. The regulatory environment has also attracted international virtual asset service providers to the Georgian market. In 2024, two virtual asset service providers associated with international brands were registered with the NBG. In 2025, No cancellations of the registrations for virtual asset service providers were recorded during the year.

66. Electronic money transactions only include electronic money payments. They do not include electronic money issuance or withdrawal transactions.

Registered virtual asset service providers in the Georgian market primarily offer the following services on behalf of other parties: exchange of convertible virtual assets (including through self-service kiosks) into national or foreign currency or other virtual assets; transfer or safekeeping/administration of convertible virtual assets or instruments necessary for their use through virtual asset wallets; administration of trading platforms (i.e., crypto exchanges); and initial offerings of virtual assets.

These exchange operations are conducted both in-person (at branches) and remotely. In addition to online services, the country has seen a proliferation of self-service crypto kiosks with cash deposit/withdrawal functions. Furthermore, virtual asset service providers, in collaboration with payment service providers, are creating various types of joint and combined service schemes within the legally permissible range of services for the respective entities.





DEVELOPMENT OF INFORMATION
TECHNOLOGIES

The year 2024 was significant for the Information Technology Department of the National Bank of Georgia, marked by technological advancements, infrastructure modernization, and enhanced operational efficiency. Throughout the year, the department successfully implemented several initiatives aimed at ensuring the stable and secure functioning of the banking system, as well as improving technological processes, optimizing data management, and strengthening customer support.

The divisions of the department, including the Application Administration, Data Management and Software Development, Infrastructure Management, and Support, made substantial contributions to fortifying the technological ecosystem of the NBG.

The Application Administration Division focused on the development and improvement of banking and financial systems. Several solutions were integrated and enhanced, facilitating the effective execution of the bank's core operational activities.

SWIFT System Update and New Environment Setup

The National Bank of Georgia annually conducts a self-assessment process to ensure compliance with the Customer Security Program (CSP) framework set by the Society for Worldwide Interbank Financial Telecommunication (SWIFT). To meet the requirements of the 2024 framework and successfully complete the self-assessment process, the Information Technology Department's Application Administration and Infrastructure Management Divisions implemented several measures.

SWIFT is a business-critical system for the NBG, and ensuring its high level of security and operational efficiency is one of the primary tasks of the Application Administration Division. Consequently, a complete update of the SWIFT system and its transition to a new environment were carried out. This process included the following:

- ◆ The system was updated to the latest version to integrate functionality that complies with modern standards.

- ◆ Operating systems were updated to ensure greater stability and security for the platform.
- ◆ The system was optimized to increase the speed of transaction processing and reduce the risk of potential disruptions.
- ◆ New security mechanisms were implemented to enhance system protection and reduce cybersecurity risks.

Implementation and Optimization of the SWIFT Message Archiving System

The NBG successfully implemented and fully deployed the SWIFT message archiving system, Alliance Warehouse, which is SWIFT's official solution for secure and efficient data storage. The following occurred as a result of deploying this system:

- ◆ All existing SWIFT messages in the bank were migrated to the Alliance Warehouse platform, ensuring secure archiving and efficient data management.
- ◆ Information accessibility was enhanced as the system allows for quick search and analysis of data based on user rights.
- ◆ The processes for message recovery and storage were accelerated, reducing the risk of data loss and improving the information storage process.
- ◆ High security standards were implemented to ensure the confidentiality, integrity, and availability of SWIFT messages.

This update is part of the modernization of the SWIFT system, aimed at enhancing security, ensuring stable system operation, and enabling more effective information management.

Update and Security Enhancement of the Electronic Doc-Flow System (eDocument)

The NBG successfully implemented an update to the eDocument system, aimed at optimizing user management processes and enhancing system security. One of the key updates was the integration of the system with the electronic user directory, leading to significant improvements.

As a result of this integration, user identification, authorization, and access control have become more

efficient and automated. Additionally, the risk of unauthorized access has been reduced. This update is a crucial step in improving the bank's digital infrastructure, ensuring more secure and flexible document management, reducing operational risks, and increasing system efficiency.

Update of the International Sanctions Screening Automated System

The bank updated the automated screening system for international settlement transactions in foreign currency. This system is used to compare transactions from both the NBG and its clients against international sanctions lists.

Implementation and Updates of the Enterprise Resource Planning (ERP) System

The bank successfully deployed and updated the Enterprise Resource Planning (ERP) system multiple times throughout the year. This system provides significant process automation capabilities for various structural units within the bank.

Periodic Updates of the Core Banking System (ALTA B6)

The core banking system was updated several times during the year to improve its stability, productivity, and security. The updated system ensures faster and more efficient execution of banking operations and the core banking system now interacts more effectively with other financial and payment systems.

Update of the Real-Time Gross Settlement (RTGS) System and its Components

The Real-Time Gross Settlement (RTGS) system and its integrated components were updated in the bank. As a result of these changes, the system's transaction processing speed and financial flow optimization have increased through optimized algorithms.

Update of the Human Resource Management System (HRMS)

The bank also successfully updated its automated Human Resource Management System (HRMS), reflecting an updated organizational model. As a result of these changes, the security of confidential information within the system has improved.

Each of these updates were significant steps in the development of the bank's digital infrastructure, ensuring secure, fast, and high-tech banking services, compliance with international regulations, and the automation of internal processes.

The Data Management and Development Division carried out significant work related to the functional improvement of electronic systems implemented in the bank, which also included involvement in the implementation processes of new projects.

Update of the Unified Statistical Information System of the National Bank of Georgia (SEBSTAT)

A new MTD data family was implemented, which enables banks and microfinance institutions to account for daily money transfer data.

This change actively involved both the Data Management and Software Development Division of the Information Technology Department and the Monetary Statistics Division of the Macroeconomics and Statistics Department, as well as Financial institutions. Within the scope of this change, the database, table structures, and functionality has been updated.

Development of the Message Dispatch Service

The Data Management and Software Development Division of the National Bank of Georgia successfully developed and implemented a message dispatch service, which significantly improves the customer support process. This service represents an automated platform that ensures fast, efficient, and accurate communication with customers through various channels.

Modification of the International Transfer Settlement System (ITRS)

The NBG has faced significant challenges related to the increase in the number of international transfers. With this in mind, the Data Management and Software Development Division developers modified the logic for data uploads, control processing, and database storage by banks in the International Transfer Settlement System. This

modification increased the performance metrics of the system.

Automation of Notifications in the Information Sharing and Analysis Portal (ISAC)

Previously, employees of the NBG's Supervision Department only received information about incidents registered by commercial banks on the ISAC portal through manual verification in the system. To simplify this process, a change was developed and implemented to add an automatic notification service to the system. Authorized employees of the NBG now receive information about incidents immediately through automatic notifications, which reduces the incidents response time.

Update of the Database Servers' Operating Systems

In 2024, the National Bank of Georgia updated the operating systems and SQL versions of its database servers, positively impacting the stability and efficiency of the systems.

As a result of the update, system support and compatibility with modern technologies have improved, ensuring higher efficiency and flexibility in working with databases. The update provide high-performance and resilient infrastructure that is critically important for the continuity of the NBG's operations and data administration.

The Infrastructure Management Division carried out the modernization of IT infrastructure, the improvement of data centers, and the updating of server systems, contributing to increased system resilience and security. The division also developed robust technological architecture that fully meets the requirements of the NBG.

Software Upgrade for Critical Infrastructure Systems

During the year, the software for critically important infrastructure systems was upgraded to the latest versions, including the user management system, internet and email filtering systems, data backup and archiving systems, server infrastructure, and other key components. These changes ensure the continuity of banking IT services, optimal system

performance, and a high-level protection of information security.

New NBG Office Infrastructural Setup

In 2024, the National Bank of Georgia added a new office that accommodates up to 300 employees with individual workspaces and 10 shared workspaces. The office is fully equipped with modern equipment and a high-resilience network infrastructure that meets international best practices.

Special attention was given to technological provisioning during setting up the office. Employees from the Infrastructure Management and Support Divisions were actively involved in this process. The following tasks were carried out:

- ◆ The office was equipped with the latest server and network technologies, ensuring constant connectivity and secure data transmission.
- ◆ Backup network architecture was implemented, guaranteeing uninterrupted and high-speed connectivity.

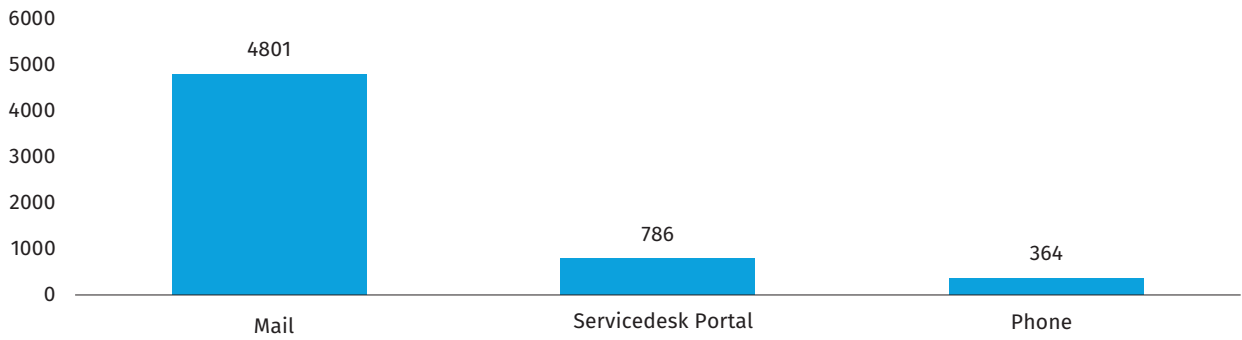
The technological infrastructure meets best international practices, enabling the office to comply with modern cybersecurity and data protection requirements.

The Support Division ensured continuous and high-quality technical support service and maintenance for users. Throughout the year, technical assistance processes were optimized, rapid response systems were implemented, and service monitoring was improved, contributing to the stable functioning of banking and financial systems.

Service Request and Incident Management Trends

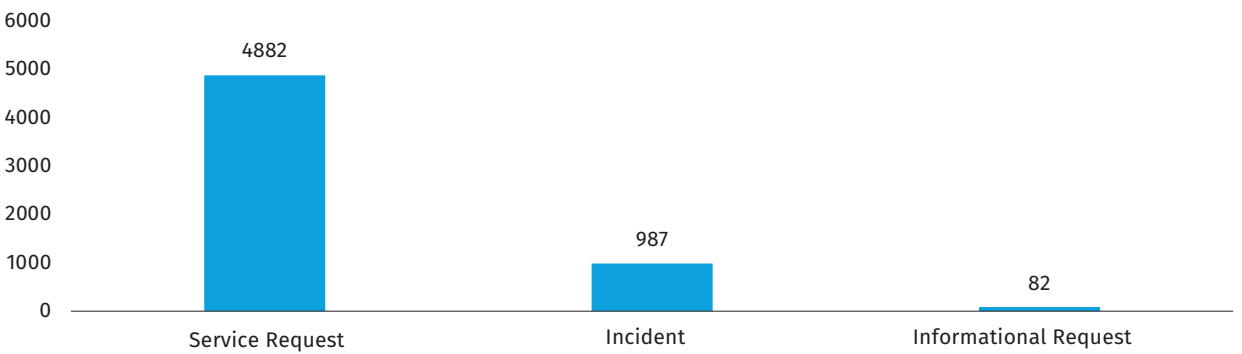
Throughout 2024, a total of 5,951 requests were registered on the service desk portal. Among those from the bank's employees, service-type requests had the highest frequency. The most popular method for registering a request was sending a message to the service desk's email address, which accounted for 80% of the total volume.

DIAGRAM 12.1



Source: NBG

DIAGRAM 12.2



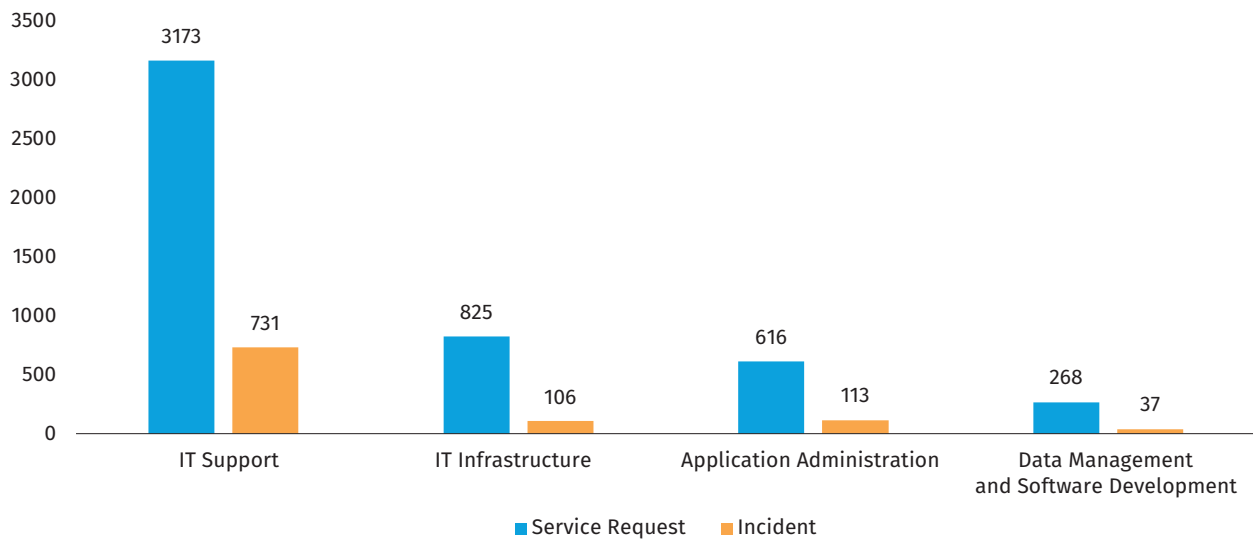
Source: NBG

Incident Management Statistics

The trend in the distribution of requests among the divisions of the Information Technology Department remained unchanged from 2023. A total of 66% of the

requests pertained to issues within the competence of the Support Division. The distribution of the number of incidents and service requests by groups are provided on Diagram 12.3.

DIAGRAM 12.3 INCIDENT MANAGEMENT STATISTICS BASED ON DIVISION



Source: NBG

Trends related to user demands were also maintained during 2024, being reflected in Table 12.1.

TABLE 12.1

Service Requests	Number
Peripheral equipment Services	620
User Registry (Administration)	598
Local Area Network Services	432
Email	431
Non-Standard Requests	387
Computer Hardware Services	308
Support Application Services/Installation	292
User Registration/Edition on OTP	278
Standard Programs	236
Business Application Configuration Changes/Updates	188

Source: NBG

Incident statistics are also proportional to the relevance of the services (see Table 12.2).

TABLE 12.2

Incidents	Number
Critical Business Applications Services	137
Local Area Network Services	131
Email	108
VPN Services	104
Peripheral Hardware Services	104
Standard Programs	84
Support Application Services/Installation	79
Operating System Services	63
Telephony	58
Computer Hardware Services	50

Source: NBG

The year 2024 was one of progress and significant achievements for the Information Technology Department of the National Bank of Georgia. The department implemented strategic technological updates, including the modernization of banking systems, strengthening of network infrastructure, enhancement of information security mechanisms, and the technological provisioning of a new office. These changes significantly increased the resilience, efficiency, and quality of end user service of the systems.

Through the collective efforts of the department's team, the NBG created a modern technological environment that complies with international standards and fully meets the dynamics of the financial sector's development and growing challenges. In the coming years, the department will continue to implement innovative solutions, strengthen security, and refine digital transformation processes, which will contribute to the reinforcement of the NBG, the banking system, and the overall financial stability of the country.



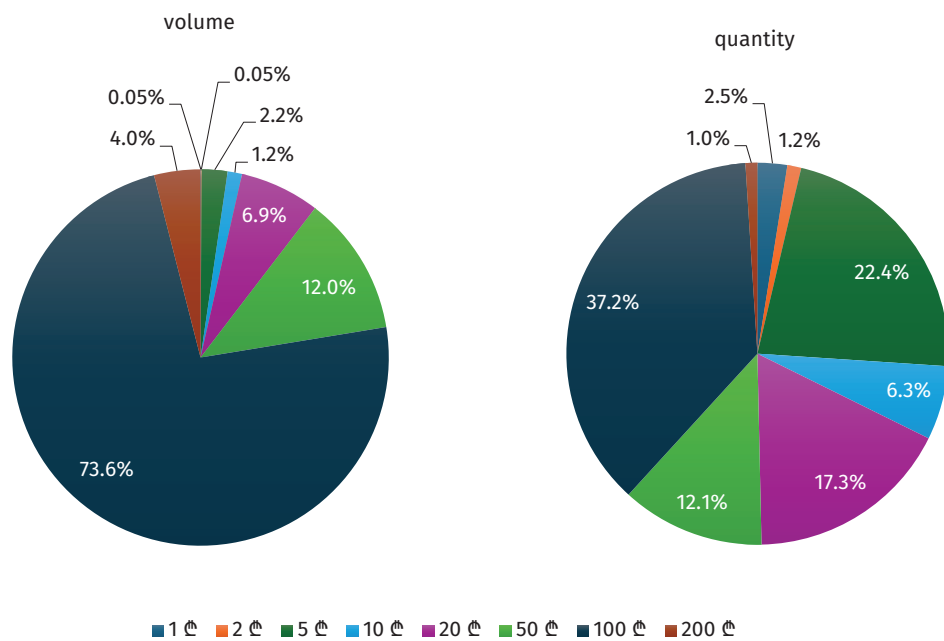


ORGANIZATION OF CASH AND EMISSION ACTIVITIES

Throughout the reporting year, the Cash Operations and Currency Circulation Department continued to ensure the supply of currency to the country's economy, create favorable conditions for the circulation of the national currency, manage the quality of national currency in circulation, support efforts to combat the spread of counterfeit currency, and engage in activities related to the promotion of the national currency.

As of 31 December 2024, the amount of cash in circulation totaled GEL 6,617 million. Of this, banknotes accounted for GEL 6,409.6 million, while coins accounted for GEL 207.4 million. Diagram 13.1 shows the share of individual denominations of banknotes in circulation by amount and quantity as of 31 December 2024.

DIAGRAM 13.1 SHARE OF BANKNOTES IN CIRCULATION BY DENOMINATION

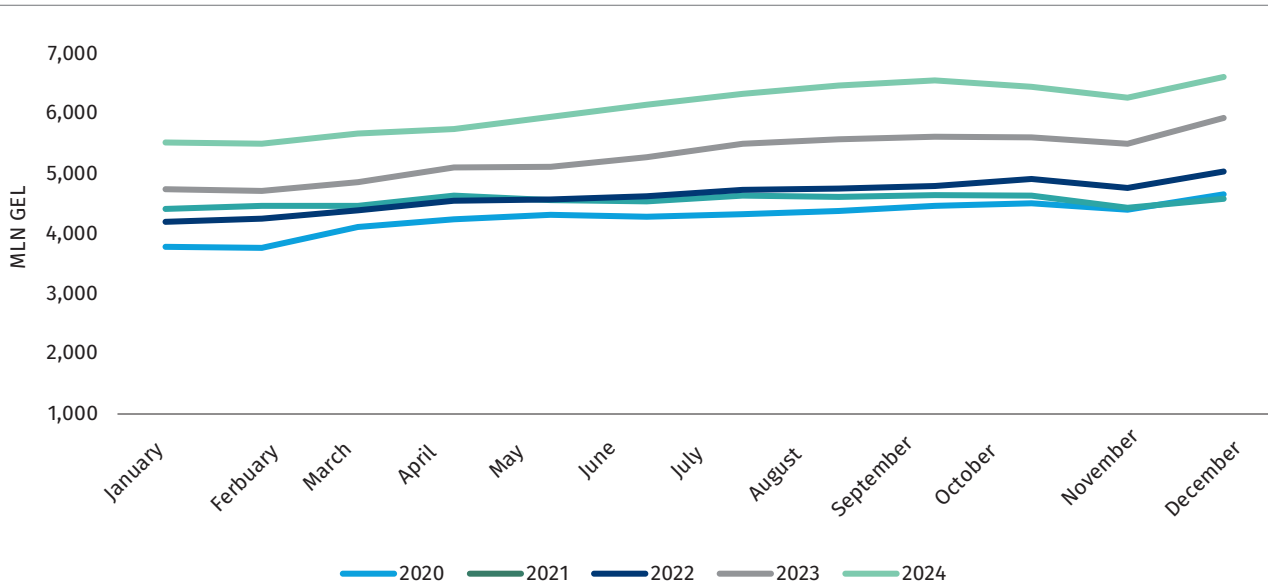


This includes the 1 and 2 lari denomination banknotes still in circulation, which are no longer produced following the introduction of coins of the same denominations into circulation.

Source: NBG

During the accounting period, the volume of cash in circulation increased by GEL 683 million or by 11.5% compared to the beginning of the year (see Diagram 13.2).

DIAGRAM 13.2 CASH IN CIRCULATION, 2020-2024

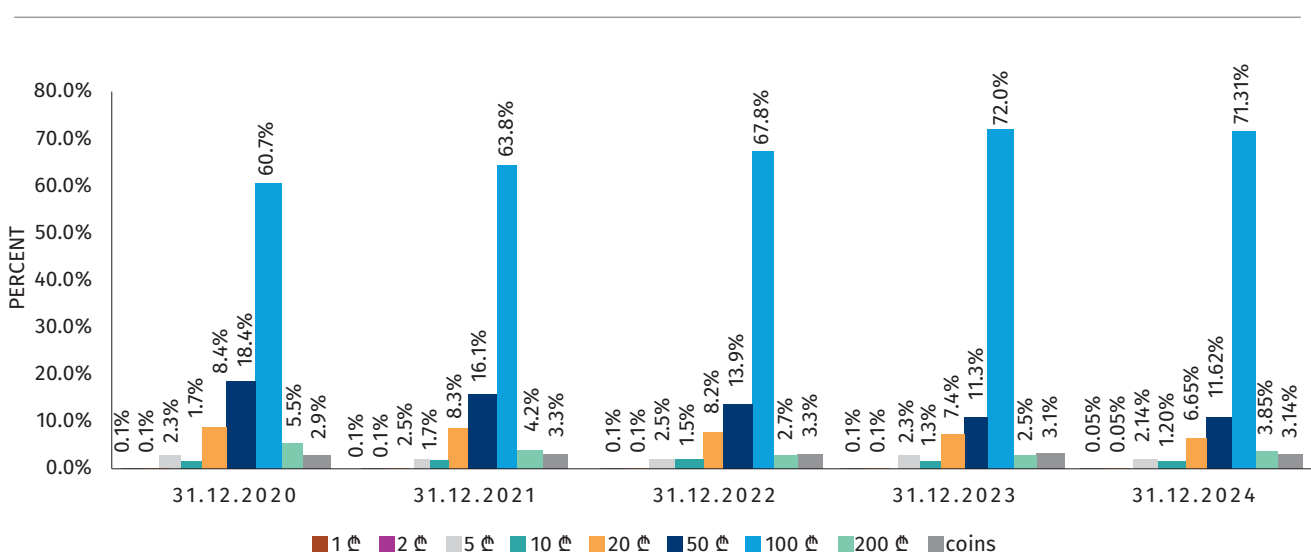


Source: NBG

During 2024, the monetary amount of the banknotes in circulation increased by GEL 660.7 million, accounting for a 96.9% share in the total volume of money in circulation. During the accounting period, compared to the

previous year, the monetary amount of coins in circulation increased significantly (by 12%), and their share in the total volume of money in circulation was 3.1% (see Diagram 13.3).

DIAGRAM 13.3 SHARE OF BANKNOTES OF INDIVIDUAL DENOMINATIONS AND COINS IN CIRCULATION, 2020-2024



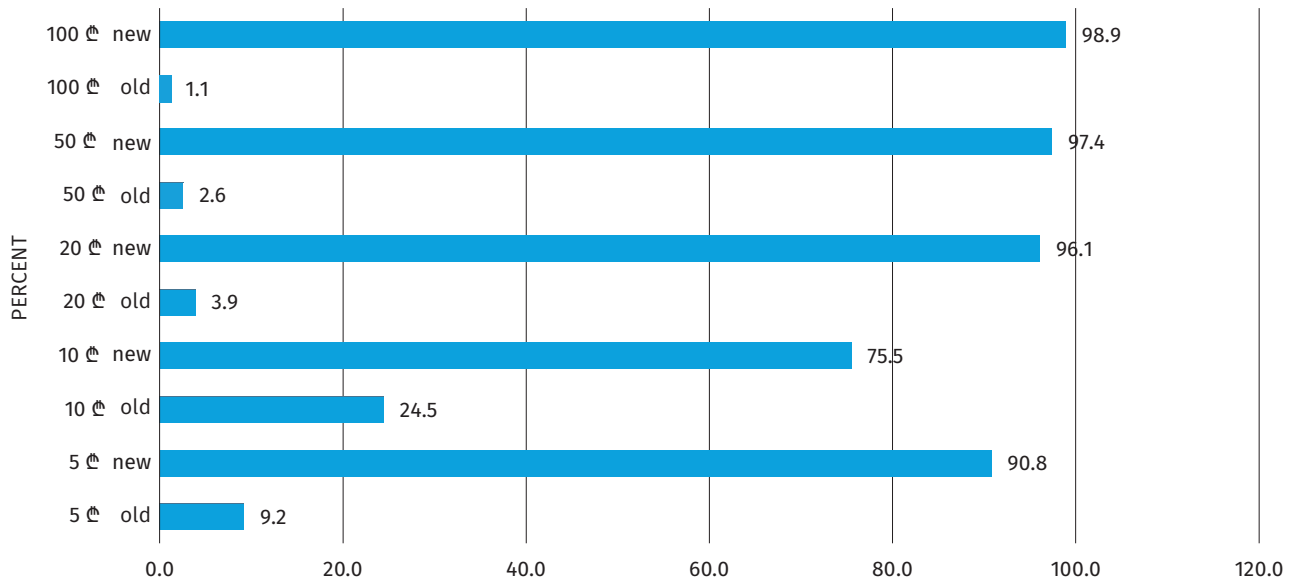
This includes the 1 and 2 lari denomination banknotes still in circulation, which are no longer produced following the introduction of coins of the same denominations into circulation.

Source: NBG

During the accounting period, the process of updating the money in circulation with new modifications of lari banknotes (issued since 2016) continued; these including 5, 10, 20, 50, and 100 lari banknotes. By the end of the accounting period, the updated 5 lari denomination banknote constituted 90.8% of that denomination

in circulation, the updated 10 lari banknote constituted 75.5%, the updated 20 lari banknote constituted 96.1%, the updated 50 lari banknote constituted 97.4%, and the updated 100 lari banknote constituted 98.9% (see Diagram 13.4).

DIAGRAM 13.4 PERCENTAGE OF 5, 10, 20, 50 AND 100 LARI BANKNOTES IN CIRCULATION, BY DENOMINATION



Source: NBG

At the end of the accounting period, the overall share of the number of older, pre-2016 modification banknotes in total circulation was only 5.2% (compared to 6.2% the previous year).

During this period, the monetary amount of 1 and 2 lari coins in circulation increased by 13.5%, reaching GEL 143.2 million by the end of the year. The dynamics related to the withdrawal of the 1 and 2 lari denomination banknotes from circulation are insignificant, as the quantity of these banknotes in circulation has significantly decreased since the introduction of coins of the same denomination.

Compared to 2023, the monetary amount of tetri coins in circulation increased by 8.9% during the accounting period.

To ensure the smooth supply of cash to the country's economy and to replenish the NBG's reserve stocks, the following actions were taken during the accounting period:

- ◆ Work was carried out to produce, procure, and introduce into circulation a new stock of 100 lari banknotes and 20 tetri coins.
- ◆ Procedures were conducted to select partners for producing four different denominations of coins, and relevant contracts were signed with the selected companies. During the accounting period, the production process for three denominations of coins was completed, resulting in the procurement of approximately half of the contracted amount. The remaining quantity of coins will be procured according to the NBG's demand. Work is currently underway to produce the fourth denomination of

coins, which is scheduled for completion in 2025.

- ◆ In 2024, the gradual purchase and receipt of standardized gold bars of the highest standard at various weights from LBMA-accredited companies were ensured.

The National Bank of Georgia continued to issue collectible currency for the purpose of promoting the national currency and the country (see "Collectible Coins and Banknotes" below for more details).

In 2024, compared to the previous year, the amount of cash in the national currency brought into the National Bank of Georgia by commercial banks increased by 28%, totaling GEL 10,981.5 million. Of the lari banknotes brought in by commercial banks, 63.3% were processed directly by the Cash Center, while operations conducted through the Cash Center's temporary storage accounted for 36.7%. For coins, 64.3% of the total income was processed directly by the Cash Center, and operations conducted through the temporary storage accounted for 35.7%. Only 2.5% number of the lari banknotes brought in by commercial banks were pre-2016 issue, further indicating a significant reduction in the circulation of these banknotes. Of the monetary share of the lari banknotes brought in, 79.1% were new modification banknotes of 50 and 100 lari denominations, accounting for 25.6% and 53.5% of the total, respectively.

It is noteworthy that the temporary storage facilities of the Cash Center played a significant role during the state of emergency and the special measures that were declared during the pandemic. After minimizing the risks associated with the pandemic, the Board of the National Bank of Georgia decided to discontinue the operation of the temporary storage facilities and continue working towards further improvement of cash management in the country.

In this regard, the department presented a vision for optimizing cash management to the Board of the National Bank, and accordingly, work continued during the accounting period to implement an optimal management model.

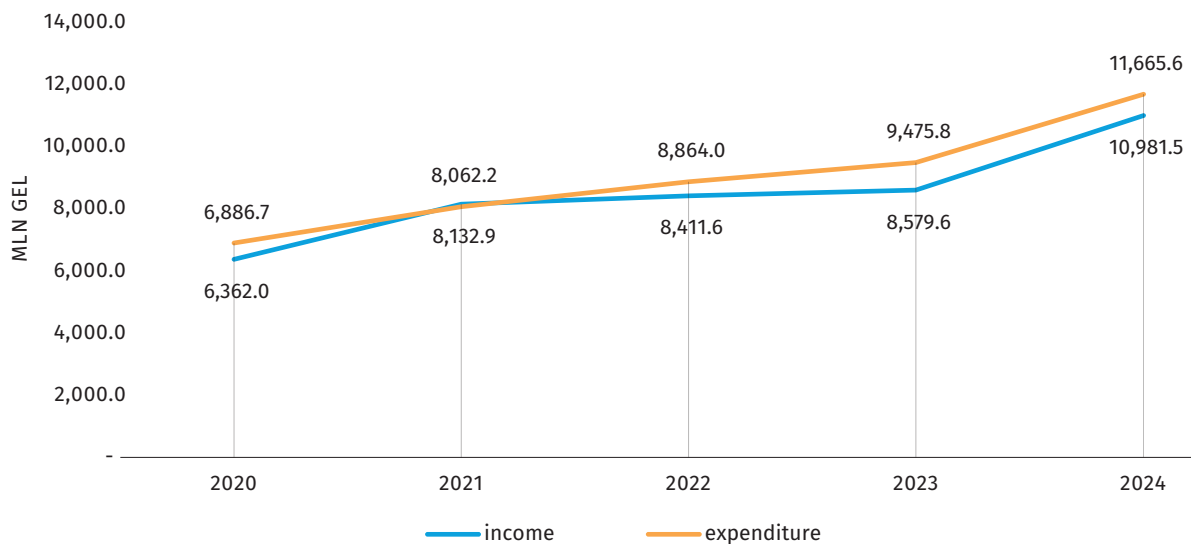
In addition, to ensure the optimal circulation of the national currency throughout the country and to control the quality of lari banknotes and coins in circulation, intensive work was carried out in the department to develop regulations for the processing and recirculation of cash, as well as other relevant regulations.

During the accounting year, foreign currency banknotes were also received from commercial banks, amounting to USD 15 million and EUR 4 million. Furthermore, USD 400 million and EUR 50 million were received from abroad into the Cash Center's valuables storage.

During the same period, the amounts of currency issued by the National Bank of Georgia totaled GEL 11,665.6 million, which is 23.1% higher than in 2023. The amount of national currency issued exceeded the incoming amounts by GEL 684 million or by 6.2%. Of the total amount issued, 99.1% was denominated in banknotes. Throughout the year, the most in-demand denominations were 50 and 100 lari banknotes, which accounted for 79.4% of the total amount of lari banknotes issued to commercial banks during the year. The 10 lari banknotes remained less in demand, and the department has planned certain measures to establish them in circulation.

The dynamics of lari banknotes/coins received and issued by the Cash Center from 2020 to 2024 are shown in Diagram 13.5.

DIAGRAM 13.5 BANKNOTES/COINS RECEIVED AND ISSUED BY THE CASH CENTER, 2020-2024



Source: NBG

During the accounting year, foreign currency was issued in accordance with the demand from commercial banks, amounting to USD 48 million and EUR 6 million. In contrast, to deposit into the respective account, USD 350.8 million and EUR 75 million were sent.

The following developments were taken to ensure the proper functioning of the technical means for processing currency in the National Bank of Georgia's system:

- ◆ The "BPS-M7" currency processing units at the Cash Center underwent annual planned inspections and overhauls by relevant specialists. Additionally, quarterly checks were conducted on the currency sorting units to ensure they met the specified standards for sorting banknotes.
- ◆ All currency processing units were adapted for the 100 lari banknotes produced in 2024, with appropriate adjustments made to the parameters for sorting fit and unfit banknotes.

In 2024, to ensure the uninterrupted conduct of cash and emission activities, various technical devices were acquired:

- ◆ A new device for bundling banknotes, the "NO-TAPACK" system, was installed and put into operation with representatives from the company "Giesecke+Devrient".

- ◆ A coin destruction machine, "CCS-500", was purchased and installed. Following this, a test run destroying a certain quantity of obsolete lari coins was conducted under the supervision of a relevant commission to verify the proper functioning of the equipment.

The following measures were taken to ensure the safe and smooth execution of transportation operations for cash and other valuables in 2024:

- ◆ The Cash Center's cash collectors underwent practical shooting training twice, as scheduled.
- ◆ The armored vehicle owned by the National Bank of Georgia for transporting valuables underwent an annual diagnostics and technical inspection.

During the accounting period, the National Bank of Georgia continued its efforts to ensure the production of high-quality lari banknotes and coins for both circulation and collectible purposes. The following work was carried out for this purpose:

- ◆ Signal samples of three denominations of coins intended for circulation were studied and approved. Additionally, signal samples of 5 lari silver and gold collector coins dedicated to "Euro 2024" were received from the Lithuanian Mint; and signal samples of 5 lari silver collector coins dedicated to the

theme "Bakuriani 2025" as well as gold, silver, and copper-nickel lari coins dedicated to the 30th anniversary of the lari were all received from the Polish Mint "Mennica Polska".

- ◆ After receiving the aforementioned circulation and collector coins from the manufacturing companies, a compliance check was conducted according to the selection procedure specified in the contracts.

Furthermore, to prevent defective and substandard currency from entering circulation, the process of counting and sorting the 100 lari banknotes received from the

German company "Giesecke+Devrient Currency Technology" continued during the accounting period. Additionally, a portion of the 10 tetri, 20 tetri, 50 tetri, and 1 lari coins received from the French and Polish mints were counted and sorted.

Throughout the year, the work of the NBG currency experts continued. Specifically, expert examinations were conducted on 11,014 suspicious currency items brought in by commercial banks, currency exchange points, microfinance organizations, law enforcement agencies, and individuals. The results of these evaluations are shown in Table 13.1 below.

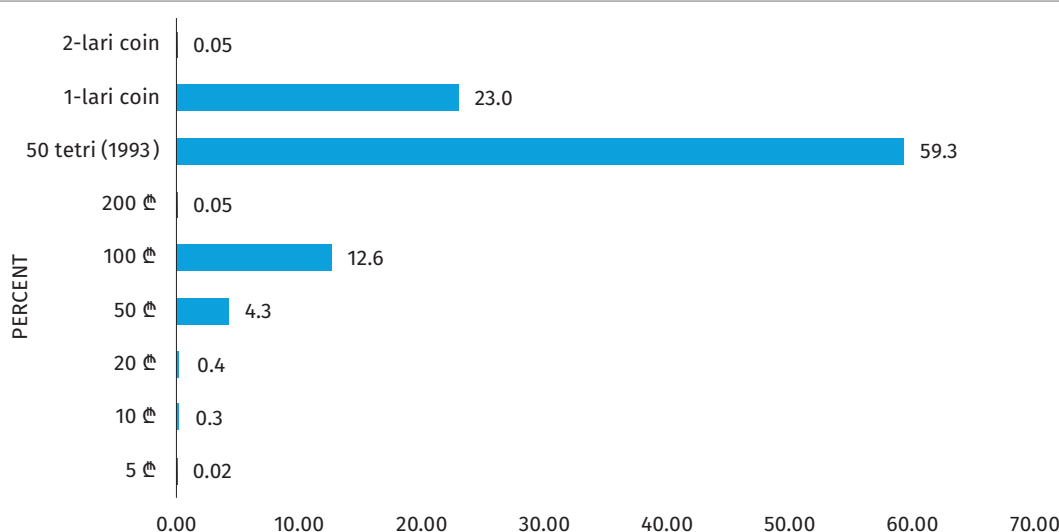
TABLE 13.1 RESULTS OF EXPERT EXAMINATION OF SUSPICIOUS CASH IN 2024 (QUANTITY)

	suspicious	counterfeit	genuine	unfit
GEL banknotes	2733	769	1128	836
GEL coins	5442	3595	1847	-
USD	2398	1849	549	-
EUR	210	166	44	-
Other foreign currency	231	195	36	-
Total	11014	6574	3604	836

Source: NBG

The counterfeit GEL banknotes/coins discovered according to their denomination are found in Diagram 13.6 below

DIAGRAM 13.6 COUNTERFEIT GEL BANKNOTES AND COINS FOUND IN 2024 (PERCENTAGE)



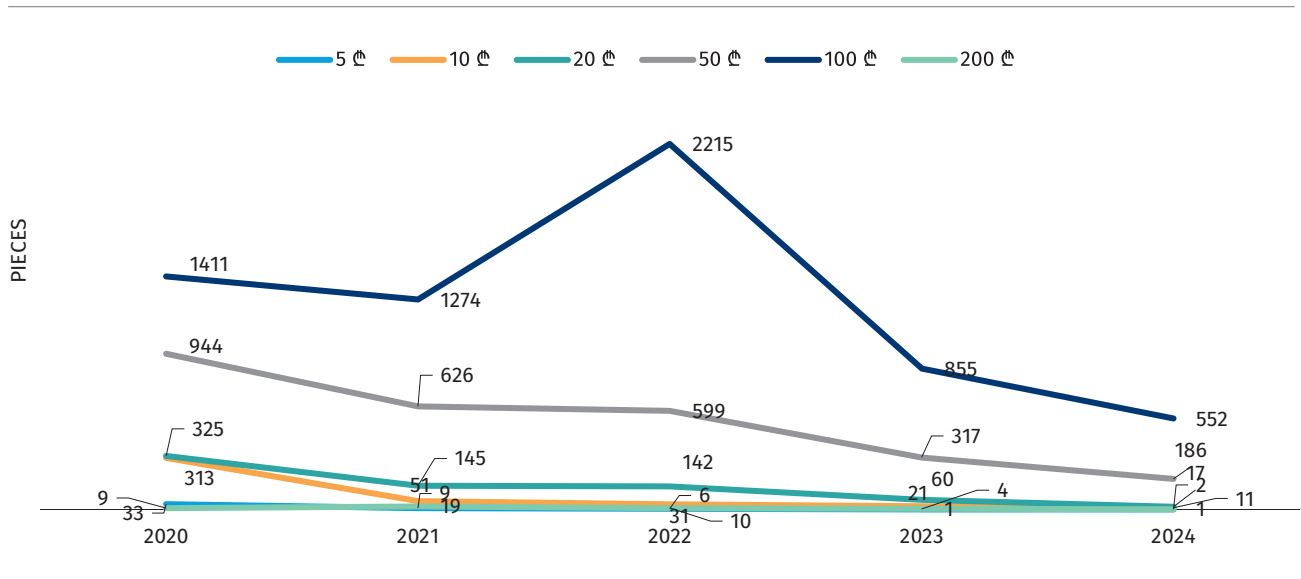
Source: NBG

In 2024, the number of counterfeit lari banknotes detected decreased by 38.9% compared to 2023. The number of counterfeit US dollar banknotes increased by 3.8%, while the number of counterfeit euro banknotes increased by 42.5%. Additionally, the quantities of other counterfeit foreign currencies detected increased

4.9 times. As for counterfeit lari coins, the numbers detected increased 9.7 times compared to 2023.

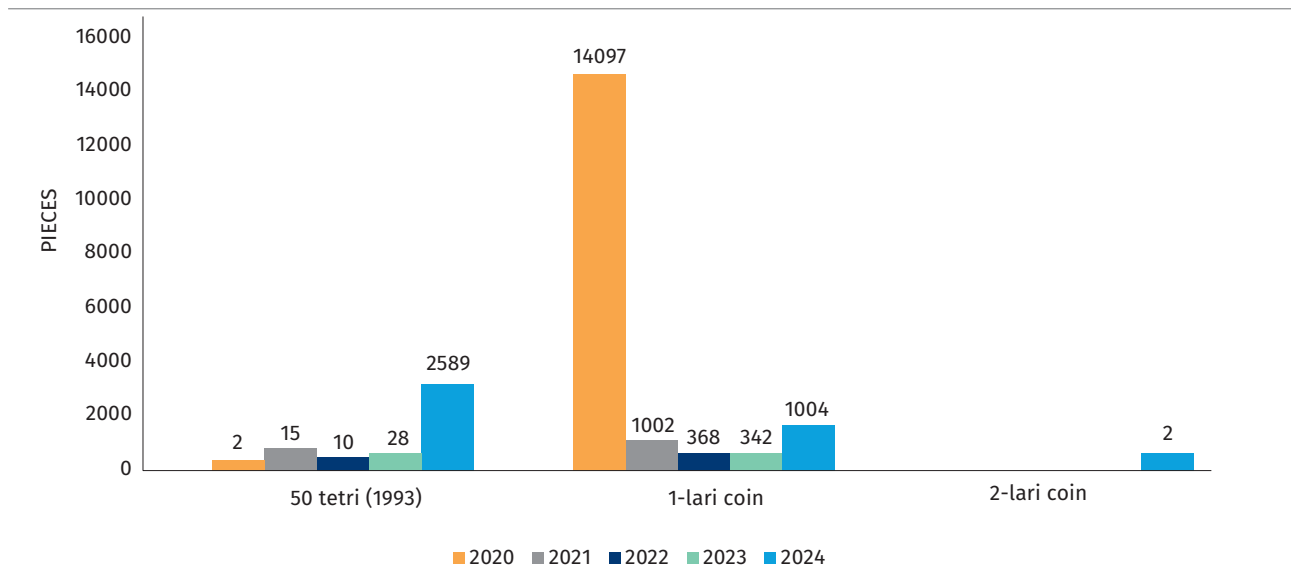
Diagrams 13.7 and 13.8 show the number of counterfeit lari banknotes and coins detected during the period 2020-2024 according to their denomination.

DIAGRAM 13.7 NUMBER OF COUNTERFEIT GEL BANKNOTES FOUND, 2020-2024



Source: NBG

DIAGRAM 13.8 NUMBER OF COUNTERFEIT GEL COINS FOUND, 2020-2024



Source: NBG

Throughout the reporting year, attention continued to be focused on improving the qualifications of individuals performing cash operations. To enhance knowledge of the security features of currency, help determine the

authenticity of lari banknotes and coins, and improve qualifications in handling cash, appropriate training was conducted for 125 interested individuals.

During the reporting period, the sale of both collectible and numismatic products, as well as gold bars, continued. Specifically, during 2024, the following were sold:

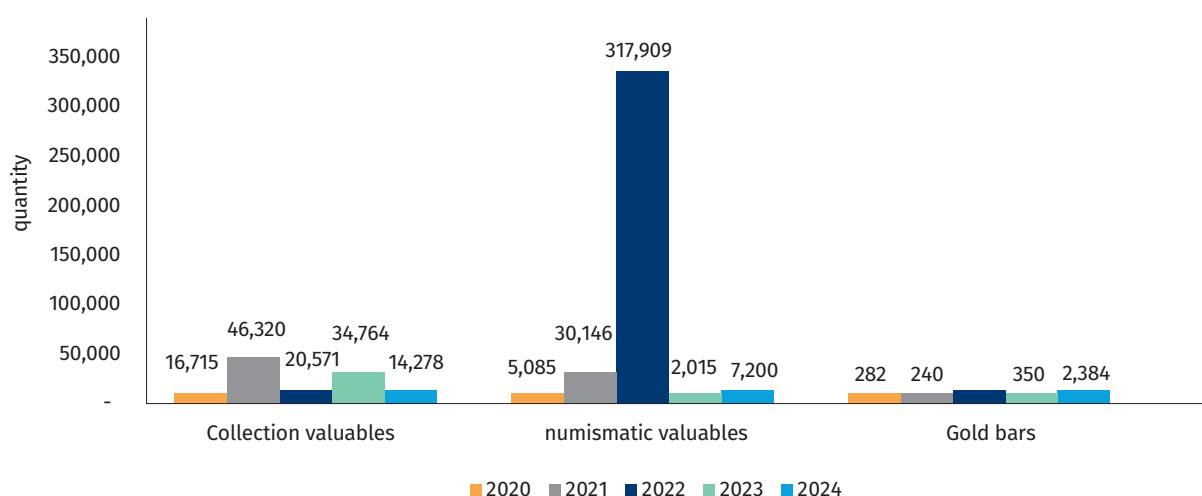
- ◆ 14.3 thousand units of collectible banknotes and coins.
- ◆ 7.2 thousand units of numismatic and other products.
- ◆ 2.4 thousand units of gold bars.

In total, 23.9 thousand units of products were sold from the following outlets:

- ◆ From the Cash Center’s salesroom: 22.4 thousand units.
- ◆ From the Kvareli Money Museum’s salesroom: 332 units.
- ◆ From the Money Museum’s online store: 1.2 thousand units.

Diagram 13.9 shows the dynamics of the sale of collectible, numismatic products, and gold bars from 2020-2024.

DIAGRAM 13.9 VALUABLES SOLD, 2020-2024 (QUANTITY)



Source: NBG

In order to develop the educational and informational activities of the Money Museum, the NBG introduced an updated and modernized website for the museum. The new website offers users easy navigation, an improved search system, and a virtual (3D) tour of the museum.

To familiarize the public with the history of Georgian currency and the development of the National Bank of Georgia as the country’s central bank, as well as its main activities, the NBG’s Money Museum offered a number of educational courses during the year. During the reporting period, the museum received 3,778 visitors (including 142 foreigners).

Throughout 2024, 123 educational tours were conducted at the Money Museum, which included an overview

of Georgian numismatics and a direct viewing of exhibits. Lectures were attended by 1,736 students and 207 teachers. In May 2024, as part of the events dedicated to International Museum Day and celebrating the week of the restoration of Georgia’s independence, the Money Museum hosted a special exhibition "The History of Money and Securities in 1918-1921". During this exhibition, visitors learned about the history of state and corporate currency and securities issued in Georgia during the Democratic Republic of Georgia from 1918 to 1921.

Additionally, throughout 2024, the Money Museum hosted educational meetings for students, during which students and professors from various higher education institutions in Georgia became acquainted with the history of Georgian currency and banking.

Collectible Coins and Banknotes

Euro 2024

In 2024, procedures were carried out to select a partner for the production of 1,500 gold and 10,000 silver collector coins themed around the "Euro 2024" football tournament. The Lithuanian Mint was selected as the producer, a contract was signed and appropriate

work was conducted for their manufacture. During the reporting period, the full quantity of the gold collector coins and the first half of the silver coins were completed and delivered. The remaining quantity of silver coins is expected to be delivered by the end of February 2025. The sale of the "Euro 2024" themed gold and silver collector coins, initially planned for 2024, will now begin in 2025.



Design by the Georgian Football Federation

In the design of the coins, each detail reflects elements from the brand books of the Georgian national football team.

The **obverse** features the main symbol, the national team's logo (presented in color on the silver coin), and an image of St. George on horseback fighting a dragon that was derived from the logo design. One of the main interpretations of this depiction is overcoming one's weaknesses to defeat any opponent. The coin is inscribed with the brand slogan "I AM GEORGIA" (in English and Georgian), which echoes the ideology of the brand, representing the country on the world stage as well as the perspectives of both the footballer (who takes responsibility, demonstrates their maximum potential, and thus contributes to the common cause) and the fans (who support the national team on behalf of the entire country).

ball shirt (also presented in color on the silver coin), which was created along with the formation of the national team's new brand. The coin also includes significant inscriptions related to the event in Georgian and English, the denomination, and the year of issue.

Bakuriani 2025

In 2024, procedures were carried out to select a partner for the production of 5,000 silver collector coins themed around "Bakuriani 2025" for the European Youth Winter Olympic Festival. A contract was signed with the selected partner, the Polish Mint, and appropriate work was conducted with the manufacturer for their production. During the reporting period, the production of these collector coins was completed, and the full quantity was delivered.

The **reverse** features the design of the Georgian foot-

The release and sale of the "Bakuriani 2025" themed collector coins are planned for 2025.



Design by the European Winter Youth Olympic Festival Organizing Committee

The **obverse** of the coin features an image of a skier and the denomination "5 Lari" (with colored details) against a backdrop of snow-covered mountains. Along the edge, in a circular arrangement, are the inscriptions "European Youth Winter Olympic Festival" and "Bakuriani 2025" (in Georgian), separated by snowflakes.

The **reverse** of the coin displays the festival's logo (with colored details) against a backdrop of snow-covered mountains and the inscriptions "საქართველო" (Georgia) and "GEORGIA" with snowflakes placed between them.

30th Anniversary of the Lari

In 2024, procedures were carried out to select a partner for the production of 1,500 gold, 5,000 silver, and 20,000 copper-nickel collector coins themed around the 30th anniversary of the Lari. A contract was signed with the selected partner, the Polish Mint, and appropriate work was conducted with the manufacturer for their production. During the reporting period, the production of these collector coins was completed, and the full quantity was delivered.

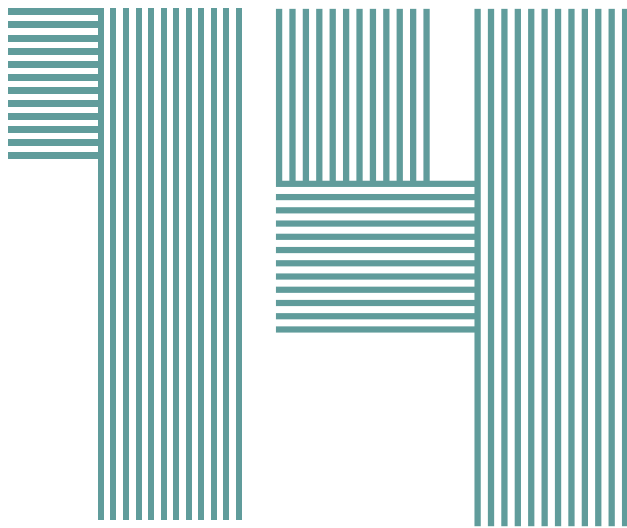
In addition, during the reporting period, procedures were conducted to select a design for a 50 Lari collector banknote themed around the 30th anniversary of the Lari. As a result of an open competition, a design prepared by the Swiss company "Koenig & Bauer" was selected. Procedures were also carried out to select a partner for the production of these banknotes, which resulted in the selection of a partner manufacturer.

The release and sale of the collector coins and banknote themed for the 30th anniversary of the Lari are planned for 2025.

During the reporting period, significant work was undertaken to refine and improve the regulatory framework. Notable efforts included the following:

1. Amendments were made to the *"Regulation on Conducting Operations Related to Cash and Other Valuables in the National Bank of Georgia"*, enacted by Decree No. 184/04 of the Governor of the National Bank of Georgia on 28 December 2017. These amendments were introduced by the Governor's Decrees No. 230/04 of 4 September 2024 and No. 290/04 of 28 November 2024. The changes primarily aim to streamline the control and counting procedures for Lari banknotes and coins received from manufacturers and their introduction into circulation. Additionally, the amendments simplify and refine the process of preparing and issuing products sold from the Cash Center through the online store.
2. Amendments were also made to the *"Regulation on Approving the Regulation on the Production and Purchase of Lari Banknotes and Coins"*, which was initially established by Resolution No. 5 of the National Bank of Georgia's Board on 7 February 2011. The amendments were introduced by Resolution No. 40 of the Board on 9 December 2024. According to the changes, participants in competitions for selecting drafts of Lari banknote and coin designs are now required to submit their competition materials exclusively in electronic format. This adjustment is favorable considering time and other constraints.
3. During the reporting period, amendments to the *"Regulation on the Destruction of Lari Banknotes and Coins"* were developed and approved by Resolution No. 9 of the National Bank of Georgia's Board on 25 December 2024. The need for approving a new version of this regulation was primarily due to the National Bank of Georgia's acquisition of a new coin destruction machine, the CCS-500, which was installed in the Cash Center. This machine has already been used to destroy Lari coins in a test mode under commission procedures.





INTERNAL AUDIT AND CENTRALIZED RISK MANAGEMENT

14.1. INTERNAL AUDIT SERVICE

The Internal Audit Service's 2024 plan for assurance engagements was developed according to a risk-based audit planning methodology and primarily relied on data from the organization's risk register. During the preparation of the 2024 plan, the prioritization of activities under review considered the risk rating of the auditees, the dates of the last audit conducted, the assessments based on the results of previous audits, and the audit cycle. Additionally, plans were prepared for auditing the Information Security Management System, providing consulting services, and developing a long-term orientation plan. Furthermore, the Audit Universe was updated in line with best practices.

During the reporting period, 27 planned audits/reviews were carried out. The results of these were communicated to the Governor of the National Bank of Georgia and the Audit Committee. The themes of the consulting services provided during the same period mainly focused on issues related to the development and facilitation of the organization's risk management system.

As part of the dynamic monitoring process for the implementation of recommendations, the Internal Audit Service continued to monitor the recommendations that had been made as a result of various audits and the corresponding reports provided. This process was carried out using audit and risk management software, which allows for the updating of data by the owners of auditees, uploading evidence, and consolidating information within the system. During the follow-up process, the internal auditors responsible for monitoring the recommendations of individual structural units checked the status of the implementation of active recommendations, updated their statuses, and provided relevant reports.

During the reporting period, the Internal Audit Service gave reports on its activities to the Governor of the National Bank of Georgia and the Audit Committee of the Board of the National Bank of Georgia. These were delivered in the format of periodic and annual summary reports, as well as by presenting individual audit engagement reports.

Additionally, the Internal Audit Service actively collaborated with the Audit Committee of the Board of the National Bank of Georgia on various aspects of its activities. Throughout 2024, 17 meetings of the committee were held, during which the results of activities carried out in terms of assurance services, as well as thematic issues related to the internal audit function, were discussed. Furthermore, during the reporting period, the committee actively monitored the measures taken by the structural units of the National Bank of Georgia to ensure the implementation of recommendations.

Based on established practices, the Internal Audit Service had appropriate communication with representatives of an external audit company during the audit of the National Bank of Georgia's financial statements as of 31 December 2023. The external auditor was provided with information and documents as requested.

During the reporting period, a certification audit for the compliance of the National Bank of Georgia's Information Security Management System with the ISO 27001 international standard was conducted by a certification company, and the Internal Audit Service appropriately participated in this process.

Throughout 2024, the Internal Audit Service continued its involvement in the Central Bank Data Analytics Working Group (CBDAWG), which includes internal auditors from the central banks of Canada, Switzerland, the Netherlands, Morocco, Germany, and France. Within this framework, working meetings of the group were held where representatives of the Internal Audit Service gave presentations on "The Use of Data Analytics in Internal Audit" and "The Real-Time Audit Project". In 2024, the Institute of Internal Auditors updated the International Professional Practices Framework (IPPF) and issued the new Global Internal Audit Standards, which became effective in January 2025. Reflecting these changes in practice represents a significant challenge, considering that one of the main strategic goals of the Internal Audit Service is to ensure the quality of its activities in line with international standards. Following earlier full external quality assessments of its activities, as carried out in 2016 and 2022, on both occasions the activities of the Internal Audit Service of the National Bank of Georgia were awarded the highest cat-

egory by international experts—"Generally Conforms with the International Professional Practice Framework (IPPF) and the Code of Ethics of the Institute of Internal Auditors (IIA)". With a desire to continue this trend, during 2024, the Internal Audit Service began preparatory work to ensure conformity with the new international standards. Specifically, an action plan for the transformation of the Internal Audit Service's activities to the new standards was developed according to the relevant requirements. Additionally, a pilot assessment of existing practices was conducted against the requirements of the new Global Internal Audit Standards, and an action plan of preparatory measures for internal and external assessments was developed.

Furthermore, in accordance with the principle of continuous professional development, internal auditors participated in various seminars and training programs organized by partner central banks and international organizations. Additionally, during the reporting period, the Internal Audit Service continued to work on developing methodological documents, and several instructions, procedures, and reference guideline were prepared for internal use.

14.2. NON-FINANCIAL RISK MANAGEMENT

The National Bank of Georgia has implemented a centralized risk management framework that establishes an integrated and consistent approach to identifying, analyzing, assessing, monitoring, reporting, and determining response measures to non-financial risks (operational and reputational). In its risk management process, the National Bank of Georgia uses a "Three Lines Model," which involves the distribution of functions and responsibilities among different levels of the bank, thereby enhancing corporate governance. In the "Three Lines Model" the first line consists of structural units (risk owners), the second line is the Centralized Risk Management Department, and the third line is the Internal Audit Service. This framework is based on the requirements outlined by both the COSO ERM and ISO 31000 standards.

According to the risk management framework, in 2024, the Centralized Risk Management Department continued to identify risks associated with the bank's processes and regularly updated the bank's risk register, considering changes in the probability of identified risks, their impact, control mechanisms, and internal and external events. To conduct the risk assessment process, the bank uses the Risk and Control Self-Assessment method for each of its functions.

In accordance with the risk management framework for models operating at the National Bank of Georgia, a registry of models has been created, describing the parameters, assessments, and risk levels associated with each model. In 2024, work continued on documenting models in a standardized format and identifying non-financial risks and reflecting them in the risk register.

During the reporting period, the use of another tool for managing operational risks – the Incident Management System – continued. Its purpose is to identify, record, and analyze incidents related to business processes, identify weaknesses, find ways to improve, and reduce the likelihood of recurrence.

To ensure the proper administration of the NBG's processes, formalize these processes, and preserve corporate memory, the NBG consciously develops internal procedures. Throughout 2024, the process of updating existing internal procedures and developing new ones was ongoing. This process represents an effective mechanism for supporting the centralized risk management framework and creating and maintaining an adequate internal control environment.

The centralized risk management framework also entails determining the acceptable level of non-financial risks (risk appetite). The NBG's Board sets the acceptable level of risk on an annual basis. In overall terms the NBG has a conservative approach to non-financial risks, and the established acceptable level is within the low-risk zone. To comply with and maintain this acceptable level, the NBG allocates adequate resources and continuously works on improving the internal control environment.

To raise awareness and promote a culture of risk management within the NBG, training sessions on risk and incident management, as well as on the use of applicable regulations, procedures, and systems within the bank, were conducted for various interested NBG employees in 2024.

The practice of sharing knowledge and experience in risk management with other central banks continued in 2024. NBG employees shared their experience and practices in this field locally, remotely, and through various international seminars and conferences.

14.3. BUSINESS CONTINUITY MANAGEMENT

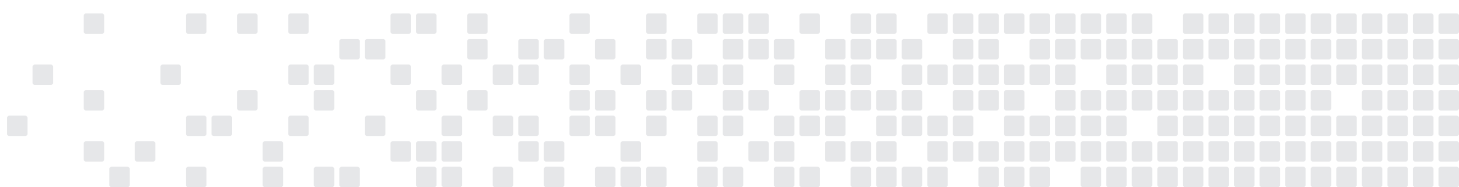
The National Bank of Georgia, as an organization with critical infrastructure for the country, places special emphasis on the continuity of its services.

The NBG continuously plans, implements, and monitors

various activities that contribute to the uninterrupted delivery of its critical services and enhance the bank's overall resilience. In 2024, efforts continued to check the readiness of the bank's human, technological, and logistical resources and to conduct relevant testing and practical exercises.

In 2024, the process of conducting a Business Impact Analysis (BIA) continued. This involves identifying the resources required for maintaining the bank's critical services. It allows for the determination of all necessary technical, human, and logistical resources essential for the delivery of critical services, the identification of third parties involved in the delivery process of critical services, the assessment of potential threats that could cause service disruptions or interruptions, and the establishment of a minimum timeframe within which the business can endure a service disruption and the time that would be required for the technical recovery of the service.

In 2024, tests and training sessions were conducted aimed at raising employee awareness and improving the coordination of crisis management.





PUBLIC RELATIONS AND
INTERNATIONAL COOPERATION

PUBLIC RELATIONS

Active communication with the public is one of the significant priorities of the National Bank of Georgia. To this end, the NBG continuously works on improving and developing its communication channels.

In 2024, the National Bank of Georgia's communication with the public became even more diverse, encompassing a variety of formats and activities. To ensure maximum transparency of the National Bank of Georgia's activities and to promptly inform the public about ongoing processes in the banking system, communication with the public was conducted using both mass and other means of communication. The NBG promptly disseminated press releases and statistical data. It also conducted conferences, briefings, seminars, and meetings with experts on relevant topics.

One of the main goals in planning communication activities was to raise awareness about ongoing processes and expected outcomes in the financial sector, as well as the economic impact of the policies implemented by the National Bank of Georgia. This included providing accurate information in a timely manner and combating disinformation spread across various media channels regarding these issues.

To achieve this goal, alongside ongoing communication activities, the Strategic Communications Department began airing segments on various television channels. In 2024, a weekly segment titled "Financial Sector" was prepared for the Rustavi 2 TV company's program "Business on Rustavi 2", which covered current topics about the NBG's activities. The guests on the program included representatives from various departments of the NBG.

Additionally, throughout the year, periodic meetings were held with representatives of television and electronic media. In this regard, following the practice adopted by the central banks of other leading countries, the National Bank of Georgia used electronic publications and other mass information

channels to make information about trends in the monetary and foreign exchange markets as accessible as possible. It also used these to express its views on these issues and explained the significance and purpose of various decisions.

The NBG's website is visited by numerous users daily, including representatives from the financial sector, academic circles, the media, industry experts, analysts, numismatists, and students. Information is regularly provided not only for users within the country but also those abroad, reaching foreign partners, investors, representatives of international financial institutions, and other interested parties. Data from the website show there were 1.3 million visitors in 2024, representing an increase of 100,000 compared to the previous year.

Due to the high degree of public interest, work on a project to update the NBG's corporate website was actively carried out during the year. During the reporting period, several tasks were completed in this direction, including work on the NBG's blog. The blog will be a significant communication platform not only for the NBG's employees but also for external stakeholders. After the completion of the update project, several important functionalities will be added to the NBG's official website, all of which will enhance effective communication with the bank's target audiences.

Given the importance of digital media and the growth of potential audiences through such channels, various relevant and interesting posts – including on topics of historical or national significance, and informative and intellectual activities – were regularly made on the National Bank of Georgia's digital channels throughout the year. All of this increased the engagement of social media users. In 2024, the NBG's social network channels reached over 2.4 million people, had nearly 8.7 million views of content, and saw engagement exceed 450,000 interactions.

It is also noteworthy that the NBG's Money Museum and online store launched a new website during the year. The new platform is accessible to all

interested parties. The updated version of the online store meets modern digital requirements and is highly user-friendly, featuring easy navigation, an improved search system, and, most importantly, a design compatible with all types of mobile devices.

To improve analytical communication with the public, the NBG began publishing a new series of research papers, known as Policy Papers, in 2024. The aim of these publications is to review current issues related to central bank policy.

To keep international audiences informed, the Strategic Communications Department of the National Bank of Georgia, in coordination with the International Relations Department, began publishing a monthly informational bulletin. The bulletin describes relevant and interesting activities, events, and initiatives from the past month. The informational bulletin is sent to international organizations and the media, including the IMF, ADB, EBRD, IFC, the World Bank, *Central Banking*, *The Banker*, *the Financial Times*, and *Euromoney*.



Throughout 2024, to effectively fulfill its oversight mandate and strategic priorities, the NBG's team held meetings with economists, financiers, experts from various fields, representatives from non-governmental sectors, international organizations, and academic circles. These meetings aimed to provide more detailed explanations about the decisions and steps taken within the scope of the NBG's mandate.

As in previous years, the National Bank of Georgia continued to publish its "Monthly Review", the quarterly "Monetary Policy Report", analytical reports on "Financial Sector Indicators" and "Current Macroeconomic Indicators", as well as operational updates on statistical data and press releases from the Monetary Policy Committee. The NBG also prepared and published the "2023 Annual Report of the National Bank of Georgia" in print. Electronic versions of the NBG's publications are available on the official website⁶⁷.

In 2024, the NBG continued its efforts to improve monetary policy communication, aimed at increasing public trust and managing inflationary expectations. To this end, the NBG hosted two international conferences: "Shaping the Future of Monetary Policy" and "Global Economic Trends: Impact on the Region". During these conferences, invited international and local economists discussed the current challenges of monetary policy for small open developing economies, ways to address these challenges, and the development of a policy framework.



Notably, the NBG co-hosted a presentation on a joint paper prepared with the European Bank for Reconstruction and Development (EBRD) on the successful development of the financial market. The event focused on two significant issues: increasing the role of the Georgian lari in the local economy and creating the necessary instruments and infrastructure for the sustainable and healthy financing of the real economy.

67. See: <https://www.nbg.gov.ge/index.php?m=308>



Protecting the rights of financial sector consumers is a significant task for the National Bank of Georgia. For this reason, the National Bank of Georgia continuously strives to refine and improve existing practices, including considering the best international experiences and challenges in the sector. Throughout the year, the NBG used television media and digital media channels to inform and warn consumers about the potential for financial fraud spreading on the internet.

On 15 March, the NBG and its financial education web portal, www.finedu.gov.ge, marked International Consumer Rights Day. This date has been observed in various countries around the world since 1983, aiming to raise awareness among consumers in different sectors about their rights.

In 2024, within the framework of International Consumer Rights Protection Week, the NBG co-organized the second international conference on competition and consumer rights protection in Georgia.

To further protect consumer rights, a Dispute Review Commission was established under the National Bank of Georgia in 2023, providing consumers with



a fast, effective, and free mechanism. In 2024, the commission reviewed nearly 90 disputes between consumers and payment service providers, including banks, with 85% of these disputes resolved in favor of consumers. Information about the activities of the Dispute Review Commission was communicated to the public by the NBG through television segments, online media, and the NBG's social media channels. It is noteworthy that consumer engagement increased based on the availability of information.

Promoting financial education among young people is one of the main priorities of the NBG. Last year, on the initiative of the National Bank of Georgia, a new financial education strategy was developed, which serves as a key reference document for any party interested in promoting financial education.

To raise awareness among students about the activities of the NBG, representatives of the NBG provided information about the main activities of the various departments of the bank and answered questions of interest to students within the framework of a memorandum of understanding signed between Kutaisi International University (KIU) and the National Bank of Georgia.

To better inform the public about the history of the NBG, the National Bank of Georgia held several events and activities in 2024, along with relevant social media campaigns.

On 8 November 2024 the NBG recognized Banker's Day – an annual tradition celebrated since 2021 – and celebrated outstanding employees of the banking sector. At an event, employees of the NBG with over 31 years of service were awarded honorary



awards for their professional merits and invaluable work. Employees of commercial banks were also recognized and received awards on Banker's Day.

On the initiative of the NBG, and with the support of the Tbilisi City Assembly, a memorial plaque for Iason Lortkipanidze, the first governor of the Georgian State Bank, was unveiled in Tbilisi as part of the celebrations of the Week of the Restoration of Georgia's Independence. Additionally, the street and square adjacent to the NBG's Cash Center were named after Iason Lortkipanidze. It is particularly significant that the National Bank of Georgia has been given custody of Iason Lortkipanidze's unique family archive.

In celebration of the week marking the restoration of Georgia's independence, an exhibition was held in honor of International Museum Day. This event was hosted by the Kvareli Money Museum of the National Bank of Georgia and was attended by pupils from schools from the capital and various regions of the country, as well as emigrants. The exhibition provided young visitors with the opportunity to learn about the history of state and corporate

monetary symbols and securities issued in Georgia during the first Democratic Republic from 1918 to 1921. Additionally, it covered the origins of Georgian currency.

At the end of 2024, the National Bank of Georgia issued commemorative gold and silver 5 lari coins to celebrate the historic achievements of the national football team and their participation in the 2024 European Championship. These coins were presented to the members of the national team. According to Natia Turnava, Acting Governor of the National Bank of Georgia, the Euro 2024 commemorative coins will always symbolically be linked to the success of the Georgian football team and its players.

In 2025, Georgia celebrates the 30th anniversary of the introduction of its national currency, the lari. Throughout the year, the National Bank of Georgia will be hosting various activities dedicated to this milestone, including international conferences, educational meetings, public lectures, and contests. As part of the celebrations, the NBG will issue a special commemorative coin and banknote and will publish catalogs of Georgian currency. The National Bank of Georgia will also be offering many significant and interesting activities to the public as part of the anniversary campaign.

In another notable development, to effectively share the knowledge and information accumulated within the National Bank of Georgia with a broader audience, and due to the high public interest in analytical materials, publication of the scientific-analytical journal Monetary Economics has been revived.

INTERNATIONAL COOPERATION

International cooperation is one of the priority directions of the NBG. Throughout the year, the NBG hosted various high-level conferences and bilateral meetings with representatives of the diplomatic corps, other central banks, financial institutions, and international organizations, and signed various memoranda of cooperation.



It is noteworthy that from 3-5 May 2024, Georgia hosted the 57th Annual Meeting of the Asian Development Bank (ADB). The Annual Meeting is a platform where ADB and its partners discuss the challenges facing the Asia and Pacific region and ways to address them. Participants discussed several initiatives to develop fintech and support international payments. Natia Turnava, Acting Governor of the National Bank of Georgia, participated in a panel discussion on "Ideas for Creating a Collaborative Fintech Environment in the Region: Using the Middle Corridor Momentum" within the framework of the event.

Within the framework of the ADB Annual Meeting, a memorandum of understanding was signed between the National Bank of Georgia and Elevandi (GFTN). According to the memorandum, both parties express their readiness for future cooperation, which should contribute to the effective sharing of knowledge and experience in the financial technology industry and the establishment of Georgia as a regional fintech hub.

A further memorandum of understanding was signed between the National Bank of Georgia and the Korea Financial Telecommunications & Clearings Institute. The memorandum aims to promote mutually beneficial cooperation between the parties to strengthen the payment infrastructure in Georgia. As part of the ADB Annual Meeting, a delegation from the National Bank of Cambodia visited the National Bank of Georgia. After a working meeting, a memorandum of cooperation was signed between Natia Turnava, Acting Governor of the National Bank



of Georgia, and Chea Serei, Governor of the National Bank of Cambodia. The purpose of the agreement is to ensure a closer framework of cooperation between the two central banks within their main functions and mandates.

Natia Turnava also met with Luc Dresse, Alternate Executive Director of the International Monetary Fund, who was in Georgia within the framework of the Asian Development Bank's Annual Meeting. At their meeting, the parties discussed Georgia's macroeconomic environment, factors of economic growth, the development of financial markets, and maintaining price stability.

During the ADB Annual Meeting, Natia Turnava also held working meetings with Simonas Krepštas, Member of the Board of the Bank of Lithuania, Daniel Zelikow, Vice President of J.P. Morgan, and Chang Yong Rhee, Governor of the Bank of Korea.

Throughout the year, Natia Turnava held meetings with various high-ranking representatives to expand relationships. She hosted Peter Kažimír, Governor of the National Bank of Slovakia, and the pair reviewed Georgia's stable macroeconomic environment and the structural reforms implemented by the National Bank of Georgia.

During a visit to Kazakhstan in 2024, Natia Turnava met with Timur Suleimenov, Governor of the National Bank of Kazakhstan. The leaders of the two national banks emphasized the need for further cooperation related to the development of the financial sector among the countries of the Middle Corridor. After

the meeting, Natia Turnava and Timur Suleimenov signed a memorandum of cooperation. During the visit, Natia Turnava also met with Nurkhat Kushimov, CEO of the Astana Financial Services Regulatory Authority.

In 2024, Natia Turnava held a working meeting with Abram Paley, the U.S. Special Envoy for Iran Issues. The meeting discussed current geopolitical challenges and the implementation of sanctions related to Iran.

In 2024, representatives from the UK's Foreign, Commonwealth & Development Office and the Office of Financial Sanctions Implementation visited the National Bank of Georgia. During their visit, a working meeting was held with the National Bank of Georgia's Money Laundering Inspection and Supervision Department.

Natia Turnava met with Marta Kightley, the First Deputy Governor of the Central Bank of Poland, during the year. During their meeting, the parties discussed the close cooperation between the two central banks and outlined new initiatives. Natia Turnava highlighted the significant support received from her Polish counterpart in the preparatory phase for joining SEPA.

Natia Turnava also met with Boris Vujčić, Governor of the Croatian National Bank. Their discussion covered macroeconomic trends in Georgia, financial stability issues, and the NBG's current monetary and supervisory policy practices, which are fully aligned with European Union standards.

Notably, as part of international cooperation, meetings with representatives of the diplomatic corps were regularly held throughout the year. During these meetings, Natia Turnava informed the parties about the macroeconomic trends in the country, financial stability, and the steps taken by the NBG within its mandate to ensure the stability of the financial sector. Introductory meetings were also held with the ambassadors of the United Kingdom and China.

In 2024, the National Bank of Georgia actively collaborated with international financial institutions and organizations. In March, a mission from the International Monetary Fund visited Georgia. IMF missions to Georgia are carried out periodically according to the provisions of Article IV of the Fund. These aim to assess the macroeconomic situation in Georgia, and the country's fiscal and monetary policies.

In Washington, D.C., within the framework of the annual meetings of the International Monetary Fund and the World Bank, Natia Turnava met with the heads of the international central securities depository Clearstream, Jan Willems and Christian Rossler. The meeting discussed cooperation between the National Bank of Georgia and Clearstream in the field of foreign exchange reserve management and increasing the accessibility of the Georgian securities market for international investors.

As a candidate country for the European Union, Georgia presented information prepared within the framework of the Economic Reform Program (ERP) for the first time. In connection with the program, a mission from the European Central Bank met with Natia Turnava and heads of various departments of the National Bank of Georgia.

In 2024, representatives from the Organization for Security and Co-operation in Europe (OSCE) and the National Bank of Moldova visited the National Bank of Georgia. During the meeting, the parties summarized the steps and achievements made within the framework of cooperation in developing a supervisory framework for virtual asset providers. The National Bank of Georgia also hosted a delegation from the Sparkasse Association of Westphalia-Lippe. The Sparkasse Association is a partner of the German Sparkasse Foundation for International Cooperation (DSIK) Georgia Office, which collaborates with the NBG on financial education and sustainable finance issues.

Ekaterine Mikabadze, Vice Governor of the National Bank of Georgia, participated in a high-level roundtable meeting of the International Finance

Corporation (IFC) and the Sustainable Banking and Finance Network (SBFN) in Washington, D.C. The event was held within the framework of the annual spring meetings of the International Monetary Fund and the World Bank.

Representatives of the National Bank of Georgia met with high-ranking members of Development Finance Institutions during the year. Meetings were attended by representatives from the Asian Development Bank, Asian Infrastructure Investment Bank, European Investment Bank, European Bank for Reconstruction and Development, International Monetary Fund, Dutch Development Bank, the International Finance Corporation, the Inter-American Development Bank, the World Bank, and the International Fund for Agricultural Development. Natia Turnava participated in the 94th Annual Meeting of the Bank for International Settlements (BIS) in Basel. The annual meeting was attended by the BIS governors and central bank representatives from member and non-member countries. The main focus of the meeting was the experience of transition and developing economies regarding the expansion of cross-border payments.

Ekaterine Mikabadze participated in an annual meeting of the governors of the central banks and finance ministers of the countries in the Netherlands, Belgium, and Luxembourg constituency of the International Monetary Fund and the World Bank. The meeting participants discussed the possibilities of ensuring dynamic economic growth in a globally unstable environment.

Ekaterine Mikabadze also participated in the annual meetings of the International Monetary Fund and the World Bank in Washington, D.C. During the working visit, meetings were held with Bo Li, Deputy Managing Director of the IMF, Jihad Azour, Director of the Middle East and Central Asia Department, and Alejandro Hajdenberg, IMF Mission Chief.

In November 2024, representatives of the National Bank of Georgia met with investors from American and global investment companies. The meeting was attended by high-level managers from J.P. Morgan,

Morgan Stanley, Vontobel, the Currency Exchange Fund, Bank of America, and Janus Henderson Investors. During the meeting, the National Bank of Georgia team provided information to representatives of investment companies about the country's economic stability, strong economic fundamentals, and financial stability.

Natia Turnava met with Francis Malige, Managing Director of Financial Institutions at the European Bank for Reconstruction and Development (EBRD), and Georgi Orlov, Director of Financial Institutions for Central Asia, the Caucasus, and Turkey. The meeting focused on discussing the current situation in Georgia's financial sector and issues of financing from international financial institutions.

Throughout the year, representatives of the NBG participated in various high-level international conferences and forums. Natia Turnava participated in the Euromoney Central and Eastern Europe Annual Forum. At the meeting, Natia Turnava and Deputy Finance Minister Mirza Gelashvili presented Georgia's financial and macroeconomic environment to international investors.

Natia Turnava also participated in a working meeting of the Central Asia Regional Economic Cooperation Program (CAREC), which aimed to discuss ideas for cooperation in the fintech sector among CAREC countries.

The National Bank of Georgia hosted the Fifth Sustainable Finance Forum during the year. The event was held in cooperation with the International Finance Corporation (IFC), the State Secretariat for Economic Affairs of Switzerland (SECO), and the Sustainable Banking and Finance Network (SBFN) supported by IFC.

Organized by the National Bank of Georgia, an international conference "Global Economic Trends: Impact on the Region" was held in Tbilisi. Economists, financiers, industry experts, representatives of the non-governmental sector, international organizations, and academic circles all participated in the conference.

During the year, Ekaterine Mikabadze participated in the first working meeting of the Diversity Network, established within the framework of the International Organization of Securities Commissions (IOSCO).

In 2024, Natia Turnava, along with other delegation members, participated in a conference organized by the Bank of America. Within the framework of the conference, Natia Turnava met with representatives of major international investment funds and American investors.

Natia Turnava participated in the EU Economic and Financial Dialogue in Brussels. Georgia, as a candidate country for the European Union, participated for the first time in the Economic and Financial Dialogue between the European Union and partner countries.

In 2024, Ekaterine Mikabadze participated in the annual conference organized by the European Covered Bond Council (ECBC). The event was organized in collaboration with Euromoney Conferences, and took place in Reykjavik, Iceland, from 16-18 May.

Natia Turnava also participated in the Point Zero Forum, a large-scale forum on financial technologies held in Zurich. The event was attended by representatives of central banks from various countries, regulators, and industry leaders.

Ekaterine Mikabadze participated in a panel discussion on "Growth Opportunities through Innovation and Artificial Intelligence (AI)" held within the framework of the annual meeting of the governors of the central banks and finance ministers of the countries in the Netherlands, Belgium, and Luxembourg constituency of the IMF and the World Bank.

Teimuraz Khomeriki, a member of the NBG's board, participated in the 33rd Economic Forum held in Karpacz, Poland. During his speech on a panel held within the framework of the forum, he focused on

the NBG's efforts to implement innovative systems in the country.

In 2024, Teimuraz Khomeriki and representatives of the Financial Education and Strategic Development Department also participated in the annual international conference on financial education held in Podgorica, Montenegro. The main theme of the meeting was "Stakeholder Collaboration for Effective Financial Education".

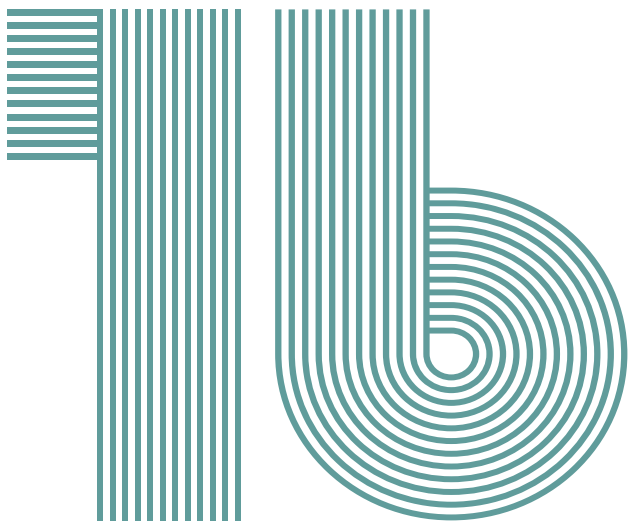
Ekaterine Galdava, Vice Governor of the National Bank of Georgia, participated in a conference organized by BKN301 Group. Within the framework of the event, BKN301 Group presented a BaaS orchestrator for the Georgian market, which will expand the horizon of financial technologies in the Caucasus.

Ekaterine Galdava also participated in the annual international business forum Sibos, organized by SWIFT, held in Beijing. The event featured various exhibits and networking prospects.

Natia Turnava also participated in the annual international conference organized by the Central Bank of Austria dedicated to discussing significant issues related to European economic integration.

Ekaterine Galdava participated in the 9th Annual International Forum (IFCF) organized by the International Financial Cooperation Council and the Korea Financial Services Commission in Seoul, South Korea. The forum was dedicated to discussing issues related to shaping the future of global finance. During the visit to South Korea, the delegation of the National Bank of Georgia visited the Central Bank of the Republic of Korea and the Korea Financial Telecommunications & Clearings Institute (KFTCI).

In 2024, the National Bank of Georgia also organized a two-day international conference on the development of monetary policy. The conference aimed to discuss and analyze the current challenges and future improvements of the monetary policy framework.



HUMAN RESOURCE MANAGEMENT
AND DEVELOPMENT

STATISTICAL INFORMATION ON EMPLOYEE NUMBERS

As of the end of 2024, the National Bank of Georgia employed a total of 626 staff members. Of these, 537 were public officials. Women constituted 54.63% of the total workforce, while men made up 45.37%. The average age of employees was 41 years.

STRUCTURAL REORGANIZATION AND OPTIMIZATION

In order to enhance organizational efficiency and effectively achieve the strategic goals of the bank, the following structural changes were implemented at the National Bank in 2024:

◆ **Changes in the Security Department**

The primary objectives of the Security Department were revised and defined as follows: ensuring the safety of the NBG and its employees, as well as protecting the bank's assets; developing a policy for consistent preventive measures; controlling the implementation of safety regulations; protecting confidential and state secret information/documents; and safeguarding information systems and their infrastructure from information and cyber threats.

In accordance with the tasks assigned to the structural unit, the following divisions were established within the department:

- The Internal Security Division
- The Information and Cyber Security Division
- The Monitoring and Methodology Division

◆ **Changes in the Financial and Supervisory Technology Development Department**

The objectives of the Financial and Supervisory Technology Development Department were revised to include the following:

- Promoting the sustainable development of financial technologies (excluding payment and settlement systems and payment instruments) and focusing on the development of supporting infrastructure.
- Collaborating with the relevant structural

units of the NBG to develop policies in the field of payment and settlement systems and payment instruments, as well as to support the development of supporting infrastructure.

- Enhancing the effectiveness of microprudential regulations using specialized resources.
- Assisting supervisory departments and collaborating with them in assessing technological and model risks in the financial sector.
- Developing methodologies for assessing relevant risks in collaboration with the Supervisory Policy Department.
- Monitoring the consistency of risk assessments by supervisory departments and conducting comparative analysis of specific risks among financial institutions.

In accordance with the objectives of the department, the following divisions were established within the structural unit:

- The Research and Development Division
- The Open Finance Ecosystem and Financial Innovations Development Division
- The Supervisory Technologies and Information Processing Division

◆ Changes were introduced to the **objectives and tasks of the Supervisory Policy Department**, and the main tasks of the structural unit were defined as follows:

- Developing supervisory policies for financial institutions, including accountability policies, in collaboration with supervisory departments, the Specialized Risks Department, and the Financial and Supervisory Technology Development Department.
- Assisting supervisory departments in assessing corporate governance, group structure, and regulatory capital in the financial sector.
- Reviewing applications from entities seeking to obtain a banking/microbanking license and reviewing applications for the

acquisition of a significant stake in financial institutions.

As a result of the changes in the department's objectives, a new division was added to the Supervisory Policy Department: **the Banking Institutions Licensing Division**. The tasks and functions of this division were defined as follows:

- Participating in the review/preparation of proposals for the issuance and revocation of banking/microbanking licenses based on current legislation, including relevant regulatory acts, in collaboration with banking supervision, legal departments, and other relevant structural units.
 - Participating in monitoring the fulfillment of requirements specified in writing by commercial banks holding a conditional banking license, in collaboration with banking supervision, legal departments, and other relevant structural units.
 - Assessing/evaluating the acquisition of a significant stake in a commercial bank or microbank, and the suitability of owners based on current legislation, including relevant regulatory acts, and preparing appropriate proposals.
 - Assessing/evaluating the suitability of administrators of commercial banks and microbanks based on current legislation, including relevant regulatory acts, and preparing appropriate proposals.
- ◆ The Securities Market Supervision Department was supplemented by a **Pension Funds Supervision Division**, the functions of which were defined as follows:
- Supervising the activities of the LEPL Pension Agency (within the scope of the investment activities of the Pension Agency) in accordance with current legislation.
 - Supervising the activities of commercial banks, microbanks, and asset management companies (in relation to their intermediary activities with the Pension Agency,

including the performance of specialized depository functions by commercial banks and microbanks) in accordance with current legislation.

- Developing a supervisory plan for the investment activities of the Pension Agency and, as necessary, conducting thematic or full-scale inspections in accordance with current legislation, preparing inspection reports, and presenting them.
- Analyzing and evaluating the investment activities of the Pension Agency based on submitted reports, and preparing and presenting conclusions and recommendations.
- Monitoring the implementation of mandatory and recommended measures imposed on the Pension Agency.
- Participating in the development of the supervisory framework for the Pension Agency and proposing changes to the regulatory framework as needed.
- Coordinating the inspection plan and relevant supervisory measures for the Pension Agency with the Specialized Risks Department.
- Supervising the activities of commercial banks, microbanks, and asset management companies (in relation to their intermediary activities with voluntary private pension schemes, as stipulated by the Law of Georgia on Voluntary Private Pensions, including the performance of specialized depository functions by commercial banks and microbanks) in accordance with current legislation.
- Exercising other authorities defined by the Organic Law of Georgia on the National Bank of Georgia, the Law of Georgia on Accumulative Pensions, the Law of Georgia on Voluntary Private Pensions, and other regulatory acts.

PROFESSIONAL DEVELOPMENT OF STAFF

In 2024, the NBG continued to prioritize the professional development of its employees. To enhance the professional qualifications of its staff,

221 employees of the NBG attended various courses and seminars organized by central banks and financial institutions from different countries.

In 2024, the Human Resources Management and Development Division of the Governor's Office planned and implemented various training sessions and educational activities for representatives from different structural units of the NBG. These included the following:

- Standards for effective communication and managing difficult situations during service
- Effective service
- Psychology of management
- Information and cybersecurity
- Sexual harassment and mechanisms for responding to it, supported by UN Women and the Norwegian government
- Personal data protection
- Diplomatic protocols and international etiquette

In addition, internal training sessions were also planned and implemented. The goal of these was to familiarize bank employees with the activities, ongoing processes, and achievements of various structural units.

PROFESSIONAL DEVELOPMENT OF FINANCIAL SECTOR EMPLOYEES

The National Bank of Georgia continuously supports the professional development of employees in the banking sector. To this end, experts from the Luxembourg House of Financial Technology Foundation conducted two in-person training sessions in Tbilisi in 2024 as well as a further two remote training sessions. Employees from both the National Bank of Georgia and commercial banks participated in these events, with a total of 66 attendees.

RECRUITMENT COMPETITIONS AT THE NATIONAL BANK OF GEORGIA

In 2024, the Human Resources Management and Development Division conducted 124 recruitment

competitions at the National Bank of Georgia. As a result of these, 54 employees were selected for professional public employee positions across various structural units.

PROMOTING A HEALTHY CORPORATE CULTURE

In 2024, one of the main priorities of the Human Resources Management and Development Division was the development of a healthy corporate culture. To foster team spirit, several sports, team-building, and social events were organized and implemented for the employees of the NBG.

DEVELOPMENT OF LEGAL ACTS ON HUMAN RESOURCES MANAGEMENT ISSUES

◆ Regulation of Labor Relations Issues

In 2024, the National Bank of Georgia developed and approved a new edition of its Internal Labor Regulations. The purpose of this revision was to ensure alignment with other relevant legislative acts. The new edition of the regulations detailed the following:

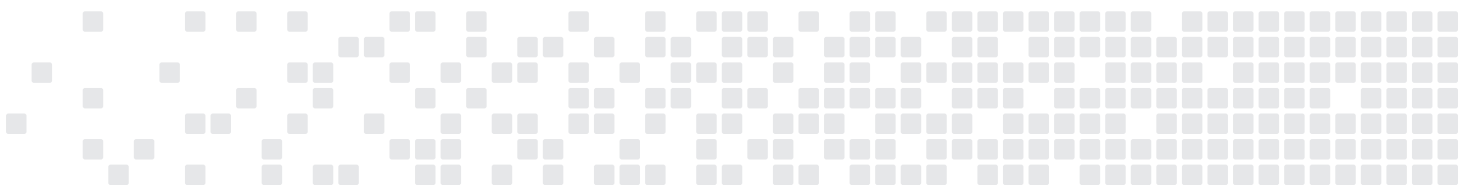
- The rights and obligations of the bank and its employees.
- The concept of overtime work and its compensation procedures.
- Principles of labor relations and the exercise of authority.
- Cases for the use of educational leave and issues related to the professional development of employees.
- Classes of employees with public employee status and the procedures for their assignment.
- Definitions of discrimination and harassment, including sexual harassment, along with their prevention and resolution mechanisms. A notable addition in this section is the introduction of the role of an advisor for issues related to sexual harassment.
- Definition of the role of a mentor for bank

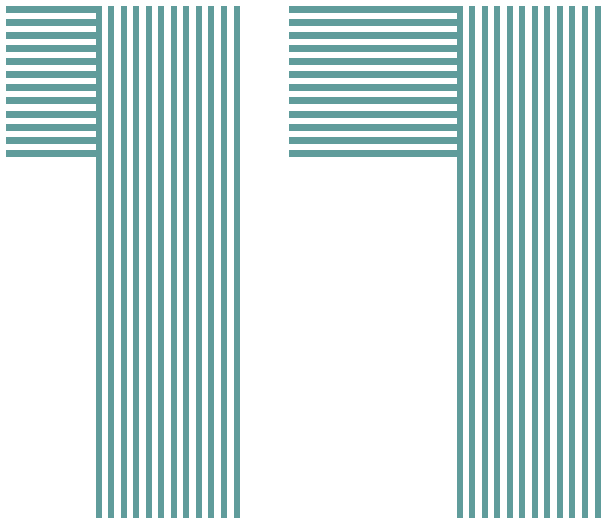
interns and trainees, including the rules for mentor compensation.

- Forms of employee incentives were specified, including monetary awards, valuable gifts, expressions of gratitude, and public recognition.
- Issues related to the dismissal of employees with public employee status and those employed on the basis of labor contracts were clarified and regulated in detail.

◆ **Internships and Practical Training at the National Bank of Georgia**

In 2024, the *"Regulation on Internships and Practical Training at the National Bank of Georgia"* was developed and approved. According to the regulation, interns should generally be accepted into the bank through a competitive process, except in special cases. Moreover, in accordance with the implemented changes, the role of the Human Resources Management and Development Division of the Governor's Office in this process has been clearly defined. This division is responsible for coordinating the internship and practical training process.





DEVELOPMENT OF THE LEGISLATIVE FRAMEWORK

LEGAL ACTS OF THE NATIONAL BANK OF GEORGIA

REGULATION OF THE SUPERVISORY FRAMEWORK FOR COMMERCIAL BANKS AND MICROBANKS

Significant updates were made in the regulation of commercial banks and microbanks throughout 2024.

In an effort to align Georgia's Resolution Framework with the European Parliament and Council's Bank Recovery and Resolution Directive (BRRD) and to achieve compliance with European law, the National Bank of Georgia issued **23 September 2024 Decree No. 241/04 of the Governor of the National Bank of Georgia on the Amendment of the 22 June 2017 Decree No. 92/04 regarding approval of the regulation on the disclosure of information by commercial banks under Pillar 3**. According to this amendment, systemically important commercial banks are required to disclose information regarding compliance with the minimum requirement for own funds and eligible liabilities (MREL) in their Pillar 3 reports starting from 1 January 2025. Systemically important commercial banks are mandated to publish this information on both a quarterly and annual basis. Additionally, these banks are now obligated to publish both quantitative and qualitative information related to MREL compliance in their annual Pillar 3 reports.

In terms of banking sector regulation, to further align with the principles set by the Basel Committee on Banking Supervision and international best practices, **19 November 2024 Decree No. 280/04 of the Governor National Bank of Georgia on amending the earlier 21 November 2019 Decree No. 228/04 of the Governor of the National Bank of Georgia on the approval of regulations concerning risk position concentration and large exposures in commercial banks** was issued. Additionally, **19 November 2024 Decree No. 279/04 on amending the earlier 21 June 2023 Decree No. 117/04 on the approval of a regulation concerning risk position concentration and large exposures in microbanks** was issued. With these amendments

the list of prohibited risk positions for commercial banks and microbanks was expanded. It was established that commercial banks and microbanks are prohibited from creating risk positions aimed at directly or indirectly financing certain transactions. Additionally, the amendments clarified the definition of a share-based instrument for the purposes of the regulations.

To ensure compliance with the 15 December 2023 amendments made to the Law of Georgia on the Activities of Microbanks, the **National Bank of Georgia issued 11 July 2024 Decree No. 178/04 of the Governor of the National Bank of Georgia on amending 21 June 2023 Decree No. 105/04 of the Governor of the National Bank of Georgia regarding the regulation on licensing microbanks**. According to the updated law, an applicant for a microbank license must provide general information about the group structure and ownership structure of the applicant to the National Bank of Georgia. Detailed information must also be provided about shareholders, intermediate owners, and beneficial owners who are significant shareholders.

These changes in the law were reflected in the licensing regulation for microbanks. **18 April 2024 Decree No. 100/04 of the Governor of the National Bank of Georgia of 18 April 2024 amending 26 December 2018 Decree No. 284/04 on the Approval of the Regulation on Mandatory Audit of Consolidated Financial Statements of Commercial Banks and Disclosure of Information in Explanatory Notes** was adopted. According to this change, to establish a consistent and unified approach to auditing in accordance with the Law of Georgia On Accounting, Reporting and Audit, the requirements for the audit partner were supplemented with reference to the authority to conduct audits of the financial statements of public interest entities.

Furthermore, the format for submitting audited consolidated financial statements and audit opinion letters to the National Bank of Georgia were changed. To ensure the independence of audit firms and audit partners, the amendments clarified

that, in the case of obtaining a banking license by a financial sector representative, the period of auditing services provided by the same auditing firm/auditor before the obtaining of the banking license will be considered as part of the continuous auditing services.

A similar change was made to 21 June 2023 Decree No. 113/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Mandatory Audit of Consolidated Financial Statements of Microbanks and Disclosure of Information in Explanatory Notes.

6 December 2024 Decree No. 302/04 of the Governor of the National Bank of Georgia amending 21 June 2023 Decree No. 107/04 of the Governor of the National Bank of Georgia on Conflict of Interest Management for Microbanks was issued.

These changes were made to align the microbank regulation with the Decree of the Governor of the National Bank of Georgia on Approval of the Conflict of Interest Management Regulation, which governs conflict of interest issues for commercial banks. Specifically, the term "Microbank Administrator" was replaced by the term "Material Risk Taker" throughout the entire regulation, including the definitions section. Additionally, requirements related to collateral were clarified. A new provision was also added to the regulation, stipulating that if a microbank acquires securities from a related party, it must take measures to sell them within six months.

6 December 2024 Decree No. 298/04 of the Governor of the National Bank of Georgia on amending to 21 June 2023 Decree No. 111/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Capital Adequacy Requirements for Microbanks was adopted. The objective of developing this decree was to align the current capital adequacy requirements in Georgia with the requirements of EU Regulation No. 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, and to enhance capital stability within the banking system. In accordance with this decree, the principle for calculating undistributed profit included in Common Equity Tier 1 (CET1) capital was adjusted. Specifically, a principle for the estimation

of foreseeable dividends was added, creating an obligation for microbanks to deduct these from the profit to be included in CET1 capital as soon as they become foreseeable. Furthermore, the decree clarified the methodology for calculating the Credit Risk Adjustment (CRA) buffer.

6 December 2024 Decree No. 299/04 of the Governor of the National Bank of Georgia on amending Decree No. 112/04 of 21 June 2023 on the Approval of the Corporate Governance Code for Microbanks was adopted.

This amendment defined the National Bank of Georgia's authority to, at any time and in case of reasonable doubt, demand from microbanks or directly verify, the suitability of the Supervisory Board and its members to ensure their independence. If non-compliance is identified, the NBG can require the microbank to terminate the independent membership status of the Supervisory Board member. The decree also clarified the starting point for calculating the deadline for submitting minutes of the General Meeting of Shareholders, Supervisory Board, and committees formed at the Supervisory Board level to the National Bank of Georgia. Additionally, the periodicity of the Supervisory Board's self-assessment and external assessor's evaluation was specified.

6 December 2024 Decree No. 300/04 of the Governor of the National Bank of Georgia on amending 21 June 2023 Decree No. 116/04 on the Imposition of a Countercyclical Capital Buffer Rate for Microbanks was also adopted.

To ensure a unified risk management standard and a consistent approach in the banking sector, the Financial Stability Committee of the National Bank of Georgia decided to introduce a schedule for the gradual accumulation of the countercyclical capital buffer for microbanks, similar to that for commercial banks. The development of this decree aims to guide microbanks towards gradual compliance with a 1% countercyclical buffer rate and set the deadline for fulfilling this requirement as 15 March 2027.

6 December 2024 Decree No. 301/04 of the Governor of the National Bank of Georgia on amending Decree No. 110/04 of 21 June 2023 on

the Approval of the Regulation on Disclosure of Information by Microbanks within Pillar 3 was adopted. This decree aims to clarify the periodicity of information disclosure regarding the financial position of microbanks by the National Bank of Georgia and the timelines for the reporting process. To increase transparency and enhance trust regarding the risks faced by microbanks and the adequacy of their regulatory capital, the periodicity for the National Bank of Georgia to disclose information on microbanks' financial positions was defined. Specifically, the National Bank of Georgia is authorized to publish information on the financial positions of microbanks on a monthly basis within 30 calendar days following the end of the reporting month. The decree also changed the deadlines for publishing quarterly reports. Specifically, microbanks are now obligated to publish quarterly reports within 40 calendar days after the end of the reporting quarter.

To align with the European Banking Authority's (EBA) approach to defining systemically important banks, **27 December 2024 Decree No. 320/04 of the Governor of the National Bank of Georgia of on the Approval of the Regulation on Defining Systemically Important Commercial Banks and Establishing the Systemic Buffer Rate** was adopted. Specifically, the decree reduced the upper threshold for the systemic importance score from 8% to 6.5%, and changed the weights of the criteria established for defining a commercial bank's systemic buffer. Additionally, the indicators within the criteria were changed, based on both - EBA alignment and the needs of the Georgian banking system. Corresponding amendments were made to **26 September 2018 Decree No. 215/04 on the Approval of the Corporate Governance Code for Commercial Banks and 29 June 2020 Decree No. 131/04 on the Approval of the Regulation on Developing and Evaluating a Commercial Bank's Recovery Plan.**

5 December 2024 Decree No. 295/04 of the Governor of the National Bank of Georgia on amending Decree No. 10/04 of 11 February 2011 on the Approval of the Regulation on Compliance

with Minimum Reserve Requirements was adopted. The adoption of this decree stemmed from a decision made by the Monetary Policy Committee of the National Bank of Georgia at its meeting on 29 November 2024. To reduce the risks of increasing dollarization, it was deemed expedient to raise the upper limit of the existing reserve requirement for attracted foreign currency funds from 20% to 25%. Additionally, for borrowed foreign currency funds with a residual maturity of 365 to 730 days, the upper limit of the reserve requirement was increased from 15% to 20%.

The following changes were also made to **17 March 2010 Decree No. 44/01 of the Governor of the National Bank of Georgia of on the Approval of the Regulation on the Use of International Bank Account Numbers in Georgian Banking Institutions:**

- ✦ **By 23 September 2024 Decree No. 244/04 of the Governor of the National Bank of Georgia,** JSC "Pave Bank Georgia" and JSC "Hash Bank" were both assigned International Bank Account Number (IBAN) codes.
- ✦ **By 31 December 2024 Decree No. 330/04 of the Governor of the National Bank of Georgia,** JSC "Microbank MBC" was assigned an IBAN code.

As a result of these changes, microbanks will be able to use IBAN and participate in the Real-Time Gross Settlement (RTGS) system.

15 March 2024 Decree No. 63/04 of the Governor of the National Bank of Georgia was adopted amending 22 July 2022 Decree No. 89/04 on the Approval of the Regulation on the Use of the XBRL Information System. This decree changed the name of the "XBRL Information System" to the "Supervisory Reporting System". Further, the decree defined microbanks as external participants of the portal, in addition to commercial banks. Accordingly, microbanks also have the right to submit reports, information, and documentation as specified in the obligations section of the portal to the National Bank of Georgia via the Supervisory Reporting System. Additionally, microbank registration on the portal

will occur automatically upon their licensing, and registration will be canceled upon the revocation of their license.

Decree No. 93/04 of the Governor of the National Bank of Georgia of 11 April 2024 on amending 6 July 2021 Decree No. 88/04 on the Approval of the Regulation on the Creation and Use of the Credit Register by the National Bank of Georgia was adopted. With this decree, microbanks, like commercial banks, became participants in the Credit Register, and the rights and obligations stipulated by this decree were extended to them. This includes the obligation for microbanks to provide the National Bank of Georgia with Credit Register data. The decree also stipulated that the National Bank of Georgia is obligated to grant access to personal information solely to those employees who are officially authorized to process the relevant data.

REGULATORY CHANGES RELATED TO THE RESOLUTION FUND IN 2023

As a result of amendments made in 2023 to the Organic Law of Georgia on the National Bank of Georgia, the Resolution Fund, which was previously ex-post (meaning contributions from commercial banks and foreign bank branches to the Resolution Fund were only required after the use of temporary state funding during a resolution regime) has now become ex-ante. This means that, starting in 2025, commercial banks are obligated to begin making preliminary contributions to the Resolution Fund.

Stemming from these legislative changes, the following legislation was adopted:

- ◆ **2 September 2024 Decree No. 228/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on the Creation, Administration, and Investment of the Resolution Fund, the Criteria for Imposing Preliminary Contributions to the Resolution Fund, and for Making Preliminary Contributions.** This decree was developed due to the need for new regulations concerning the rules for making preliminary (ex-ante) contributions to the Resolution Fund and for

administering/investing the accumulated funds within the Resolution Fund. It became necessary to define the criteria, rules, and corresponding methodology for imposing preliminary contributions. Furthermore, as a result of these legislative changes, the National Bank of Georgia was granted the authority to transfer the Resolution Fund to the LEPL Deposit Insurance Agency for administration. This also necessitated the regulation of these matters. The decree defined management and investment issues related to the Resolution Fund, including the authority of the LEPL Deposit Insurance Agency to invest the funds of the Resolution Fund (if transferred to it for investment purposes) based on the Law of Georgia on the Deposit Insurance System, pertinent legal acts, and an agreement concluded with the National Bank of Georgia. The decree also regulated the main investment principles if the National Bank of Georgia invests the Resolution Fund's assets. Additionally, the decree specified the deadlines for commercial banks to make preliminary contributions and other procedural matters, as well as exceptional cases for deferral/installment payments and a suspension of preliminary contributions.

- ◆ **A joint decree, No. 288/No. 227/04, of the Minister of Finance of Georgia and the Governor of the National Bank of Georgia was adopted on 2 September 2024 on the Approval of the Regulation on the Provision of Temporary State Financing by the Ministry of Finance of Georgia, and the Administration and Investment of Contributions Made to the Resolution Fund for the Purpose of Subsequent Reimbursement of Funds Used within Temporary State Financing".** This new joint decree declared a previous joint decree null and void (Joint Decree No. 329/No. 247/04 of 31 December 2020, of the Minister of Finance of Georgia and the Governor of the National Bank of Georgia on the Approval of the Regulation on the Creation and Administration of the Resolution Fund and the Provision of Temporary State Financing by the Ministry of Finance of Georgia). This is because matters related to the accumulation, administration, and investment of ex-ante funds in the Resolution Fund, as well as the creation of the Resolution

Fund, its financial reporting, and other aspects, have become regulated by a new, separate legal act from the Governor of the National Bank of Georgia. The joint decree now solely regulates the provision of temporary state financing by the Ministry of Finance of Georgia and the administration and investment of contributions made to the Resolution Fund for the purpose of subsequent reimbursement of funds provided within temporary state financing (ex-post contributions). Furthermore, the decree defined the issue of the repayment of last resort loans issued to a commercial bank and secured by a Ministry of Finance guarantee, before the use of temporary state financing.

- ◆ An amendment was made to **Joint Decree No. 328/No. 246/04 of the Minister of Finance of Georgia and the Governor of the National Bank of Georgia of 31 December 2020 on the Approval of the Regulation on the Criteria for Imposing Contributions and the for Making Contributions for the Purpose of Reimbursement of Funds Allocated within Temporary State Financing** and Instead of the previously nullified joint decree (Joint Decree No. 329/247/04 of the Minister of Finance of Georgia and the Governor of the National Bank of Georgia of 31 December 2020 on the Approval of the Regulation on the Creation and Administration of the Resolution Fund and the Provision of Temporary State Financing by the Ministry of Finance of Georgia), reference was made to the new Joint Decree No. 288/No. 227/04 of the Minister of Finance of Georgia and the Governor of the National Bank of Georgia of 2 September 2024 on the Approval of the Regulation on the Provision of Temporary State Financing by the Ministry of Finance of Georgia, and the Administration and Investment of Contributions Made to the Resolution Fund for the Purpose of Subsequent Reimbursement of Funds Used within Temporary State Financing.

SECURITIES REGULATORY LEGISLATION

In connection with the adoption of the Law of Georgia "On the Ownership of Dematerialized Securities"

by the Parliament of Georgia on 16 November 2023, which regulates relationships related to the ownership and circulation of dematerialized securities, and to ensure alignment with this law and its accompanying legislative changes that have altered the regulatory framework for the issuance of public securities, the following acts were adopted:

- ◆ **Decree No. 48/04 of the Governor of the National Bank of Georgia of 29 February 2024 "On the Approval of the Regulation on the Accounting and Record-Keeping of Dematerialized Securities".**
- ◆ **Decree No. 46/04 of the Governor of the National Bank of Georgia of 29 February 2024 "On the Approval of the Regulation on the Licensing and Regulation of Central Depositories."**
- ◆ **An additional amendment was made to Decree No. 206/04 of the Governor of the National Bank of Georgia of 18 September 2018 "On the Approval of the Regulation on the Maintenance of Securities Registers".**

Based on amendments to the Law of Georgia "On the Securities Market", which regulates matters related to the liquidation of brokerage companies and central depositories, the following acts were adopted:

- ◆ **Decree No. 49/04 of the Governor of the National Bank of Georgia of 29 February 2024 "On the Approval of the Regulation on the Liquidation and Declaration of Insolvency of Brokerage Companies".**
- ◆ **Decree No. 50/04 of the Governor of the National Bank of Georgia of 29 February 2024, "On the Approval of the Regulation on the Liquidation and Declaration of Insolvency of Central Depositories".**

The purpose of these normative acts is to define clear and comprehensive regulation that ensures the maximum protection of market stability during liquidation processes, as well as protecting the interests of investors and other participants in the securities market.

To satisfy and supplement the requirements established by the Law of Georgia "On Securitization", **Decree No. 74/04 of the Governor of the National Bank of Georgia of 29 March 2024 was adopted "On the Approval of the Regulation on Securitization"**. This decree defines the rules for submitting notifications and information regarding securitization to the National Bank of Georgia; the authorization procedure and additional requirements for a Special Purpose Vehicle (SPV) for securitization; additional regulations governing the liquidation of an authorized securitization SPV and its compartments; the methodology for calculating the material net economic interest in securitization; additional requirements applicable to institutional investors; qualifying criteria for non-performing underlying assets; and additional requirements related to transparency.

To ensure compliance with the changes made to the Law of Georgia "On the Securities Market" on 16 November 2023, **Decree No. 191/04 of the Governor of the National Bank of Georgia of 29 July 2024 was adopted "On Amendments to Decree No. 181/04 of October 7, 2020, of the Governor of the National Bank of Georgia 'On the Approval of the Regulation on Information Transparency of Issuers and the Appointment of a Securities Registrar for Issuers'"**. This decree changed the deadline for an issuer of public equity or debt securities to submit and publish their half-year report. Specifically, instead of 15 August, an issuer of public equity or debt securities is now obligated to submit and publish their half-year report to the NBG no later than 30 August on a given year. Furthermore, an issuer who became a public securities issuer during the first six months of the financial year has an added obligation to publish their report for the first six months of that financial year. This publication obligation was also added for all persons who became issuers of public equity or debt securities during the financial year.

On 15 December 2023, amendments were made to the Law of Georgia on the Securities Market. These changes primarily affect the National Bank of Georgia's licensing process for entities operating in

the securities market. Previously, the NBG had 45 business days to make a decision on an application for a license, whereas the amendments now allow the supervisory body to extend this period by an additional 15 business days. In alignment with these changes, the following legal acts were amended:

- ◆ **22 September 2020 Decree No. 170/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Investment Fund Authorization, Registration, Recognition and Regulation.**
- ◆ **22 September 2020 Decree No. 167/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Asset Management Company Licensing, Registration, Recognition, and Regulation.**
- ◆ **9 March 2010 Decree No. 33/01 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Securities Registrar Licensing, Financial Statement Submission, Minimum Capital Determination, and Securities Registrar Activity Termination.**
- ◆ **28 December 2010 Decree No. 169/01 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Stock Exchange Licensing, Financial Statement Submission, and Minimum Capital Determination.**
- ◆ **5 July 2018 Decree No. 145/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Brokerage Company Licensing and Regulation.**

Following the adoption of the Law of Georgia on Voluntary Private Pensions by the Parliament of Georgia on 28 June 2023, **30 December 2024 Decree No. 322/04 of the Governor of the National Bank of Georgia on the Approval of the Regulatory Regulation on a Specialized Depository of a Voluntary Private Pension Scheme** was adopted. This decree sets out the requirements for entities wishing to provide depository services for pension schemes. This decree also establishes the conditions under which the NBG will grant and revoke consent for a financial institution to operate as a specialized

depository, the specific functions and duties of a specialized depository for voluntary private pension schemes, the regulation on submitting periodic and ongoing reports, and requirements related to managing potential conflicts of interest for specialized depositories.

To align with the new pension law, an amendment was also been made to the **14 February 2012 Decree No. 35/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Determining, Imposing, and Enforcing Monetary Fines for Violations of Securities Legislation, the Law of Georgia on Accounting, Reporting and Auditing and the Law of Georgia on Facilitating the Prevention of Money Laundering and Financing of Terrorism by Individuals and Members of Their Governing Bodies**. A new article was added to this decree, outlining the specific cases and amounts of monetary fines that can be imposed on asset management companies, their employees, and/or members of their governing bodies operating under the Law of Georgia on Voluntary Private Pensions.

Additionally, **30 December 2024 Decree No. 324/04 of the Governor of the National Bank of Georgia on Declaring Certain Legal Acts as Null and Void** has been issued. This decree invalidates previous resolutions of the National Securities Commission of Georgia and the 29 March 2016 Decree No. 33/04 on Approval of the Regulation on Determining, Imposing, and Enforcing Monetary Fines against Asset Management Companies and Specialized Depositories. This step was taken because the matters previously regulated by these acts are now covered by the 30 December 2024 NBG Governor's Decree No. 322/04, concerning the Regulation on a Specialized Depository of a Voluntary Private Pension Scheme.

To further refine the capital market's regulatory framework, the **16 December 2020 Decree No. 223/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Recognizing a Person as an Informed Investor** has been amended. This change allows clients to receive a document from a securities market intermediary

confirming their status as an informed investor. Other securities market intermediaries can then rely on this document when providing services to the client.

Furthermore, amendments have been made to the **22 September 2020 Decree No. 167/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on Asset Management Company Licensing, Registration, Recognition, and Regulation**. Specifically, in accordance with the Law of Georgia on Voluntary Private Pensions as adopted on 28 June 2023, additional requirements have been imposed on licensed asset management companies that intend to manage pension assets or establish/manage a pension scheme under this law.

In line with the 2023 amendments to Georgia's Law on Funded Pensions, **25 December 2020 Decree No. 236/04 on the Approval of the Regulation on the Activities of the Investment Board**, has been updated. A new article has been added to the regulation specifically addressing the selection and dismissal of the Chief Investment Risk Officer. The amendments also reflect the Investment Board's authority to designate the National Bank of Georgia as a specialized depository under certain cases, among other provisions.

REGULATION OF LIQUIDATION, INSOLVENCY, AND BANKRUPTCY OF SUPERVISED ENTITIES

14 February 2024 Decree No. 34/04 of the Governor of the National Bank of Georgia on Approval of the Regulation on the Liquidation of Microfinance Organizations has been adopted. This regulation was developed in accordance with the Organic Law of Georgia on the National Bank of Georgia and the Law of Georgia on Microfinance Organizations. Notably, Article 48, Paragraph 16 of the Organic Law on the National Bank of Georgia empowers the NBG, under exceptional cases—where a supervised entity (including a microfinance organization) lacks sufficient funds to cover liquidation expenses—to provide funds to ensure the uninterrupted conduct of the liquidation process. The NBG determines the procedures for disbursing and satisfying these

funds. To ensure compliance with Georgia's Organic Law "On the National Bank of Georgia", the recently approved regulation now includes legal provisions for the National Bank of Georgia to disburse and satisfy the funds necessary to cover the expenses required for the uninterrupted conduct of the liquidation process. Further, under this regulation, the liquidator of a microfinance organization is now authorized to open liquidation accounts at a microbank and has the possibility to receive loans from a microbank.

Decree No. 35/04 of 14 February 2024 of the Governor of the National Bank of Georgia on the Approval of the Regulation on the Liquidation and Declaration of Insolvency and/or Bankruptcy of Commercial Banks has also been adopted. This regulation is based on the Organic Law of Georgia on the National Bank of Georgia and the Law of Georgia on the Activities of Commercial Banks. Consistent with Article 48, Paragraph 16 of the Organic Law on the National Bank of Georgia, this regulation also stipulates that the NBG can provide funds to cover the necessary liquidation expenses for supervised entities, including commercial banks, in exceptional cases where they lack sufficient funds. The NBG defines the procedures for disbursing and satisfying these funds.

To ensure compliance with Georgia's Organic Law on the National Bank of Georgia, the recently approved regulation now includes legal provisions for the National Bank of Georgia to disburse and satisfy the funds necessary to cover expenses required for the uninterrupted conduct of the liquidation process. To ensure compliance with the Law of Georgia on the Activities of Commercial Banks, the priority order of commercial bank creditors in the claims satisfaction process has been updated within this regulation. The liquidator of a commercial bank is now authorized to open liquidation accounts at a microbank and can receive loans from a microbank. The regulation also clarifies the liquidator's authority regarding accounts in the commercial bank that are subject to legal restrictions and/or enforcement measures under Georgian legislation. The liquidator can now transfer these accounts, without change,

to a microbank during the liquidation process, ensuring the active priority of legal restrictions and/or enforcement measures is maintained, similar to how they would be handled by a commercial bank and the NBG. Additionally, for increased clarity and transparency, the regulation specifies the procedure for transferring monetary funds (held in relevant bank accounts at other commercial banks and/or the NBG) when a creditor fails to submit a claim for their due funds, or if a depositor or other creditor cannot provide the information requested by the liquidator.

On 5 June 2024, the **Decree No. 144/04 of the Governor of the National Bank of Georgia on the Approval of the Regulation on the Liquidation of Payment Service Providers** was adopted. This new regulation was developed in accordance with Georgia's Organic Law on the National Bank of Georgia and the Law of Georgia on Payment Systems and Payment Services. A key aspect of this decree, stemming from Article 48, Paragraph 16 of the Organic Law on the National Bank of Georgia, concerns the NBG's authority to provide funds in exceptional cases. If a supervised entity, such as a payment service provider, does not have sufficient money to cover its liquidation costs, the NBG can now disburse funds to ensure the liquidation process runs smoothly. The NBG will also establish the procedures for disbursing and satisfying these funds. Furthermore, the updated regulation grants the liquidator of a payment service provider the authority to open liquidation accounts at a microbank and the option to receive loans from a microbank.

8 April 2024 Decree No. 89/04 of the Governor of the National Bank of Georgia on amending 21 June 2023 Decree No. 121/04 on the Approval of Regulation on the Liquidation, Insolvency, and Bankruptcy of Microbanks was adopted. These amendments were prompted by recent changes to the Law of Georgia on the Activities of Microbanks, which redefined the priority order for satisfying creditors during a microbank's liquidation process. The updated decree also clarifies the regulation on transferring unclaimed funds to an NBG account and specific details regarding the transfer of accounts to commercial banks or other microbanks.

REGULATION OF PAYMENT SERVICE PROVIDERS AND VIRTUAL ASSET SERVICE PROVIDERS

29 May 2024 Decree No. 133/04 of the overnor of the National Bank of Georgia on the Approval of the Regulation on Determining, Imposing, and Enforcing Monetary Fines against Virtual Asset Service Providers and Their Administrators was adopted. This decree was developed due to legislative changes aimed at supervising and regulating virtual asset service providers (VASPs), which included amendments to Organic Law of Georgia on the National Bank of Georgia and the Law of Georgia on Facilitating the Prevention of Money Laundering and Financing of Terrorism, both of which had been effective since 1 January 2023. The introduction of this decree was also prompted by the 13 June 2023 Decree No. 94/04 of the Governor of the National Bank of Georgia which approved the Regulation on Registration, Deregistration, and Regulation of Virtual Asset Service Providers in the National Bank of Georgia. These legislative changes and the new regulation establish a series of obligations for VASPs and their administrators. To ensure effective compliance with these obligations, the new decree defines the amounts of monetary fines for violations, and the rules for their imposition and enforcement. The decree categorizes violations into three types: particularly severe violations, severe violations, and less severe violations. The amounts of monetary fines are determined based on the severity of the violation, and whether it is repeated or systemic. When determining the amounts of these fines, the NBG considered the existing practices and experiences with other financial institutions, as well as the risks associated with the sector.

On 5 July 2024, the **NBG Governor's Decree No. 174/04** was adopted. This decree introduces amendments to previous Decree No. 87/04 of 13 June 2017, which pertained to "The Regulation on Determining, Imposing, and Enforcing Monetary Fines against Payment Service Providers and Their Administrators". These changes were necessitated by the NBG Governor's Decree No. 77/04 of 1 May 2023, "On Approval of the Regulation on Registration and Regulation of Payment Service

Providers". The latter decree significantly expanded the regulatory framework for payment service providers by adding regulatory provisions for significant payment service providers; defining suitability criteria for administrators, including a clause on control of shareholding participation; modifying the regulations for registering changes; introducing requirements for payment service providers' head offices, operational spaces, and electronic systems; and adding a regulatory article governing money remittance services provided by payment service providers. The new amendments define the corresponding monetary penalties for violations of these requirements.

The National Bank of Georgia has implemented new monetary fines for violations of the requirements outlined in the NBG Governor's Decree No. 79/04 of 1 May 2023, "On Approval of the Regulation on Capital Adequacy Requirements for Payment Service Providers". These fines specifically target breaches related to primary and secondary capital requirements, minimum supervisory capital requirements, regulations for calculating regulatory capital, and other related provisions. Additionally, fines have been introduced for the failure to submit reports required by the Law of Georgia "On Accounting, Reporting, and Auditing" within the stipulated timeframe or in the prescribed manner/format. The decree also references the NBG Governor's decree on the procedures for implementing sanction regimes by accountable persons supervised by the NBG.

Amendments have been made to the **NBG Governor's Decree No. 156/04 of 2 September 2020 "On Approval of the Regulation on Strong Customer Authentication"**. These changes were driven by the necessity and expediency of extending certain deadlines as defined in the transitional provisions of the SCA regulation. Key extensions include the deadline for the obligation for payment service providers to ensure that electronic commerce operations comply with SCA requirements has been extended from 1 January 2025 to 1 January 2026; and the authority for payment service providers to operate based on a risk-based approach has been

extended from 1 January 2025 to 1 January 2027. This applies to card instruments issued by foreign payment service providers and card operations performed by their customers at merchant/service establishments served by foreign acquirers.

The authority for payment service providers to verify customers' utility bill debts (with customer consent) and initiate payment operations for these services has also been extended for two years.

An amendment has been introduced to the **NBG Governor's Decree No. 77/04 of 1 May 2023 "On Approval of the Regulation on Registration and Regulation of Payment Service Providers"**. This change now allows the NBG to waive the requirement for interested parties to submit specific information/documentation regarding administrators, significant direct/indirect shareholders, and beneficial owners/persons with significant influence during payment service provider registration. This waiver applies if such information/documentation has already been submitted to the NBG and the individuals in question have undergone at least an equivalent or more complex suitability assessment as defined by the decree.

On 4 April 2024, the **NBG Governor's Decree No. 84/04** was adopted. This decree amends the previous **Decree No. 69/04 of 13 April 2020, which approves the "Regulation on the Use of the NBFI Remote Supervision Portal"**. The key change is that reporting requirements for payment service providers, as defined by the "Regulation on Capital Adequacy Requirements for Payment Service Providers" (NBG Governor's Decree No. 79/04 of 1 May 2023), must now be submitted through the NBFI Remote Supervision Portal. This formalizes the use of the portal for these specific reports.

Amendments have also been made to the **NBG Governor's Decree No. 79/04 of 1 May 2023 "On Approval of the Regulation on Capital Adequacy Requirements for Payment Service Providers"**. These changes were driven by the need to introduce a definition for "significant provider". In addition, the annexes to the regulation have been refined.

ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING (AML/CTF) LEGISLATION

Under the Law of Georgia "On Facilitating the Prevention of Money Laundering and the Financing of Terrorism", the National Bank of Georgia serves as the supervisory authority for a range of entities. These include the following:

- ◆ Microfinance organizations
- ◆ Lending entities
- ◆ Currency exchange points
- ◆ Non-bank deposit-taking institutions (credit unions)
- ◆ Securities registrars
- ◆ Brokerage companies
- ◆ Asset management companies
- ◆ Investment funds
- ◆ Payment service providers

The NBG is responsible for ensuring that these entities comply with Georgian legislation on preventing money laundering and terrorist financing. To ensure ongoing compliance with AML/CTF legislative regulations, the following measures have been adopted:

- ◆ **NBG Governor's Decree No. 62/04 of 15 March 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Microfinance Organizations"**.
- ◆ **NBG Governor's Decree No. 64/04 of 20 March 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Lending Entities"**.
- ◆ **NBG Governor's Decree No. 65/04 of 20 March 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Currency Exchange Points"**.
- ◆ **NBG Governor's Decree No. 66/04 of 20 March 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Non-bank Deposit-Taking Institutions - Credit Unions"**.

- ◆ **NBG Governor's Decree No. 169/04 of 3 July 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Securities Registrars".**
- ◆ **NBG Governor's Decree No. 170/04 of 3 July 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Brokerage Companies".**
- ◆ **NBG Governor's Decree No. 187/04 of 26 July 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Asset Management Companies".**
- ◆ **NBG Governor's Decree No. 188/04 of 26 July 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Investment Funds".**
- ◆ **NBG Governor's Decree No. 196/04 of 31 July 2024 on "Approval of the Regulation on Completing AML/CTF Risk Supervision Reports and Submitting Information for Payment Service Providers".**

These decrees, along with their respective annexes, lay out the procedures for accountable persons to follow in completion of AML/CTF risk supervision reports. They establish the core principles that entities must adhere to when submitting these reports and meticulously regulate the timelines and procedures for their submission.

On 23 April 2024, the **NBG Governor's Decree No. 103/04 was adopted, titled "On Approval of the Regulation on the Use of the AML/CFT Remote Supervision Portal"**. This decree removes the requirement for reports submitted through the AML/CFT Remote Supervision Portal to be confirmed with an electronic signature (token). Consequently, supervised entities are no longer obligated to purchase the token needed for electronic signatures. Additionally, users of the portal will now receive three notifications about report submission deadlines, instead of the previous two.

Following this, the NBG issued the following:

- ◆ **On 25 June 2024, the NBG Governor's Decree No. 158/04 amended the previous Decree No. 313/04 of 10 November 2023 approving the "Regulation on Completing and Submitting AML/CTF Risk Supervision Reports for Commercial Banks".**
- ◆ **On 25 June 2024, the NBG Governor's Decree No. 159/04 amended the previous Decree No. 312/04 of 10 November 2023 approving the "Regulation on Completing and Submitting AML/CTF Risk Supervision Reports for Microbanks".**

As a result of these amendments, both commercial banks and microbanks can now upload their AML/CTF reports to the AML/CFT Remote Supervision Portal without the need for electronic/digital signature authentication.

CONSUMER RIGHTS PROTECTION

In response to Georgia's Law "On Consumer Rights Protection", the National Bank of Georgia has implemented several new decrees to clarify its authority in safeguarding consumer rights and legitimate interests within the financial sector. These measures aim to prevent violations, ensure effective enforcement of regulations, and establish appropriate responses and monetary fines for breaches. The following were adopted:

- ◆ **NBG Governor's Decree No. 6/04 of 18 January 2024 on "Making Amendments to the NBG Governor's Decree No. 242/01 of December 25, 2009, 'On Approval of the Regulation on Determining and Imposing Monetary Fines against Commercial Banks and Their Administrators'".**
- ◆ **NBG Governor's Decree No. 7/04 of 18 January 2024 on "Making Amendments to the NBG Governor's Decree No. 16/04 of February 5, 2020, 'On Approval of the Regulation on Determining, Imposing, and Enforcing Monetary Fines against Microfinance Organizations and Their Administrators'".**
- ◆ **NBG Governor's Decree No. 8/04 of 18 January**

2024 on "Making Amendments to the NBG Governor's Decree No. 218/04 of September 27, 2018, 'On Approval of the Regulation on Determining, Imposing, and Enforcing Monetary Fines for Lending Entities'".

- ◆ **NBG Governor's Decree No. 9/04 of 18 January 2024 on "Making Amendments to the NBG Governor's Decree No. 123/04 of June 21, 2023, 'On Approval of the Regulation on Determining and Imposing Monetary Fines against Microbanks and Their Administrators'".**

These regulations establish the amounts of monetary fines for violations of the respective requirements of the Law of Georgia on Consumer Rights Protection. The specific amounts of monetary fines are determined considering the current practices in consumer rights protection and the significance or severity of the violation.

On 29 May 2024, NBG Governor's Decree No. 131/04 was adopted. This decree amends the previous Decree No. 32/04 of 9 March 2021 approving the "Regulation on Protecting Consumer Rights in Providing Services by Financial Organizations".

The purpose of these changes is to bring Georgia's financial sector closer to the European Parliament and Council's Directive 2008/48/EC on consumer credit agreements and to address existing challenges in the financial sector. The new decree specifically defines the right to withdraw from remotely concluded contracts, along with exceptions outlining situations where this right does not apply. Additionally, it clarifies the right of withdrawal for specific loan agreements, regardless of the channel used to conclude the agreement. Crucially, the decree stipulates that information about the right to withdrawal, and its applicable conditions, must be explicitly included within the agreement itself.

The recent NBG decree also mandates that the header of any agreement must now clearly state whether the right to withdraw from the contract exists or not. Additionally, for loan agreements issued under the NBG Governor's Decree No. 44/04 of 13 March 2020, "On Approval of the Regulation on Lending to Individuals", the agreements must also include

information about the right to unconditionally extend the credit term, if such a right is available to the consumer.

Financial organizations now have a clarified obligation to make specific information about financial products accessible to consumers via internet /mobile banking, if these services are available. This includes paid/payable expenses related to the financial products the consumer is using; the interest rate and effective interest rate for specific financial products; and, for deposits, the minimum balance that accrues interest and whether interest is calculated on the end-of-day balance or the minimum balance during the month. Furthermore, the decree outlines the method for calculating the effective interest rate for specific financial products. It also establishes the obligation to update the values of interest rates and effective interest rates for specific financial products if their values change during a contract's term.

To avoid ambiguous interpretations, the NBG has clarified the definitions of "credit intermediary" and "total amount of credit". Consequently, **the NBG Governor's Decree No. 132/04 of 29 May 2024, was adopted. This decree amends Decree No. 194/04 of 27 August 2018 "On Defining the Effective Interest Rate for the Purposes of Article 625 of the Civil Code of Georgia, Calculating the Current Outstanding Principal Amount of a Loan, and Considering Commissions, Financial Expenses, Penalties, and/or Any Form of Financial Sanctions".** The amendments to the decree also specifically refine the definitions of "credit intermediary" and "total amount of loan".

REGULATION OF THE CREDIT INFORMATION BUREAU IN GEORGIA

To ensure the proper fulfillment of requirements established by the NBG Governor's Decree No. 195/04 of 27 August 2018 on the "Regulation on Information Provision to Credit Information Bureau, Information Registration, and Accessibility in Credit Information Bureau Databases on the Territory of Georgia" and to clarify the NBG's authority in imposing monetary fines for non-compliance (including repeated and

multiple instances) with its written instructions, the following decrees were adopted:

- ◆ **NBG Governor's Decree No. 12/04 of 23 January 2024 on "Amendments to the Decree of the Governor of the National Bank of Georgia No. 16/04 of February 5, 2020, on the Approval of the Regulation on Determining, Imposing, and Enforcing Monetary Fines for Microfinance Organizations and Their Administrators".**
- ◆ **NBG Governor's Decree No. 13/04 of 23 January 2024 on "Amendments to the Decree of the Governor of the National Bank of Georgia No. 218/04 of September 27, 2018, on the Approval of the Regulation on Determining, Imposing, and Enforcing Monetary Fines for Lending Entities".**

These decrees define the monetary fines issued for violations of written instructions from the National Bank of Georgia, and stem from the "Regulation on Information Provision to Credit Information Bureau, Information Registration, and Accessibility in Credit Information Bureau Databases on the Territory of Georgia", including cases of repeated and multiple non-compliance. The specific amounts of these monetary fines were determined based on existing practices and the significance or severity of the violations.

The Governor of the National Bank of Georgia's Decree No. 327/04 of 31 December 2024 on "Amendments to the Decree of the Governor of the National Bank of Georgia No. 193/04 of August 27, 2018, on the Approval of the Regulation on Registration, Deregistration, and Regulation of Credit Information Bureaus in the National Bank of Georgia" was also adopted. This decree introduced a new permissible activity for credit information bureaus: providing identification services for individuals (data subjects) through digital channels for lending organizations and information recipients/providers with whom the credit information bureau has a contractual relationship. This service is used for the purpose of obtaining an individual's (data subject's) consent for and verifying the information held about them in

the credit information bureau's database. Further, this decree also established that it is no longer mandatory to submit a technical audit report at the stage of registration with a credit information bureau/platform. The following new grounds for the deregistration of a credit information bureau/platform were defined: failure to conduct operations for 12 months from the date of registration and the cessation of operations for more than six months for an existing credit information bureau/platform. Moreover, a credit information bureau's obligation to insure its professional liability now explicitly includes cyber risk insurance.

The Governor of the National Bank of Georgia's Decree No. 328/04 of 31 December 2024, introduces significant changes to previous Decree No. 195/04 of 27 August 2018 on the "Regulation on Information Provision to Credit Information Bureaus, Information Registration, and Accessibility in Credit Information Bureau Databases on the Territory of Georgia". Previously, lending organizations were only obligated to provide information to the credit information bureau about all loans, credits, and off-balance sheet liabilities if the sum of the initial amounts of current liabilities did not exceed GEL 10,000,000, according to the official exchange rate of the National Bank of Georgia at the time of issuance. With the adoption of the new decree, this GEL 10,000,000 threshold has been abolished. Now, lending organizations are required to provide the credit information bureau with information on all loans, credits, and off-balance sheet liabilities of the data subject, regardless of the amount. Furthermore, lending organizations are obliged to provide information on all liabilities issued before the activation of this new regulation.

The decree also mandates stricter authentication procedures for obtaining consent or refusal remotely. When obtaining consent or refusal remotely, lending organizations must adhere to the requirements of Chapter II of the Regulation on the Approval of Strong Customer Authentication, as approved by the Governor of the National Bank of Georgia's Decree No. 156/04 of 2 September 2020. Alternatively, the authentication process for remote

consent/refusal can be conducted in a manner pre-agreed with the National Bank of Georgia.

To ensure compliance with personal data protection legislation, the amendments also impact the right of consumers (data subjects) to access information held about them by the credit information bureau. Specifically, consumers have the right to request and receive, free of charge and within the legally established timeframe, information held about them by the credit information bureau, either in material and/or electronic form. Additionally, for a service fee, consumers can receive instantly generated information through a special electronic portal and/or electronic application. Consumers will be able to receive this instantly generated information free of charge at least three times a year.

REGULATION OF FINANCIAL PLEDGES AND LAST-RESORT LENDING

The NBG Board's Resolution No. 1 of 8 April 2024, on the "Approval of the Regulation on the Management of Financial Pledges of the National Bank of Georgia" was adopted. This new decree supersedes the NBG Board's Resolution No. 3 of 4 April 2018, which previously regulated these matters. The new decree's provisions now extend beyond commercial banks to also cover microbanks. In addition, in line with the Georgian Law on Mortgage Bonds, mortgage bonds, as a new type of asset, have been added to the list of acceptable assets for financial pledges to the National Bank of Georgia. The new decree has also repealed the NBG Board's Resolution No. 2 of 31 August 2017 on the "Determination of Loan Security Types" as the provisions of the older resolution have been incorporated into the new regulation.

The NBG Board's Resolution No. 6 of 1 October 2024, on the Approval of the Rules and Conditions for Issuing Last-Resort Loans by the National Bank of Georgia was also adopted. This update was largely influenced by recommendations made by the International Monetary Fund and was based on sound international practices for ensuring financial system stability. With this renewed regulation, the NBG deemed it appropriate to annul the NBG

Board's Resolution No. 5 of 28 December 2020 on the "Approval of the Rules and Conditions for Issuing Last-Resort Loans".

Due to changes in the Organic Law of Georgia "On the National Bank of Georgia", certain provisions regulating last-resort loans now apply to microbanks, which has thus necessitated their inclusion in the new rules. The new decree covers several important matters, including the following:

- ◆ Requirements related to loan disbursement and repayment tranches, loan term, and interest rates have been clarified.
- ◆ The Financial Sector Supervision and Resolution Committees are now involved in the process of reviewing loan applications and submitting proposals to the NBG's Board.
- ◆ Additional haircut requirements have been introduced for foreign currency-denominated assets used to secure loans.
- ◆ Issues related to the realization of collateral and/or the use of an unconditional and irrevocable guarantee from the Ministry of Finance of Georgia in cases of loan non-repayment have been clarified.
- ◆ Beyond the assets defined in the "Regulation on the Management of Financial Pledges of the National Bank of Georgia" (as approved by the NBG Board's Resolution), any other assets can now be used as collateral for loans.

REGULATION OF INFORMATION PROCESSING

The NBG Board's Resolution No. 2 of 31 May 2024 introduces amendments to the "Regulation on Declaring Information Confidential, Rules for Its Disclosure, and the List of Confidential Information" as originally approved by the NBG Board's Resolution No. 4 of 1 November 2021.

This change was prompted by the adoption of the **Governor of the National Bank of Georgia's Decree No. 99/04 of 18 April 2024 on the "Approval of the Regulation on Publishing Information on Certain Measures Applied by the National Bank of Georgia on its Official Website"**. Under this new

decree, the NBG now publishes information about sanctions imposed not only for money laundering violations but also for breaches of consumer rights protection legislation, securities legislation, and other sanctions. The decree explicitly states that the publication of information regarding sanctions does not obligate the National Bank of Georgia to publish the legal act concerning the imposition of the sanction, administrative proceedings/inspection acts, or any other confidential information/documentation, nor does it remove the confidential status from such information/documentation.

Accordingly, the **"Regulation on Declaring Information Confidential, Rules for Its Disclosure, and the List of Confidential Information"**, approved by the NBG Board's Resolution No. 4 of 1 November 2021, now generally clarifies that the publication of information about sanctions imposed by the National Bank of Georgia, in accordance with the rules established by the NBG Governor's decree, does not imply an obligation for the National Bank of Georgia to publish the legal act regarding the imposition of the sanction, administrative proceedings/inspection acts, or any other related confidential information/documentation, nor does it remove the confidential status from such information/documentation.

Following the legislative changes made to the Organic Law of Georgia "On the National Bank of Georgia" concerning the Resolution Fund in 2023, the fund has transitioned from an ex-post mechanism (where commercial banks contributed only after temporary state financing was used in a resolution regime) to an ex-ante system. This means that, starting in 2025, commercial banks are obligated to begin making preliminary contributions to the Resolution Fund. Stemming from this legislative amendment, the Governor of the National Bank of Georgia's Decree No. 228/04 of 2 September 2024 approved the "Regulation on the Creation, Administration, and Investment of the Resolution Fund, Criteria for Imposing Preliminary Contributions to the Resolution Fund, and Rules for Making Preliminary Contributions". This regulation stipulates that the annual individual amount of the preliminary

contribution calculated for each commercial bank is confidential and accessible only to the respective commercial bank.

The NBG Board's 1 October 2024 Decree No. 5 of 1 October 2024 introduces an amendment to the "Regulation on Declaring Information Confidential, Rules for Its Disclosure, and the List of Confidential Information", which was originally approved by the NBG Board's Resolution No. 4 of 1 November 2021. In accordance with this new decree, information/correspondence regarding the individual contribution amounts determined for commercial banks in the Resolution Fund and the payments they have made to the fund have both been classified as first-category confidential information. **The NBG Board's Resolution No. 7 of 14 November 2024, introduces additional amendments to the aforementioned regulation.** The primary goal of this decree was to include information related to microbanks in the list of confidential information, similar to that for commercial banks. The decree also clarifies that statistical information about payment schemes as published on the NBG's website is not considered confidential, provided that the total annual volume of payment operations conducted in Georgia using payment instruments issued within that scheme exceeds 3% of the total annual volume of payment operations conducted in Georgia using the same type of payment instrument within other payment schemes. The need for the openness and accessibility of this information stems from the Georgian Law "On Payment Systems and Payment Services". The decree also defines a further exception: written instructions regarding compliance with requirements defined by the NBG's legal acts are not considered first-category confidential information.

In line with the Organic Law of Georgia on the National Bank of Georgia, information about sanctions imposed by the NBG is published on the official website according to the rules established by the NBG. The NBG is also authorized to publish information on its website about sanctions imposed for violations of securities legislation, again following its established rules. Furthermore, in accordance with the laws on Investment Funds

and Securitization, the supervisory authority has the right to publish information about the violating entity and the violation committed within the scope of its authority.

In alignment with the aforementioned rules and to ensure compliance with EU regulations, the National Bank of Georgia adopted **18 April 2024 Decree No. 99/04 of the Governor of the National Bank of Georgia on Approving the Regulation on Publishing Information on Certain Measures Applied by the National Bank of Georgia on its Official Website**. This decree establishes the rules for publishing information on the official website of the National Bank of Georgia regarding certain measures, specifically sanctions imposed by the NBG as a result of violations of requirements defined by Georgian legislation or written instructions from the National Bank of Georgia.

REGULATION OF FINANCIAL CONGLOMERATES

In fulfillment of the obligations undertaken within the framework of the Association Agreement between Georgia and the European Union and the European Atomic Energy Community and their member states, and for the purpose of regulatory approximation with Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002, Georgia adopted the Law of Georgia on Additional Supervision of Regulated Entities within a Financial Conglomerate. This law defines the authority for additional supervision of regulated entities within a financial conglomerate regarding capital adequacy/solvency margins, methods for calculating additional requirements, and grants supervisory bodies the power to issue legal acts concerning these methods. Furthermore, the law specifies the authority of supervisory bodies to issue joint acts.

Consequently, **Joint Decree No. 134/04/No. 65 was issued on 30 May 2024, by the Governor of the National Bank of Georgia and the Head of the State Insurance Supervision Service of Georgia, titled "On Approving the Regulation on Calculating Additional Requirements for Capital Adequacy/Solvency Margin of Regulated Entities**

within a Financial Conglomerate". This joint decree defines the technical principles for calculating additional requirements for the capital adequacy/solvency margin, outlining three possible methods of calculation: the accounting consolidation method, the deduction and aggregation method, and the combination method, along with their respective elements. Additionally, the decree stipulates the possibility for supervisory bodies to apply any supervisory measure and/or sanction in accordance with sectoral legislation in cases of a violation of the established requirements.

CHANGES IN COMPETITION POLICY

On 21 August 2024, the Governor of the National Bank of Georgia issued Decree No. 213/04, which amended Decree No. 68/04 of 28 May 2021, on "Approving the Regulation on Market Analysis and Submission and Review of Concentration Notifications". Under this new decree, the NBG will now examine not only concentrations but also operations in which one economic agent acquires the assets of another. This applies specifically when the acquiring economic agent is a commercial bank or a microbank, and certain conditions regarding the book value of the assets involved in the operation are met.

To improve the legal norms used in enforcing competition legislation, **the Governor of the National Bank of Georgia issued Decree No. 312/04 on 20 December 2024, which amends Decree No. 67/04 of 28 May 2021, on Approving the Regulation on Investigating Cases Related to Possible Competition Violations, and Submission and Review of Complaints/Applications**. This decree introduces several significant changes: it outlines the grounds for regulating and avoiding conflicts of interest between authorized persons of the National Bank of Georgia and economic agents; and clarifies procedural details for reviewing the admissibility of applications/complaints and on-site inspections, as well as the requisites for complaints. The composition of the case investigation group is now specified, mandating the participation of representatives from the NBG's Legal Department's Competition Division, with one representative from

the division designated as the group's chairperson. The rules for conducting meetings and making decisions by the case investigation group have also been updated. The decree clarifies the valid reasons for the non-appearance of individuals invited to hearings for explanations. Moreover, the rules for conducting summary meetings and making decisions by the NBG's Competition Committee have changed. The deadlines for sending the draft final decision to the parties and for parties to submit their written observations have been amended. The amount of monetary fine for obstructing an authorized representative of the NBG during an on-site inspection has been changed, and the procedure for drawing up an inspection report after the completion of an on-site inspection has been regulated. The decree outlines guarantees for protecting the confidentiality of data and information/documentation submitted by individuals participating in cooperation programs. It also clarifies the format of cooperation with the LEPL - Competition and Consumer Protection Agency of Georgia (due to a change in name, references to the "National Competition Agency of Georgia" throughout the full text of the decree have been replaced with "LEPL - Competition and Consumer Protection Agency of Georgia").

The Governor of the National Bank of Georgia also issued **Decree No. 311/04 on 20 December 2024, amending the previous Decree No. 68/04 of 28 May 2021 on approving the Regulation on Market Analysis and Submission and Review of Concentration Notifications**". This amendment ensures that the text of the decree refers to the "LEPL - Competition and Consumer Protection Agency of Georgia" instead of the former "LEPL - National Competition Agency of Georgia". Furthermore, the decree clarifies that in cases where the review period for a concentration notification is extended, the final decision, as well as any decisions on structural or behavioral measures, monetary fines, or supervisory measures, will be made by the Competition Committee of the National Bank of Georgia.

Following the 2020 amendments to the Organic Law of Georgia on the National Bank of Georgia and the

Law of Georgia on Competition, the National Bank of Georgia was granted the function of enforcing competition law in the financial sector. A primary element of this function is ensuring the review of concentration notifications in cases stipulated by law. Concentration control by competition enforcement bodies is practiced in over 140 jurisdictions worldwide. Its purpose is to prevent potential negative consequences that may arise from the consolidation of entities, which could ultimately harm consumer interests. The procedure for controlling concentrations, as defined by the Law of Georgia "On Competition", includes the right of the participating party/parties in a concentration to propose to the regulator the implementation of changes/modifications to the planned concentration (operation, transaction) in the form of structural and/or behavioral measures. The primary goal of such measures is to prevent legal violations, avoid or eliminate anti-competitive effects arising from concentrations, and maintain effective market competition.

To this end, a new guide titled "**Structural and Behavioral Measures in Concentration Control**" has been developed. The creation of this document fulfills a key recommendation from the joint mission of the International Monetary Fund and the World Bank's Financial Sector Assessment Program (FSAP), which focused on establishing a competitive environment in the financial sector. A specific recommendation called for the preparation of a guide on structural and behavioral measures during concentration control. The guide's purpose is to supplement existing competition legislation by outlining general principles, specific types of structural and behavioral measures, and the requirements for their implementation. These elements reflect EU best practices and are applied by leading competition authorities in advanced countries.

OTHER LEGAL ACTS

On 13 June 2024, the Board of the National Bank of Georgia issued Decree No. 3, which amended the Decree No. 1 of 26 July 2023 on Approving the Rules for Selection, Submission, Appointment,

Dismissal, and Remuneration of Members and Chairperson of the Disputes Review Commission at the National Bank of Georgia. Since its establishment, the Disputes Review Commission at the NBG has dealt with a rapid increase in the number of complaints, including complex cases that require extensive collection of information and evidence, not only from the complainant's payment service provider but also, in some instances, from other parties. This has led to growing demand for managing and coordinating the commission's activities. According to the law, the chairperson of the commission leads and generally coordinates its activities, presides over its sessions, and is responsible for ensuring compliance with the procedural rules for issuing legal acts and making decisions. Furthermore, it is important to note that members of the commission are not allowed to be employed by commercial banks, microfinance organizations, or payment service providers operating in Georgia, or by legal entities within groups that include such institutions, especially in managerial positions with high remuneration. Given these factors, it was deemed expedient to make changes related to the activities of the commission's chairperson.

18 December 2024 Decree No. 309/04 of the Governor of the National Bank of Georgia issued on Defining the Rules for Issuing Loans/Bank Credits up to GEL 500,000 by Lending Organizations. This decree was developed based on a decision made at the 27 November 2024 meeting of the National Bank of Georgia's Financial Stability Committee, which concerned increasing the threshold for unhedged foreign currency loans. While the de-dollarization efforts by the NBG have significantly reduced dollarization in the economy, dollarization and its associated structural risks remain a key challenge for the financial sector. In line with its declared policy, the National Bank of Georgia, in coordination with the industry and in consideration of the macroeconomic environment and risks, continues to implement its long-term de-dollarization plan. According to the decision of the Financial Stability Committee, the threshold for unhedged foreign currency loans was therefore increased from GEL 400,000 to GEL 500,000.

14 November 2024 Decree No. 8 of the Board of the National Bank of Georgia amending the Decree No. 10 of 30 November 2023 on Approving the Rules for the Sale of Lari Banknotes/Coins, Gold Bullion, and Numismatic Valuables was adopted. The purpose of this decree is to promote gold investment in Georgia and improve the conditions offered for gold bullion and coins to interested parties. The resolution reduced the minimum commission surcharge for the sale of investment coins and gold bullion from 3% to 0.1%. This change allows for the imposition of a minimal commission surcharge when selling large volumes of gold bullion and/or coins, which, in turn, helps create a more attractive investment environment in this area. The resolution also stipulates that, in the case of gold bullion, the pre-order conditions set by the head of the National Bank of Georgia may include conditions different from those specified in the "Regulation on the Sale of Lari Banknotes/Coins, Gold Bullion, and Numismatic Valuables".

25 December 2024 Decree No. 9 of the Board of the National Bank of Georgia on Approving the Regulation on the Destruction of Lari Banknotes and Coins was adopted. This decree became necessary because the National Bank of Georgia recently acquired new equipment for the destruction of unfit Lari coins. The operating principle of this new decree significantly differs from the destruction procedure for Lari banknotes and coins previously defined by Decree No. 5 of 28 May 2018. Specifically, this new destruction aggregate allows for the comparison and control of the weight of Lari coins loaded for destruction against the weight of the secondary raw material (scrap) obtained from their destruction. Consequently, there is no longer a need for the commission to count Lari coins individually. It was therefore deemed appropriate for the destruction of unfit Lari coins to be carried out by a commission created by the Governor of the National Bank of Georgia, without individual counting.

Unlike the old regulation on Lari banknote and coin destruction, the new decree also outlines the process for transferring the raw material (scrap) received in sealed boxes after the destruction of coins to the relevant structural unit of the National Bank of

Georgia. Furthermore, the new decree has refined and restructured the regulation, with separate articles detailing the main principles for the automatic and/or commission-based destruction of banknotes and the commission-based destruction of coins.

13 August 2024 Decree No. 4 the Board of the National Bank of Georgia adopted on the Issuance of 100 Lari Denomination Banknotes of the 2024 Issue into Circulation.

It is important to note that the National Bank of Georgia systematically fulfills the demand for cash in circulation and takes appropriate measures to withdraw obsolete banknotes and ensure their renewal. To ensure the uninterrupted satisfaction of cash demand and to replenish reserve stocks, the National Bank of Georgia produced a certain stock of 100 Lari banknotes of 2024 issue. These banknotes have an identical design and security features to the 2020 issue of the same denomination.

11 April 2024 Decree No. 80/04 on amending the Decree No. 92/04 of 3 May 2023 regarding the approval of regulations on participation in open banking was issued. This decree stipulates that microbanks, similar to commercial banks, will become participants in open banking, and the rights and obligations specified in this decree will

apply to them. The amendments also added asset management companies to the list of entities eligible to participate in open banking. Furthermore, to simplify the process and ensure transparency for the entities specified in the regulations approved by the decree, the minimum criteria that a banking guarantee submitted to the National Bank of Georgia by an entity must meet were defined.

1 February 2024 Decree No. 20/04 on approving the regulation on Internships and Practical Training at the National Bank of Georgia was adopted.

This decree provides the National Bank of Georgia with the opportunity to prepare highly qualified personnel, aiming to develop their professional skills, practical abilities, and adaptation to the work environment. The decree outlines the procedure for accepting a student who has completed the first-level of higher education or a person with higher education as an intern, and a student of the first and second-levels of higher education as a trainee. The decree also specifies the list of documents required for internships and practical training, the rights and obligations of interns/trainees, the terms of internships and practical training, and the functions and obligations of the intern/trainee mentor. Additionally, the decree addresses the confirmation and completion of internships and practical training.





STATISTICAL ACTIVITY

In 2024, significant improvements and refinements were made to the production of monetary and financial statistics, largely driven by the implementation of Microsoft Power BI, a data visualization and analysis platform. Additionally, during the first half of 2024, experts from the International Monetary Fund visited the National Bank of Georgia as part of a technical assistance mission focused on the production of monetary statistics. Addressing the recommendations received during the mission's working meetings are expected to positively impact future statistical activities. Throughout the year, in accordance with the developed plan, monthly financial data submitted by commercial banks to the NBGStat system were updated based on the methodology of the International Financial Reporting Standards (IFRS). In addition, technical work and system testing for expanding the monthly data family of remittances were successfully completed.

Over the past six years, the National Bank of Georgia utilized the BI Tableau platform for data visualization and analysis. However, in recent years, the increasing volume of statistical data collected from the financial sector necessitated the search for a new BI platform that could meet the updated technical requirements. A market research strategy was thereby developed to identify a BI platform that would satisfy the following key functional requirements:

- ◆ Compatibility with the data imported from databases on the NBG's SQL servers, processed with pre-written code.
- ◆ Full integration capability with Python and R programming languages for building data

interaction-based models.

- ◆ Ability to create modern and diverse interactive dashboards for visual data interpretation.
- ◆ Capability to migrate, store, and process data using cloud technologies.

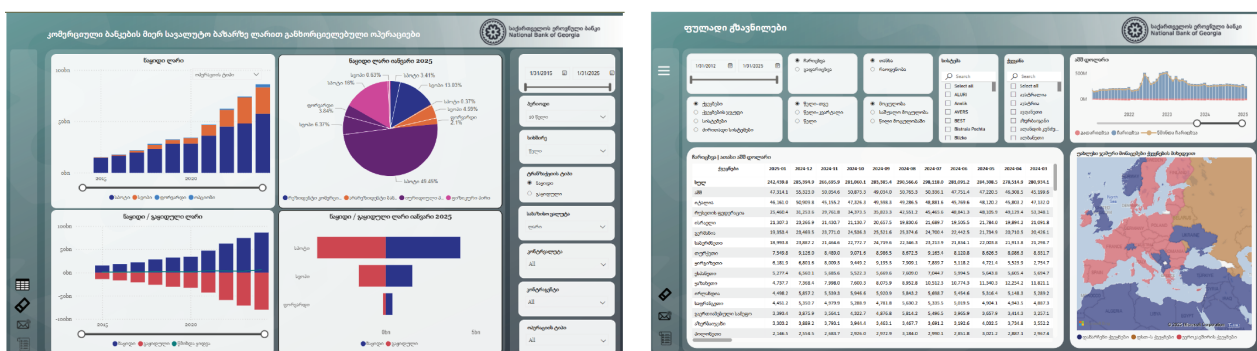
Additionally, the cost of BI platform operation services was a significant consideration during the market research, especially considering that the cost of the existing BI-Tableau platform would have significantly increased upon contract renewal.

Based on the results of this market research, the Microsoft Power BI platform was selected as it fully met the NBG's primary requirements and offered lower implementation and operational service tariffs compared to its competitors on the market.

In September 2024, a winning company (Intelligence LLC) was identified through a tender process, and the implementation of the Microsoft Power BI platform began, lasting for two months. The Monetary Statistics Division was involved in the implementation process and helped ensure the modification and migration of interactive reports, both those published on the NBG's website and prepared for internal use, to the new BI platform within a limited timeframe.

In an effort to improve data quality, the NBG maintains close, collaborative and mutually beneficial relationships with commercial banks. Accordingly, individual spaces were created in the Microsoft Power BI cloud environment for each commercial bank in Georgia to share their statistical data, and interactive reports were deployed. The

DIAGRAM 18.1 REPORTS PUBLISHED WITH INTERACTIVE STATISTICS ON THE NBG'S WEBSITE



Microsoft Power BI system allowed for the addition of an unlimited number of licensed external users to a commercial bank's individual space, where access roles were defined based on each user's access status. The powerful functionality, user-friendly interface, and cost-effective service offered by Microsoft Power BI's cloud technology ecosystem thus made it a justified choice for data processing, analysis, and reporting improvements, as well as for addressing modern challenges.

To deepen cooperation, a technical assistance mission from the International Monetary Fund periodically visits the National Bank of Georgia. In April 2024, as part of such a mission, a group of experts visited the NBG to implement updated methodological approaches in the production of Financial Soundness Indicators and Monetary and Financial Statistics. Over two weeks, intensive working meetings were held with the participation of employees from the Monetary Statistics Division. The necessary mapping tables for the production of both the NBG's sectoral balance (1SR) and the consolidated sectoral balance of commercial banks (2SR) were updated to meet the standards required by the IMF. The pivot tables for the consolidated sectoral balance of insurance companies and microfinance organizations (4SR) were also modified. Additionally, the financial data of the Pension Agency were incorporated into the production of the consolidated sectoral balance of the non-bank financial sector (4SR).

A broad discussion took place to expand the scope of data used for the production of Financial Accounts, involving representatives from the Accounting, Reporting, and Auditing Supervision Service, the State Insurance Supervision Service of Georgia, the National Statistics Service of Georgia, and the Ministry of Finance. The discussion focused on obtaining data from non-financial and government sectors based on appropriate methodological approaches, assessing it, and incorporating it into the financial account. Furthermore, the current method for producing Financial Soundness Indicators (FSIs) was evaluated and was determined to meet the criteria set by the IMF. The mapping tables for FSI production were updated, and a new

indicator for analyzing residential real estate prices was created. New indicators were added to the reporting for other financial corporations, insurance corporations, and pension funds. The prospects for obtaining the data necessary to create FSIs for non-financial corporations were also discussed.

It is significant to note that, based on the statistical data periodically obtained by the NBG from various sources and the potential for obtaining data from non-financial and government sectors in relevant contexts, the IMF experts assessed the potential for the fully fledged production of balance sheet approach reports. This approach is widely used to assess a country's financial vulnerability, monitor risks in the banking and private sectors, and identify potential risks associated with both foreign currency-denominated and short-term liabilities.

Since January 2023, commercial banks have been tasked with reconciling their monthly financial data according to the methodology of the International Financial Reporting Standards (IFRS) and aligning the data uploaded to the NBGStat system with those standards. Throughout 2024, periodic consultations were held with commercial banks regarding technical and methodological issues, resulting in a complete update of the data by the end of the year. The validation process for the updated data is currently underway, and upon completion, the plans are to update the reports published on the NBG's website for public use.

The testing process for the updated remittance data family in the NBGStat environment proceeded successfully throughout 2024 and has entered its final phase. The commercial banks and microfinance organizations involved in this process successfully arranged their technical infrastructure for producing updated data and generated data packages in accordance with the NBG's requirements. Based on the updated remittance data, it will be possible to analyze both the volume of remittances and the number of transactions across various dimensions, such as the sectoral distribution of parties involved in transactions, age groups, and the geographical location of remittance receipts at the municipal

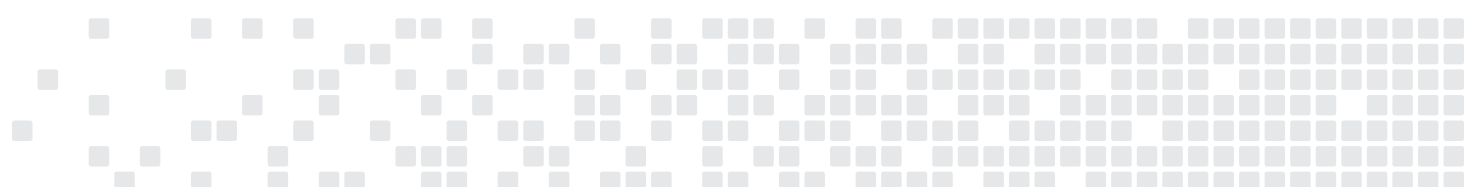
level. The implementation of the updated remittance data family will play a significant role in analysis of the volume of foreign currency remittances in the country.

In 2024, in collaboration with the Securities Market Supervision Department, plans were developed to prepare interactive reports on bonds issued in Georgia. The report was initially prepared in the BI-Tableau environment and, following successful completion of the testing process, was published on the NBG's website. Currently, the migration and modification of the report to the Microsoft Power BI environment are underway, with its deployment on the website planned for April 2025.

In response to contemporary challenges in the production and dissemination of statistical data, plans were developed to replace the traditional tabular format of statistical data published on the NBG's website with a modern, digital technology-based data exchange method using an API (Application Programming Interface). An API serves as a means of sharing data over the internet or within a system, acting as an intermediary that allows one program to request data or services from another

using predefined rules and protocols. APIs use standard formats such as JSON or XML for sending and receiving data, ensuring seamless integration across different platforms. For example, an API can connect Microsoft Power BI to external data sources for real-time data analysis.

The statistical products resulting from the activities of the National Bank of Georgia have consistently garnered significant interest from both domestic and international users. Therefore, the NBG continually strives to provide information produced in accordance with modern trends in the field of statistics and to ensure data accessibility through both traditional and modern channels of information exchange. To achieve these goals, the NBG has replaced the current BI-Tableau platform with Microsoft Power BI, planned the development of an API method for data exchange, modified the NBGStat system to expand data families, increased the scope of data for the production of Financial Accounts, and undertaken other significant tasks. These initiatives enhance the diversity of the statistics produced by the NBG and serve to further increase the interest of users.





CYBERSECURITY

INFORMATION AND CYBERSECURITY

Given the core functions of the NBG, information and cybersecurity are crucial issues. The Security Department of the NBG continuously implements measures to ensure this security.

To enhance the effectiveness of information and cybersecurity and optimize processes, an organizational change was made that saw the cybersecurity team from the Information Technology Department be transferred to the Security Department.

During the year, the Security Department successfully conducted an audit process for the Information Security Management System, which aims for ISO 27001 certification. The audit was carried out by the German certification body TUV SUD. On this occasion, the NBG underwent certification according to the updated standard – the ISO/IEC 27001:2022 version.

The coverage of the privileged user access monitoring and logging system implemented in the NBG has been increasing year by year. This system allows for the authorization and monitoring of privileged access to the NBG's critical infrastructure.

An assessment process was conducted to determine compliance with the requirements of the SWIFT Customer Security Program. The Information and Cybersecurity Division actively participated in this process along with other departments of the National Bank. The requirements specified by the program were met, there was full protection of system security and high resilience.

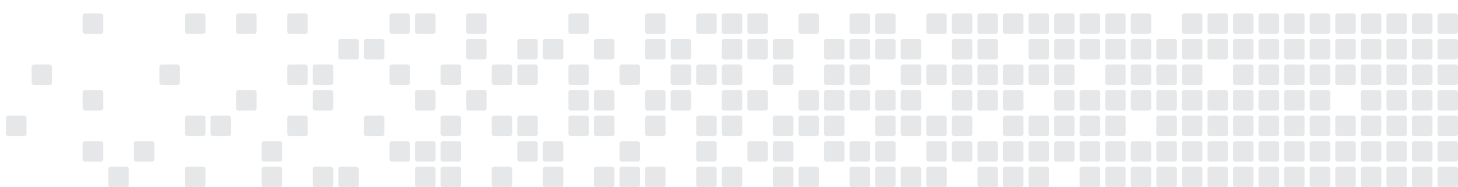
In 2024, the Information and Cybersecurity Division conducted mandatory cybersecurity awareness training across the entire bank. Special attention was given to incident management and other contemporary challenges in the field of information security. Additionally, a phishing simulation was conducted to test the level of cyber awareness among employees and their response time to incidents.

Personal Data Protection

Significant steps have been taken to develop and improve the legal framework for personal data protection. Specifically, the "*Regulation on the Protection of Personal Data Owned by the National Bank of Georgia*" and the "*Regulation on Conducting Audio Monitoring at the National Bank of Georgia*" were approved. Additionally, a document for the inventory of personal data at the National Bank of Georgia was developed.

Several important project data protection policies were reviewed and refined. In this regard, it is noteworthy that, to ensure the principle of transparency, forms for obtaining informed consent from data subjects were developed within the framework of various projects in accordance with the standards specified by the relevant legislation. Additionally, draft agreements were prepared that will be concluded with authorized persons.

In 2024, to raise employee awareness, training sessions were conducted both for members of the Personal Data Protection Working Group and other employees of the NBG. These sessions covered essential issues related to the lawful processing of personal data.





FINANCIAL STATEMENTS

Statement of Management’s Responsibilities for the Preparation and Approval of the Financial Statements For the Year Ended 31 December 2024	270
Independent Auditors’ Report	271 - 272
Financial Statements for the Year Ended 31 December 2024:	
Statement of profit or loss and other comprehensive income	273 - 274
Statement of financial position	275 - 276
Statement of changes in equity	277
Statement of cash flows	278
Notes to the financial statements	279 - 323

NATIONAL BANK OF GEORGIA

**STATEMENT ON MANAGEMENT RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024**

Management is responsible for the preparation of the financial statements that present fairly the financial position of the National Bank of Georgia (the “Bank”) at 31 December 2024, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with IFRS Accounting Standards as issued by International Accounting Standards Board (“IFRS Accounting Standards”).

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2024 were authorized for issue on 17 April 2025 by the Council of the Bank.

On behalf of the Council of the Bank:

Chairman of the Council

Natela Turnava

**Head of Finance and Accounting
Department
Andria Manelashvili**



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Independent Auditors' Report

To the Council of the National Bank of Georgia

Opinion

We have audited the financial statements of the National Bank of Georgia (the "Bank"), which comprise the statement of financial position as at 31 December 2024, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants 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 financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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



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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

Nino Chikhladze



KPMG Georgia LLC
17 April 2025

NATIONAL BANK OF GEORGIA
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2024
(in thousands of Georgian Lari)

	Notes	Year ended 31-Dec-24	Year ended 31-Dec-23
Interest income from international reserves			
Cash and cash equivalents		82,203	82,532
Investments measured at fair value through other comprehensive income ("FVOCI")		309,042	351,290
Other		47,936	45,818
		439,181	479,640
Interest income from monetary policy operations			
Due from resident financial institutions		334,180	143,176
Investments measured at fair value through other comprehensive income		175,679	214,429
		509,859	357,605
Other interest income			
Investments measured at amortised cost		4,356	8,488
		4,356	8,488
Total interest income calculated using the effective interest rate method			
		953,396	845,733
Interest expense from monetary policy operations			
Debt securities issued		(5,124)	(6,063)
Due to resident financial institutions		(90,237)	(100,317)
		(95,361)	(106,380)
Other interest expenses			
Due to the International Monetary Fund		(101,102)	(102,343)
Due to customers		(714)	(1,544)
Interest expense on lease liabilities		(286)	(119)
		(102,102)	(104,006)
Total interest expense			
		(197,463)	(210,386)
NET INTEREST INCOME			
		755,933	635,347
Impairment recovery/(charge)	29	821	(1,542)
NET INTEREST INCOME AFTER IMPAIRMENT CHARGES			
		756,754	633,805
Net gains/(losses) from foreign currencies:			
<i>Unrealized gain from revaluation of Foreign Currencies</i>	8	447,385	59,689
<i>Dealing gains</i>		13,120	15,115
Fee and commission income	4	5,410	6,044
Fee and commission expense	4	(5,872)	(3,077)
Net realized losses on instruments measured at fair value through other comprehensive income		(29,097)	(75,098)
Net realized gains on financial instruments measured at fair value through profit or loss		16,766	5,345
Net unrealized loss on financial instruments measured at fair value through profit or loss		(13,370)	(17,384)
Other revenue	5	429,250	11,796
NON-INTEREST INCOME, NET			
		863,592	2,430

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

NATIONAL BANK OF GEORGIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024 (CONTINUED)

(in thousands of Georgian Lari)

	Notes	Year ended 31-Dec-24	Year ended 31-Dec-23
Personnel expenses	6	(59,443)	(44,102)
General and administrative expenses	6	(19,251)	(15,676)
Money printing expenses		(17,076)	-
Depreciation and amortization	6	(8,034)	(7,493)
Other expenses	5	(412,381)	(9,806)
NON-INTEREST EXPENSES		(516,185)	(77,077)
PROFIT FOR THE YEAR		1,104,161	559,158
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of investments measured at fair value through other comprehensive income		21,342	47,602
Net change in fair value of investments measured at fair value through other comprehensive income reclassified to profit or loss		29,097	75,098
Total other comprehensive income		50,439	122,700
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,154,600	681,858

The financial statements as set out on pages 12 to 56 were approved by management on 17 April 2025 and were signed on behalf of the Council of the Bank by:

Chairman of the Council
Natela Turnava

Head of Finance and Accounting Department
Andria Manelashvili

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

NATIONAL BANK OF GEORGIA

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2024

(in thousands of Georgian Lari)

	Notes	31-Dec-24	31-Dec-23
ASSETS:			
Foreign currency assets			
International reserves			
Cash and cash equivalents	7	3,289,907	2,123,328
Monetary Gold	8	1,681,645	-
Special Drawing Rights holdings with the International Monetary Fund	10	1,273,804	1,214,799
Assets related to derivative instruments	11	5,488	15,738
Investments measured at fair value through profit or loss	12	291,431	272,264
Investments measured at fair value through other comprehensive income	13	5,944,958	9,846,621
Other foreign currency assets			
Other assets	18	2,545	1,345
		12,489,778	13,474,095
National currency assets			
Monetary policy instruments			
Due from resident financial institutions	9	7,003,577	3,738,771
Assets related to derivative instruments	11	2,520	-
Investments measured at fair value through other comprehensive income	13	1,871,247	2,668,266
Other national currency assets			
Investments measured at amortised cost	14	41,010	81,194
Right-of-use assets	15	8,435	483
Property and equipment	16	86,704	51,575
Intangible assets	17	10,058	9,234
Other assets	18	11,649	12,481
		9,035,200	6,562,004
TOTAL ASSETS		21,524,978	20,036,099

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

NATIONAL BANK OF GEORGIA

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2024 (CONTINUED)

(in thousands of Georgian Lari)

	Notes	31-Dec-24	31-Dec-23
LIABILITIES AND EQUITY:			
LIABILITIES:			
Foreign currency liabilities			
Monetary policy instruments			
Due to resident financial institutions	19	6,369,707	4,312,166
Other foreign currency liabilities			
Due to resident financial institutions	19	17,835	14,040
Due to the Ministry of Finance of Georgia	20	428,426	753,038
Due to the International Monetary Fund	10	2,259,246	2,339,583
Other liabilities	17	66,195	35,051
		9,141,409	7,453,878
National currency liabilities			
Money issued in circulation	22	6,617,018	5,934,138
Monetary policy instruments			
Debt securities issued	23	59,384	59,225
Due to resident financial institutions	19	695,619	1,758,885
Liabilities related to derivative instruments	11	2,143	-
Other national currency liabilities			
Due to the Ministry of Finance of Georgia	20	1,018,824	1,692,692
Due to the International Monetary Fund	10	1,870	1,780
Due to customers	21	1,528	7,578
Other liabilities	18	686,511	311,705
		9,082,897	9,766,003
TOTAL LIABILITIES		18,224,306	17,219,881
EQUITY:			
Capital		15,000	15,000
Reserve fund		1,153,535	1,153,535
Foreign currency revaluation reserve		2,127,565	1,680,180
Other revaluation reserve		17,929	31,299
Revaluation reserve of investments measured at fair value through other comprehensive income		(13,357)	(63,796)
Retained earnings		-	-
TOTAL EQUITY	24	3,300,672	2,816,218
TOTAL LIABILITIES AND EQUITY		21,524,978	20,036,099

The financial statements as set out on pages 12 to 56 were approved by management on 17 April 2025 and were signed on behalf of the Council of the Bank by:

Chairman of the Council
Natela Turnava

Head of Finance and Accounting Department
Andria Manelashvili

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

NATIONAL BANK OF GEORGIA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

	Capital	Reserve fund	Foreign currency revaluation reserve	Other revaluation reserve	Revaluation reserve of investments measured at FVOCI	Retained earnings	Total equity
1-Jan-23	15,000	939,559	1,620,491	48,683	(186,496)	-	2,437,237
Total comprehensive income							
Profit for the year	-	-	-	-	-	559,158	559,158
Other comprehensive income							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Net change in fair value of investments measured at fair value through other comprehensive income during the year	-	-	-	-	47,602	-	47,602
Net change in fair value on investments measured at fair value through other comprehensive income reclassified to profit or loss	-	-	-	-	75,098	-	75,098
Total other comprehensive loss	-	-	-	-	122,700	-	122,700
Total comprehensive income for the year	-	-	-	-	122,700	559,158	681,858
Transactions recorded directly in equity							
Transfer to the Ministry of Finance from 2023 profit under the Law* (Note 24)	-	-	-	-	-	(302,877)	(302,877)
Transfer to reserve fund from 2023 profit under the Law* (Note 24)	-	213,976	-	-	-	(213,976)	-
Transfer to foreign currency revaluation reserve under the Law* (Note 24)	-	-	59,689	-	-	(59,689)	-
Transfer from other revaluation reserve under the Law* (Note 24)	-	-	-	(17,384)	-	17,384	-
Total transactions recorded directly in equity	-	213,976	59,689	(17,384)	-	(559,158)	(302,877)
31-Dec-23	15,000	1,153,535	1,680,180	31,299	(63,796)	-	2,816,218
Total comprehensive income							
Profit for the year	-	-	-	-	-	1,104,161	1,104,161
Other comprehensive income							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Net change in fair value of investments measured at fair value through other comprehensive income during the year	-	-	-	-	21,342	-	21,342
Net change in fair value on investments measured at fair value through other comprehensive income reclassified to profit or loss	-	-	-	-	29,097	-	29,097
Total other comprehensive income	-	-	-	-	50,439	-	50,439
Total comprehensive income for the year	-	-	-	-	50,439	1,104,161	1,154,600
Transactions recorded directly in equity							
Distribution to the Ministry of Finance from 2024 profit under the Law* (Note 24)	-	-	-	-	-	(670,146)	(670,146)
Transfer to foreign currency revaluation reserve under the Law* (Note 24)	-	-	447,385	-	-	(447,385)	-
Transfer from other revaluation reserve under the Law* (Note 24)	-	-	-	(13,370)	-	13,370	-
Total transactions recorded directly in equity	-	-	447,385	(13,370)	-	(1,104,161)	(670,146)
31-Dec-24	15,000	1,153,535	2,127,565	17,929	(13,357)	-	3,300,672

* Organic Law of Georgia on the National Bank of Georgia

The financial statements as set out on pages 12 to 56 were approved by management on 17 April 2025 and were signed on behalf of the Council of the Bank by:

Chairman of the Council
Natela Turnava

Head of Finance and Accounting Department
Andria Manelashvili

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

NATIONAL BANK OF GEORGIA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

	Notes	Year ended 31-Dec-2024	Year ended 31-Dec-2023
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		882,949	672,866
Interest paid		(199,645)	(204,662)
Fees and commissions received		5,410	6,044
Fees and commissions paid		(5,872)	(3,077)
Net realized gains on financial instruments at fair value through profit or loss		-	8,324
Net realized gains from dealing in foreign currencies		13,120	15,116
Other revenue received		429,180	8,597
Other expenses paid		(410,360)	(10,503)
Personnel expenses paid		(59,443)	(44,102)
Cash paid for printing money		(17,200)	(4,520)
Other general and administrative expenses paid		(12,542)	(13,284)
Net cash inflow from operating activities before changes in operating assets and liabilities		625,597	430,799
<i>Net (increase)/decrease in operating assets:</i>			
Due from resident financial institutions		(3,261,837)	(283,130)
Special Drawing Rights holdings with the International Monetary Fund		(38,106)	35,121
Assets measured at fair value through profit or loss		(1,014)	(403)
Other assets		(1,720)	(9,431)
<i>Net increase/(decrease) in operating liabilities:</i>			
Money issued in circulation		682,880	893,591
Due to resident financial institutions		846,514	(829,577)
Due to the Ministry of Finance of Georgia		(991,091)	640,552
Due to customers		(6,050)	391
Liabilities related to derivative instruments		2,143	(1,649)
Other liabilities		22,347	31,383
Net cash (outflow)/inflow from operating activities		(2,120,337)	907,647
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(39,808)	(1,480)
Purchase of intangible assets		(2,945)	(6,378)
Increase in right-of-use assets		(2,300)	-
Purchase of monetary gold		(1,362,109)	-
Purchase of investments measured at fair value through other comprehensive income		(5,042,878)	(14,224,651)
Proceeds from redemption and sale of investments measured at fair value through other comprehensive income		10,083,488	12,167,258
Net cash from/(used in) investing activities		3,633,448	(2,065,251)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Transfer to the Ministry of Finance of Georgia	24	(302,877)	(462,780)
Debt securities issued		255,034	254,027
Debt securities redeemed		(255,361)	(254,495)
Repayment of lease liability		(924)	(1,057)
Repayments to the International Monetary Fund	10, 27	(110,575)	(79,863)
Net cash used in financing activities		(414,703)	(544,168)
CASH AND CASH EQUIVALENTS, at the beginning of the year			
	7	2,123,328	3,867,452
Net cash flow from Operating, Investing and Financing Activities		1,098,408	(1,701,772)
Effect of exchange rates changes on cash and cash equivalents		68,171	(42,352)
CASH AND CASH EQUIVALENTS, at the end of the year	7	3,289,907	2,123,328

The financial statements as set out on pages 12 to 56 were approved by management on 17 April 2025 and were signed on behalf of the Council of the Bank by:

Chairman of the Council
Natela Turnava

Head of Finance and Accounting Department
Andria Manelashvili

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 *(in thousands of Georgian Lari)*

1. ORGANIZATION

The National Bank of Georgia (the “Bank”) is the central bank of Georgia and the banker and fiscal agent of the Government of Georgia. The Bank was founded on 2 August 1991 based on the law of Republic of Georgia “On the National Bank of Republic of Georgia”. Currently, the Bank operates in accordance with the Organic Law of Georgia “On the National Bank of Georgia” enacted effective 1 December 2009 (the “Law”).

The responsibilities of the Bank focus on the goals of price stability, financial system stability and efficiency, national currency issuance, and efficient management of international reserves. These responsibilities are carried out as part of the broad functions described below.

Monetary policy

The main objective of the monetary policy of the Bank is to maintain price stability. Price stability implies the existence of a moderate and predictable rate of inflation, which is a necessary precondition for long run economic growth. Furthermore, the Bank supports financial system stability and promotes the country’s economic growth as long as the latter objectives do not contradict its main goal – maintaining price stability. Monetary and exchange rate policies serve the objective of preserving the purchasing power of the national currency, raising the growth potential of gross domestic product, and improving the investment climate.

Supervision and financial stability

The main objective of the Bank is to ensure the stability and efficiency of Georgia’s financial system. In achieving those objectives, the Bank is responsible for the supervision and regulation of separate participants on the financial market – commercial banks, micro banks, banking groups, non-bank depository institutions, micro-finance organisations, independent securities registrars, brokerage companies (except for insurance brokerage companies), the stock exchange, central depository, specialised depository, asset management companies, publicly accountable enterprises, foreign currency exchange offices, investment funds, payment system operators, payment service providers, credit information bureaus, loan issuing institutions, virtual asset service providers and the Pension Agency of Georgia.

Within the relevant regulatory framework, the National Bank of Georgia supports the protection of consumer and investor rights. Moreover, the Bank, with the involvement of different stakeholders from the Government institutions, the private financial sector and civil society has developed the National Strategy of Financial Education as a complement to financial consumer protection and inclusion efforts, with a view to supporting financial stability and financial well-being of individuals.

Currency issuance

The Bank is the only body in the country authorized to issue Georgian Lari banknotes and coins on the territory of Georgia. The Bank determines the design, composition and other features of the Georgian Lari banknotes and coins, printed and minted by leading international suppliers.

International reserve management

The Bank maintains a portfolio of foreign currency reserves for policy and operational purposes, for instance, to protect the country from external vulnerability by maintaining sufficient liquidity to absorb shocks during a financial crisis and to support day-to-day foreign currency payment needs of the Georgian Government and those of the Bank.

Payment systems

The Bank operates the largest payment system in the country – the Real Time Gross Settlement (RTGS), which processes and settles interbank and Government payments in the national currency.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Governance

As at 31 December 2024 and 2023, the members of the Council of the Bank (the "Council") were as follows:

Position	Name (2024)	Name (2023)
Chairman	Ms. Natela Turnava (Acting Governor, first Vice-governor)	Ms. Natela Turnava (Acting Governor, first Vice-governor)
Member	Ms. Ekaterine Galdava (Vice-governor)	Ms. Ekaterine Galdava (Vice-governor)
Member	Ms. Ekaterine Mikabadze (Vice-governor)	Ms. Ekaterine Mikabadze (Vice-governor)
Member	Ms. Nana Keinishvili	Ms. Nana Keinishvili
Member	Mr. Teimuraz Khomeriki	Mr. Teimuraz Khomeriki

The Council is defined to consist of 9 members. As at 31 December 2024, position of 4 members of the Council was vacant (2023: 4 positions).

Ms. Natela Turnava is Governor and head of the Council as of the date of issuance of these financial statements (see also note 30).

The Bank's main office is located at 1 Zviad Gamsakhurdia Embankment, 0114, Tbilisi, Georgia. As at 31 December 2024 and 2023, the Bank operated one cash service center. The Bank employed 626 and 601 personnel as at 31 December 2024 and 2023, respectively.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by International Accounting Standards Board ("IFRS Accounting Standards").

Presentation of these financial statements is framed within an economic and accounting framework that fairly reflects the financial position of the Bank, and at the same time, contributes to the economic analysis of the Bank's operations. Assets and liabilities within the statement of financial position are segregated as captions of foreign and national currencies, which better reflects economics and risks underpinning the Bank's operations. The Bank's assets in foreign currencies are mainly related to its international reserve management function. At the same time, the Bank's assets and liabilities in national currency are mainly recognised as a result of operations related to the conduct of monetary policy, issue of money in circulation and other functions of the Bank, as defined under the Law. For these reasons, the economic concepts of international reserves and monetary policy are additionally grouped under the sub-captions "international reserves" and "monetary policy instruments", respectively. Statement of Profit or Loss and Other Comprehensive Income separately presents interest income/expenses and non-interest income/expenses by functional operations of the Bank. Statement of cash flows is presented using the direct method.

Basis of measurement

These financial statements are prepared on the historical cost basis, except for financial instruments measured at fair value through profit or loss, investments measured at fair value through other comprehensive income and monetary gold, which is measured at fair value through profit or loss.

Monetary Gold

In establishing its definitions and accounting and presentation treatment for monetary gold, the Bank realizes that IFRS Accounting Standards does not provide any specific guidance in this regard. Therefore the bank applies provisions of paragraphs 10-12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to establish its own approach considering international practices.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

Functional and presentation currency

The Bank's main objective is to maintain price stability, which implies that open-market operations play a significant role in the development of the monetary policy, accordingly, its main activity is the issuance of banknotes and coins in Georgian Lari, which is the national currency of Georgia and which has been defined as the functional and presentation currency for the purpose of preparing these financial statements. Consequently, all balances and transactions denominated in currencies, other than the Georgian Lari are considered as denominated in "foreign currency". These financial statements are presented in thousands of Georgian Lari ("GEL"), except when otherwise indicated.

All financial information presented in GEL has been rounded to the nearest thousands, expect when otherwise indicated.

3. MATERIAL ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

Financial Instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

The Bank's portfolio of financial instruments comprise Georgian Lari-denominated securities, foreign government, supranational or agency securities, interest rate futures and options, holdings in the International Monetary Fund (IMF), cash and cash equivalents, due from financial institutions, due to commercial banks, the Ministry of Finance of Georgia, the IMF and other financial assets and liabilities. The Bank accounts for its financial instruments in accordance with IFRS 9–*Financial Instruments* and reports these instruments under IFRS 7–*Financial Instruments: Disclosures* and IFRS 13–*Fair Value Measurement*.

Classification

The Bank classifies its financial assets in the following categories: measured at amortised cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit or loss (FVTPL). The classification depends on business model under which the financial assets are managed and their cash flow characteristics. The Bank classifies its financial liabilities as subsequently measured at amortized cost except for derivatives liabilities, which are measured at fair value through profit or loss. Classification of the financial assets and the financial liabilities is determined at initial recognition.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

For debt instruments measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest income using the effective interest method;
- Expected credit losses (further referred to as “ECL”) and reversals; and
- Foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- Objectives of holding a portfolio;
- Frequency, value and timing of sales (both past and future);
- How the performance of the business model and financial assets are evaluated and reported to the Bank's key management personnel;
- The risks that affect the performance of the business model, in particular, the way in which those risks are managed (to meet the objectives); and
- Whether collection of contractual cash flows (e.g. interest income received) represents significant portion of the portfolios' returns.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of assessment of whether the contractual cash flows are solely payments of principal and interest, the 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Initial recognition of financial assets and liabilities

The Bank recognises financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred to another party or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. 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. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Measurement principles

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The Bank uses quoted market prices to determine fair value of the Bank's investment securities. The quoted market prices for international securities are provided daily by Bloomberg and are based on current bid prices. In Management's opinion, such prices reflect reasonably the value of investments in international securities, considering the current market information and the accounting policies established by the Bank's Management.

If the market for investments is not active, the Bank establishes fair value by using discounted cash flow analysis and other relevant valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for cumulative allowance for expected credit losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Financial assets

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand in foreign currency, unrestricted balances on correspondent accounts and amounts due from financial institutions, including time deposit accounts and overnight deposits, that mature within ninety days from the date of origination. Cash and cash equivalents are subsequently measured at amortised cost.

Monetary Gold

The monetary gold is the gold held by the Bank and designated as part of international reserves. The monetary gold may be held as gold bars as well as gold-accounts (allocated or unallocated) with non-residents that give title to claim the delivery of gold. The monetary gold is held in form of gold bars purity of which is not less than 995/1000.

On the face of the statement of financial position the monetary gold is considered as foreign currency asset and is presented as separate line item within international reserves. Monetary gold is measured at fair value through profit or loss and is valued on a daily basis, based on London gold market closing price (London Bullion Market Association - LBMA) at the date of the valuation. The Bank applies same accounting policy to monetary gold as with foreign currencies, both for accounting and reporting purposes. Respectively changes in the valuation is treated as unrealized gain/loss in profit or loss together with revaluation of foreign currencies. Difference between sales price and carrying amount of the monetary gold is recognized as realized gain/loss in profit or loss.

Membership in the International Monetary Fund (the "IMF") and other international financial institutions

Based on the provision of Article 5 of the Law, being the representative of Georgia, the Bank may undertake obligations and carry out operations related to participation of Georgia in the activities of international organizations (i.e. the IMF, World Bank), including payment of membership fees to such organizations.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Financial assets measured at amortised cost

In the normal course of business, the Bank maintains loans, deposit, current accounts, and other receivables for various periods with financial institutions. Objective of the business model under which these assets are managed is achieved by collecting contractual cash flows. Contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Amounts due from financial institutions and other financial assets are considered in this category. The Bank's investments measured at amortised cost also include Georgian Government bonds.

Any premium or discount of the instruments representative of debt measured at amortised cost is recognised with the calculation of the amortised cost by applying the effective interest rate method, recognising the accrued interest in respective caption of the statement of profit or loss and other comprehensive income. The effective interest method uses the rate inherent in a financial instrument that discounts the estimated future cash flows over the expected life of the financial instrument so as to recognise interest on a constant-yield basis.

Investments measured at fair value through profit or loss

The Bank's investments measured at FVTPL comprise part of international reserves managed by the Bank for International Settlements ("BIS") which represent investments placed in the Bank for International Settlements Investment Pool (BISIP CNY). The objective of the business model under which the investment is managed is achieved by collecting contractual cash flows. However, contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Derivative financial instruments

The Bank uses interest rate futures and options contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign securities. Exchange traded interest rate futures are futures contracts with an underlying instrument that pays interest, which allows the Bank to lock in the price of an interest-bearing asset for a future date. An interest rate option on exchange traded interest rate futures is a financial derivative that allows the holder to benefit from changes in interest rates. The Bank also uses foreign currency derivative instruments to manage currency risk for some of its foreign currency investments.

Interest rate futures and options positions are classified as at fair value through profit or loss (FVTPL). Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The positions are marked to market on the reporting date at the relevant bid price provided by Bloomberg and valuation gains and losses are taken to net unrealized gains/losses in the statement of profit or loss and other comprehensive income. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

Investments measured at fair value through other comprehensive income

The Bank's investments measured at FVOCI comprise debt securities issued by Georgian and foreign governments, international financial institutions and agencies. The securities are either part of the Bank's international reserve portfolio or represent monetary policy instruments. The objective of the business model under which the debt securities are managed is achieved by both collecting contractual cash flows and selling financial assets. The debt securities are classified as investments measured at FVOCI given that their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Expected credit losses

The Bank recognises loss allowances for expected credit losses (ECL) on debt financial instruments that are measured at amortised cost or FVOCI.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers debt investment securities to have low credit risk when their credit risk rating is equivalent to the globally accepted definition of 'investment grade'. Considering the Bank's strict investment guidelines, which allow for holding of only top credit-rated investments, financial instruments held as international reserves are considered to have low credit risk. In addition, the Bank considers exposure to the Georgian Government, which is denominated in Georgian Lari, to bear low credit risk. Such approach reflects the general assumption that sovereign debt denominated in national currency is considered to have a minimal risk of default (usually referred to as "risk-free" from market participant perspective) as well as the fact that due to the unique link between the Bank and the Government of Georgia, the Bank maintains the main current account of the Ministry of Finance of Georgia. The Bank does not apply the low credit risk exemption to any other financial instruments.

ECL calculation

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive). Shortfalls are estimated based on historical corporate and sovereign default and recovery rates;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

All financial assets measured at amortised cost or FVOCI, which are overdue for 90 days or more, are considered to be in default except for exposure to the Government of Georgia which would be considered to be in default if overdue for more 180 days. This represents a rebuttal of the presumption under IFRS 9 that the default does not occur later than when the financial asset is 90 days past due. However, it reflects the circumstances of the Government's budgetary approval processes and the Bank's unique relationship with the Government as it acts as the banker and fiscal agent of the Government.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

- debt instruments measured at FVOCI: no loss allowance is recognised in the respective caption of the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the revaluation reserve of investments measured at fair value through other comprehensive income.

Write-offs

Financial assets measured at amortised cost or FVOCI are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in the caption for impairment (recovery)/charge in the statement of profit or loss and other comprehensive income.

Financial liabilities measured at amortised cost

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder. Such instruments include amounts due to the Government, amounts due to resident financial institutions, amounts due to customers, debt securities issued, liabilities to the International Monetary Fund and other financial liabilities. These are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, these financial instruments are subsequently measured at amortised cost using the effective interest method.

Money issued in circulation

Money issued in circulation represents banknotes and coins issued by the Bank in accordance with the Law and its function as the central bank. Banknotes and coins in circulation are recorded in the statement of financial position at their nominal value net of cash in the Bank's cash desks.

The expenses for the production of notes and coins are expensed as incurred.

When notes and coins are returned to the Bank by the commercial banks, they are removed from money in circulation and depending on their condition or tender status, are either sent for destruction or held by the Bank as cash in vaults outside of the statement of financial position.

Provisions (included in other liabilities)

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Non-monetary gold and other precious metals (included in other assets)

Gold investment coins and gold bars are recognised and subsequently measured in accordance with the requirements of IAS 2-*Inventories*. Gold investment coins and gold bars are initially measured at cost, including expenses on minting, transportation and other direct costs, subsequently measured at the lower of cost and net realizable value. When investment coins and bars are sold, respective income and expense is recorded in the statement of profit or loss and other comprehensive income. Expenses on other commemorative coins and bars are recognised as current expenses when produced and reflected in the statement of profit or loss and other comprehensive income.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and recognised impairment loss, if any. Land is not depreciated.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 *(in thousands of Georgian Lari)*

Depreciation is charged on the historical cost of property and equipment and is designed to write off assets over their useful economic lives. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation is charged to profit or loss on a straight-line basis at the following annual prescribed rates:

	<u>%</u>
Buildings	2
Computers, office equipment and fixtures	10-20
Vehicles and other	20

Expenses related to repairs and maintenance are charged when incurred and included in other expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount; impairment is recognised in the respective period in the statement of profit or loss and other comprehensive income. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Leases

From time to time, the Bank may lease particular assets for its administrative purposes.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, incremental borrowing rate is used as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or in assessment of whether the Bank will exercise extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset, or the amount is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil.

The Bank presents right-of-use assets as separate line-item and lease liabilities in 'other liabilities' in the statement of financial position.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value items and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Taxation

According to the Law, assets, property and income of the Bank, as well as its activities and operations are exempt from all taxes and other levies.

Contingencies

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

Recognition of income and expense

Revenue is recognised when the Bank satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to counterparties. An asset is transferred when (or as) the counterparties obtain control of that asset.

Interest and similar income and expense

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

Interest income recognition base

The original effective interest rate is applied to the gross carrying amount (carrying amount without reduction by expected credit loss allowance) of financial assets for which:

- credit risk has not increased significantly since initial recognition;
- credit risk has increased significantly since initial recognition, but which are not credit-impaired.

For financial assets which are credit-impaired, the original effective interest rate is applied to the net carrying amount (carrying amount after reduction by expected credit loss allowance).

Presentation of negative interest on financial assets and liabilities

Negative interest on financial assets is considered as expense and is presented under interest expenses as a separate line-item. Similarly, negative interest on financial liabilities is considered as income and is presented under interest income as a separate line-item.

Fee and commission income and expense

The Bank earns fee and commission income from a diverse range of services it provides to its counterparties. Fee and commission income includes cash operations fees and fund transfer fees, which are recognised as the services are provided. Fee and commission expense consists of cash operations, settlement fees and fees paid to the external manager, which are recognised as expense as the services are rendered.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Foreign currency translation

The financial statements are presented in Georgian Lari, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the original currency and converted into the functional currency using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of reporting date. 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. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss and other comprehensive income as net gains/(losses) from foreign currencies – unrealized gain/(loss) from revaluation of foreign currencies.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Bank's exchange rate on the date of the transaction are included in net gains/(losses) from dealing in foreign currencies.

Rates of exchange

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	31-Dec-24	31-Dec-23
GEL/1 US Dollar (USD)	2.8068	2.6894
GEL/1 Euro (EUR)	2.9306	2.9753
GEL/100 Japanese Yen (JPY)	1.7789	1.8982
GEL/10 Chinese Renminbi (CNY)	3.8452	3.7819
GEL/1 Canadian Dollar (CAD)	1.9511	2.0285
GEL/1 Special Drawing Right (SDR)	3.6604	3.6083

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Bank does not offset the transferred asset and the associated liability. No offset of financial assets and liabilities have been made as of and during the reporting periods ended 31 December 2024 and 2023.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing these financial assets.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Significant areas of critical judgments and estimates are described in the following notes:

- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest on the principal amount outstanding – Note 3;
- Application of low credit risk exemption and rebuttal of the presumption that the default does not occur later than when the financial asset is 90 days past due – Note 3;
- Fair valuation of financial instruments - Note 28.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Application of new and revised International Financial Reporting Standards (IFRS)

The following amendment that are effective from 1 January 2024, did not have significant effect on the Bank's financial statements:

- Classification of Liabilities as Current or Non-Current and Not-current Liabilities with Covenants (Amendments to IAS 1);
- Supplier Finance Arrangement (Amendments to IAS 7 and IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

The following amendment is not expected to have a significant impact on the Bank's financial statements. The pronouncement is effective for annual periods beginning after 1 January 2024 and earlier application permitted:

- Lack of Exchangeability (Amendments to IAS 21) – effective 1 January 2025;

The Bank is in the process of assessing the impact of the following new and amended standards:

- Classification and Measurement of Financial instruments (Amendments to IFRS 9 and IFRS 7) – effective 1 January 2026: *The amendment is related to settlement of financial liabilities using electronic payment system as well as assessment of contractual cash flow characteristics of financial assets*
- Annual Improvements to IFRS Accounting Standards (volume 11) - effective 1 January 2026: *among other changes the amendments are related to IFRS 7 Financial instruments: Disclosures (Gain or loss on derecognition, disclosure of deferred difference between fair value and transaction price, credit risk disclosures) and IFRS 9 Financial Instruments (Derecognition of lease liabilities, Transaction price)*
- Presentation and Disclosure of Financial Statements (IFRS 18) – effective 1 January 2027: *According to the new standard reporting entities are required to classify all income and expenses within statement of profit or loss into five categories (operating, investing, financing, income tax and discontinued operations) and also present newly defined subtotals. Also management-defined performance measures (MPMs) are to be disclosed in a separate note.*

4. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31-Dec-24	Year ended 31-Dec-23
Fee and commission income:		
Funds transfer	4,664	4,483
Cash operations	733	1,547
Other	13	14
Total fee and commission income	5,410	6,044
Fee and commission expense:		
Cash operations	(2,298)	(306)
Custodian and settlement fees	(1,826)	(1,144)
Fees paid to external manager	(1,748)	(1,627)
Total fee and commission expense	(5,872)	(3,077)

The Bank owns and manages a real-time gross settlement system, which is an interbank payment system for national currency settlement operations. Funds transfer fee represents billing charges paid by the participants for settlement transactions.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

5. OTHER REVENUE

Other revenue comprises:

	Year ended 31-Dec-24	Year ended 31-Dec-23
Revenue from sale of commemorative coins and non-monetary gold bars	428,592	10,528
Revenue from fines	548	860
Other	110	408
Other income	429,250	11,796

Other expenses comprise:

	Year ended 31-Dec-24	Year ended 31-Dec-23
Expense related to commemorative coins and non-monetary gold bars	(410,856)	(8,448)
Other	(1,525)	(1,358)
Other expenses	(412,381)	(9,806)

6. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31-Dec-24	Year ended 31-Dec-23
Salaries and bonuses	55,187	40,909
Paid vacation and sick leave	4,256	3,193
Total personnel expenses	59,443	44,102
Software maintenance fees	4,741	3,283
Social benefits expenses	3,396	2,624
Subscription to information services	2,841	2,674
Utilities	2,088	1,799
Business travel and related expenses	1,025	730
Security	897	717
Representative expenses	785	525
Repairs and maintenance	573	478
Personnel training	460	638
Legal and consultancy	353	236
Fuel expenses	230	194
Other	1,862	1,778
Total general and administrative expenses	19,251	15,676
Depreciation charge (Note 16)	5,062	5,705
Amortization charge (Note 17)	2,972	1,788
Total depreciation and amortization charges	8,034	7,493

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2024 and 2023 comprise:

	31-Dec-24	31-Dec-23
Cash on hand in foreign currencies	370,606	395,565
Current accounts	374,452	432,215
Time deposits with credit institutions	2,544,849	1,295,548
Total cash and cash equivalents	3,289,907	2,123,328

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

As at 31 December 2024 and 2023, GEL 2,574,314 thousand and GEL 1,544,705 thousand, respectively, were placed in current accounts and time deposits up to ninety days with six (31 December 2023: seven) internationally recognised banks and central banks from the Organization of Economic Co-operation and Development member countries (OECD).

As at 31 December 2024 and 2023, annual interest rate range of time deposits with credit institutions varied from 2.94% to 4.66% and 4.00% to 5.61%, respectively.

8. MONETARY GOLD

As at 31 December 2024 the Bank holdings of monetary gold were as follows (2023: nil):

Troy Ounces	Price per troy ounce in USD	Total value in thousands of USD	Total value in thousands of GEL
229,478	2,610.85	599,133	1,681,645

In 2024 the Bank purchased 229,478 troy ounces of monetary gold (bars) for USD 500,001 thousand. As a result of the purchase transactions value of initially recognized monetary gold amounted to GEL 1,362,109 thousand. Changes in the monetary gold value during the period between its purchases and 31 December 2024 amounted to net unrealized gain of GEL 319,536 thousand which is included in amount of net unrealized gain from revaluation of foreign currencies.

9. DUE FROM RESIDENT FINANCIAL INSTITUTIONS

Due from resident financial institutions as at 31 December 2024 and 2023 comprise:

	31-Dec-24	31-Dec-23
Due from resident financial institutions under monetary policy instruments		
Refinancing loans	4,456,310	3,003,152
Overnight loans	1,794,962	735,619
One-month open market instruments	752,305	-
Total due from resident financial institutions under monetary policy instruments	7,003,577	3,738,771

Refinancing loans are the Bank's Monetary Policy instruments that are issued to Georgian commercial banks for liquidity purposes and have 7 days of maturity. Similar to refinancing loans, through one-month open market instruments and overnight loans the Bank supplies short-term liquidity to the national banking system.

As at 31 December 2024 and 2023, respectively, the Bank had a concentration of refinancing loans of GEL 4,259,029 thousand due from three resident commercial banks at annual interest rates of 8.188% - 8.71%, and GEL 2,662,792 thousand due from three resident commercial banks at annual interest rates of 9.571% - 9.5791%, respectively.

As at 31 December 2024 and 2023, the Bank had a concentration of overnight loans of GEL 1,789,829 thousand due from one resident commercial bank at an annual interest rate of 8.75% and GEL 560,472 thousand due from one resident commercial bank at an annual interest rate of 10.25%, respectively.

As at 31 December 2024, the concentration of one-month open market instruments was GEL 554,507 thousand due from two resident commercial banks at annual interest rates of 8.57% - 8.65%. As at 31 December 2023, the Bank did not have outstanding one-month open market instruments.

For none of the exposures due from resident financial institutions has credit risk increased significantly since initial recognition. For credit risk disclosure, see also Note 29.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

Collateral and other credit enhancements

The eligible type of collateral and criteria for each type of collateral is defined by the Council of the Bank.

The accepted types of collateral are: a) debt securities issued by the Bank and by the Government of Georgia, denominated in Georgian Lari; b) debt securities issued by international financial institutions, denominated in Georgian Lari; c) debt securities issued in accordance with the "Law of Georgia on Securities Market" by resident and non-resident legal entities and securities issued as a private placement till 1 January 2018, denominated in Georgian Lari, but excluding debt securities issued by the commercial banks operating in Georgia; d) claims to eligible loan assets of commercial banks; In special cases, the Council of the Bank may determine other type of assets for loan collateral; haircuts to each type of collateral are periodically defined by the Monetary Policy Committee (MPC) of the Bank to the nominal amount of eligible assets. The Bank has the first lien on borrowers' assets according to the Law.

As at 31 December 2024 and 2023, types and fair values of financial assets pledged for amounts due from resident financial institutions were as follows:

	<u>31-Dec-24</u>	<u>31-Dec-23</u>
Government securities (treasury bills/notes)	4,033,005	2,353,661
Loan portfolio of commercial banks	2,722,025	1,839,284
Bonds issued by International Financial Institutions and development banks, denominated in GEL:		
Asian Development Bank (ADB)	640,017	138,462
Netherlands Development Finance Company	-	26,111
European Bank for Reconstruction and Development (EBRD)	484,165	-
Bonds issued by the private sector	135,088	35,264
	<u>8,014,300</u>	<u>4,392,782</u>

The Bank monitors the value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the value of collateral obtained during its review of the adequacy of the allowance for expected credit losses. As at 31 December 2024 and 2023, none of the financial instruments issued by the Bank were pledged as collateral.

10. SPECIAL DRAWING RIGHTS HOLDINGS WITH THE INTERNATIONAL MONETARY FUND

Balances with the International Monetary Fund (the "IMF") comprise:

	<u>31-Dec-24</u>	<u>31-Dec-23</u>
Assets:		
Special Drawing Rights (SDR) holdings	1,273,804	1,214,799
Liabilities:		
IMF current accounts		
Current account # 1	1,860	1,770
Current account # 2	10	10
	<u>1,870</u>	<u>1,780</u>
Borrowings from the IMF		
Extended Fund Facility (EFF)	987,118	1,083,861
General SDR allocation	1,152,355	1,137,494
Special SDR allocation	119,773	118,228
	<u>2,259,246</u>	<u>2,339,583</u>
Total due to the IMF	<u>2,261,116</u>	<u>2,341,363</u>
Off-balance sheet balances:		
IMF Quota	744,115	708,272
Security held in custody by the Bank in respect of IMF quota and as collateral of IMF granted facilities	(2,171,875)	(2,209,486)

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

SDR Holdings

SDR holdings represent the account of the Bank with the IMF used for borrowings and settlements with the IMF. SDR holdings are primarily obtained from the SDR allocations provided by the IMF under its Articles of Agreement. Interest accrued in respect of SDR holdings is calculated using the rate set by the IMF weekly on the basis of short-term market rates in major money markets. The annual nominal interest rate range on the SDR holdings during 2024 and 2023 was 3.159%-4.136% and 2.999%-4.198%, respectively.

IMF current accounts

The Bank is required to maintain two separate accounts: IMF current account number 1 and IMF current account number 2. IMF current account number 1 is for settlement of the IMF's operational transactions, whereas IMF current account number 2 is used for operational expenses incurred by the IMF in Georgian Lari.

IMF granted facilities

Facilities received from the IMF include the Extended Fund Facility (EFF) loan with a carrying amount of GEL 987,118 thousand as at 31 December 2024 (31 December 2023: GEL 1,083,861 thousand). The EFF loan provides assistance to Georgian authorities in support of their comprehensive program to preserve macro and financial stability and advance structural reforms to bolster growth. The 36-month Extended Fund Facility (EFF) was approved on 12th of April 2017 with access to SDR 210.4 million (100 percent of quota). On 14th of April 2020, an augmentation of access to 130 percent of quota was approved, bringing total access under the EFF to SDR 484 million (230 percent of quota). No Funds were utilized under the facility by the Bank during 2024 and 2023. Repayments started in 2021 and the loan is scheduled to be fully repaid by 2031. The lending rate is tied to the IMF's market-related interest rate, known as the basic rate of charge linked to the Special Drawing Rights (SDR) interest rate, which amounted to 3.759% as at 31 December 2024 (31 December 2023: 5.103%).

All facilities received from the IMF are denominated in SDRs.

SDR allocations

The SDR allocation is an unsecured, interest-bearing distribution of SDRs by the IMF through general and special allocations. The general allocation is made by the IMF according to the Articles of Agreement to all participants in its SDR Department in proportion to countries' quotas in the IMF. General allocations to Georgia were made in 2009 (SDRs 111,419 thousand) and 2021 (SDR 201,658 thousand). In 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force, according to which Special SDR allocation of SDR 32,540 thousand was made to Georgia. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Bank treats the allocation as a foreign currency liability to the IMF.

Georgia, as a member country of the IMF and a recipient of the allocations, is obliged to pay to the IMF an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of the membership termination or liquidation of the IMF's SDR Department.

The annual interest rate range on the SDR allocations throughout 2024 and 2023 varied within the ranges of 3.159%-4.136% and 2.9160%-4.1980%, respectively.

IMF Quota

The IMF Quota of Special Drawing Rights (SDRs) of 210,400 thousand, represents the membership subscription of Georgia with the IMF which is non-interest bearing and is effective from 26 January 2016 as a result of the 14th General Review of Quotas by the Board of Governors of the IMF, the Fund's highest decision-making body. The IMF receives its resources from its member countries. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. A member's quota delineates basic aspects of its financial and organizational relationship with the IMF. As the Bank is the fiscal agent between the Government of Georgia and the IMF, this instrument is not presented in the statement of financial position.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

Security held in custody by the Bank in respect of the IMF Quota and as collateral of the IMF granted facilities

As at 31 December 2024, security held in custody (GEL 2,171,875 thousand) comprises GEL 744,115 thousand in respect of the IMF Quota and GEL 1,427,760 thousand held as collateral for the IMF granted facilities.

As at 31 December 2023, security held in custody (GEL 2,209,486 thousand) comprises GEL 708,272 thousand in respect of the IMF Quota and GEL 1,501,214 thousand held as collateral for the IMF granted facilities.

The security was issued by the Government of Georgia in 1992 in settlement of the IMF Quota. The security used as collateral includes the total nominal value of the IMF granted facilities to Georgia: to the Bank and to the Government. As this security is held by the Bank in custody, it is accounted for as an off-balance sheet item and presented at nominal value.

11. ASSETS AND LIABILITIES RELATED TO DERIVATIVE INSTRUMENTS

	Book value	Notional principal	Book value	Notional Principal
	31-Dec-24	31-Dec-24	31-Dec-23	31-Dec-23
Assets related to derivative instruments under international reserve management				
Interest rate futures				
Futures margin	8,785		4,575	
Net interest futures				
Interest rate futures assets	-	1,554,967	11,163	890,191
Interest rate futures liabilities	(3,297)	-	-	(1,452,276)
Net interest futures position	(3,297)	1,554,967	11,163	(562,085)
Net assets related to derivative instruments under international reserve management				
	5,488	1,554,967	15,738	(562,085)
Assets related to derivative instruments under monetary policy operations				
FX SWAPs				
FX SWAP assets	2,520		-	
FX-SWAP liabilities	(2,143)		-	
Amount receivable		530,019		-
Amount payable		(529,642)		-
Net FX SWAPs	377	377	-	-
Net assets related to derivative instruments under monetary policy operations				
	377	377	-	-

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate, or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

The futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. The futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The credit risk related to futures contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honored and are settled on a net basis.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 *(in thousands of Georgian Lari)*

The Bank has been trading Eurodollar Futures since March 2012, as part of active portfolio management. In April 2023, Eurodollar futures have been converted into the corresponding SOFR (Secured Overnight Financing Rate) contracts. Both LIBOR and SOFR futures are listed on CME (Chicago Mercantile Exchange & Chicago Board of Trade), hence they are exchange traded and standardized. SOFR is based on transactions in the Treasury repurchase market and is preferable to LIBOR since it is based on data from observable transactions rather than estimated future borrowing rates.

While three-month Eurodollar futures settle to a three-month LIBOR rate at the end of the contract, SOFR futures settle to the average of an overnight rate during the last three months prior to the expiration of the contract – referred to as the reference period of the contract. Despite this difference, SOFR futures share several characteristics with Eurodollar futures. Eurodollar futures and SOFR futures represent consecutive three-month forward segments of the yield curve – for unsecured borrowing in the case of Eurodollars and for secured borrowing in the case of SOFR. When trading CME futures, the Bank faces credit risk originating solely from the clearing house, where purchases and sales of futures contracts offset one another.

The Bank is taking positions in Eurodollars and SOFRs for hedging purposes, by means of buying/selling US Treasuries or Spread Products (Agency and Supranational Securities) and entering opposite positions of corresponding amounts of Eurodollar Futures, matching the risk (duration and curve). The main purpose of such strategies is to reduce the portfolio's exposure to interest rate risks and to benefit from credit spreads.

Both Eurodollar and SOFR futures held in the Bank's portfolio are not held for trading purposes, i.e. the Bank does not aim to generate profits from favorable movements in their prices.

From April 2020, in addition to standard refinancing loans, the Bank started to provide liquidity support to the market through FX SWAP operations. FX SWAP operations represent monetary policy instruments aimed at delivering liquidity to the market. Through the FX SWAP transactions, the Bank used to buy foreign currency with the national currency for a period of up to three months at a spot rate, provided that it was sold back at the predetermined forward rate.

12. INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2024 and 2023, investments measured at fair value through profit or loss comprised funds managed by the BIS (Bank for International Settlements). The portfolio is related to the investment placed in the Bank for International Settlements Investment Pool (BISIP CNY), a fund comprising Chinese government bonds (CGBs), managed for the investment of international reserves of central banks, with the main objective of transferring know-how and providing consulting services to the Bank. The quota holders of the fund may request partial or complete withdrawal of their investments at any time.

As at 31 December 2024, carrying amount of funds managed by BIS amounted to GEL 291,431 thousand (31 December 2023: GEL 272,264 thousand).

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

13. INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2024 and 2023, investment securities measured at fair value through other comprehensive income comprised:

	31-Dec-24	31-Dec-23
Government securities		
US Department of Treasury, Washington	3,271,057	7,368,915
Government of Canada, Ottawa	252,386	301,315
Government of France	232,574	132,185
Government of Germany	56,605	121,462
Government of Denmark	31,169	22,394
Government of Austria	29,491	85,859
Government of Finland	28,784	46,834
Government of the Netherlands	28,678	28,764
Government of Belgium	28,428	29,211
Grand Duchy of Luxembourg	-	28,624
	3,959,172	8,165,563
Supranational securities		
International Bank for Reconstruction & Development, Washington	123,844	31,749
Asian Development Bank, Manila	121,729	135,211
Inter-American Development Bank, Washington D.C.	110,563	119,946
European Investment Bank, Luxembourg	85,627	185,663
African Development Bank, Abidjan	68,792	63,978
Nordic Investment Bank	56,236	52,789
European Union	30,362	28,985
European Bank for Reconstruction and Development	22,137	50,076
Inter-American Investment Corporation	19,533	2,634
EUROFIMA, Basel	1,727	1,641
OPEC Fund for International Development	1,141	-
New Development Bank, Shanghai	-	2,885
	641,691	675,557
Agency and other securities		
CPPIB Capital Inc, Toronto	146,199	115,137
Kommunalbanken AS	92,898	42,411
Kreditanstalt fuer Wiederaufbau, Frankfurt	83,211	35,237
Svensk Exportkredit AB, Stocholm	77,559	49,062
Bank Nederlandse Gemeenten, Den Haag	63,300	38,599
Korean Development Bank	59,993	7,687
Province of Ontario Canada, Toronto	59,988	57,108
Japan Bank for International Cooperation, Otemachi	55,145	-
NRW Bank	55,112	1,088
Caisse Des Depots et Consignations	53,285	9,472
Province of Alberta Canada	48,272	-
Caisse D'Amortissement de la Dette Sociale	48,104	72,117
Oesterreichische Kontrollbank AG, Vienna	42,661	78,498
Export-Import Bank of Korea	41,739	6,566
Kommuninvest I Sverige AB, Orebro	41,496	8,420
Agence Francaise de Developpement	37,152	36,885
CDP Financial In, Montreal	36,582	27,114
Landeskreditbank Baden-Wuerttemberg Foerderbank	35,376	32,758
Royal Bank of Canada	34,235	24,639
OMERS Finance Trust	25,655	29,090
Nederlandse Waterschapsbank N.V.	24,042	73,159
Province of Quebec Canada, Quebec	19,517	72,267
North Rhine-Westphalia	14,551	13,803
Other	148,023	174,384
	1,344,095	1,005,501
Total investments measured at fair value through other comprehensive income in foreign currency	5,944,958	9,846,621
Marketable government securities in national currency		
Georgian government bonds	1,871,247	2,668,266
Total investments measured at fair value through other comprehensive income in national currency	1,871,247	2,668,266

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Analysis of interest rates (coupon) and maturities on investments measured at fair value through other comprehensive income comprise:

	31-Dec-24		31-Dec-23	
	Interest rate p.a.	Maturity	Interest rate p.a.	Maturity
In foreign currency:				
Government securities	0.125%-5.00%	2025-2027	0.125%-6.75%	2024-2027
Supranational securities	0.5%-4.875%	2025-2027	0.25%-4.875%	2024-2027
Agency and other securities	0.25%-5.375%	2025-2028	0.25%-5.66%	2024-2028
In national currency:				
Government bonds	8.125%-10.5%	2025-2030	7%-11.6%	2024-2030

Investments measured at fair value through other comprehensive income include funds managed under the RAMP program, which corresponds to the outsourcing of the management of a portion of the international reserves to the World Bank treasury specialized in portfolio management (external manager), with the main objective of transferring know-how and providing consulting services to the Bank. The manager receives a management fee, established in the contract, and is evaluated based on the net asset value of the transferred funds. The assets within the external manager portfolio are held on behalf of the Bank, under the responsibility of a global custodian selected for the purpose of investing in and reinvesting the securities. The Bank may, from time to time, by notice to the external manager, make additions to, or reductions of, the investment amount. As at 31 December 2024, fair value of funds managed under the RAMP amounted to GEL 671,949 thousand (31 December 2023: GEL 615,261 thousand).

For none of the financial assets measured at fair value through other comprehensive income has credit risk increased significantly since initial recognition, see also Note 29.

14. INVESTMENTS MEASURED AT AMORTISED COST

	31-Dec-24		31-Dec-23	
	Carrying value	Nominal value	Carrying value	Nominal value
Georgian Government securities				
Georgia government bonds	41,010	40,846	81,194	80,846
Total investments measured at amortised cost in national currency	41,010	40,846	81,194	80,846

Analysis of interest rate (coupon) and maturity of investments measured at amortised cost:

	31-Dec-24		31-Dec-23	
	Interest rate p.a.	Maturity	Interest rate p.a.	Maturity
Georgian government bonds	8.505%	2025	9.566%	2024-2025

Georgian government bonds denominated in the national currency represent interest-bearing securities issued by the Ministry of Finance of Georgia according to the agreement formed between the Government of Georgia and the Bank in March, 2006 to convert, without cash settlement, borrowings of the Government of Georgia into debt securities. The security was issued exclusively for the Bank and is a non-transferable, a non-tradable instrument. Therefore, the investment is carried at amortised cost. The government bonds are repaid by issuance of new bond instrument in the amount of GEL 40,000 thousand annually, which are classified as investments measured at fair value through other comprehensive income. Interest rate of the bond is subject to annual repricing considering market rates.

For none of the financial assets measured at amortised cost has credit risk increased significantly since initial recognition, see also Note 29.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

15. RIGHT-OF-USE ASSET

The Bank leases premises for administrative purposes for part of its personnel and recognizes respective right-of-use asset and lease liability.

Change in the outstanding balance of the related right-of-use asset is provided below:

	2024	2023
Balance as at 1 January	483	1,537
Additions to right-of-use asset	9,459	-
Depreciation charge for the year	(1,507)	(1,054)
Balance as at 31 December	8,435	483

Change in outstanding balance of lease liability is provided below:

	2024	2023
Balance as at 1 January	519	1,576
Additions to lease liability	7,159	-
Interest expense for the year	286	119
Repayments for the year	(1,210)	(1,176)
The effect of changes in foreign exchange rates	(202)	-
Balance as at 31 December	6,552	519

16. PROPERTY AND EQUIPMENT

	Land and buildings	Computers, office equipment and fixtures	Vehicles and other	Assets under construction	Total
At initial cost:					
1-Jan-23	52,848	20,510	26,620	36	100,014
Additions	-	207	2,955	-	3,162
Disposals	-	(274)	(58)	-	(332)
31-Dec-23	52,848	20,443	29,517	36	102,844
Additions	24,119	5,993	3,424	6,752	40,288
Disposals	-	(276)	(2,410)	(36)	(2,722)
31-Dec-24	76,967	26,160	30,531	6,752	140,410
Accumulated depreciation:					
1-Jan-23	(10,441)	(14,869)	(20,577)	-	(45,887)
Depreciation charge	(1,054)	(2,539)	(2,112)	-	(5,705)
Disposals	-	269	54	-	323
31-Dec-23	(11,495)	(17,139)	(22,635)	-	(51,269)
Depreciation charge	(1,055)	(1,486)	(2,522)	-	(5,063)
Disposals	-	272	2,354	-	2,626
31-Dec-24	(12,550)	(18,353)	(22,803)	-	(53,706)
Carrying amounts:					
As at 31 December 2024	64,417	7,807	7,728	6,752	86,704
As at 31 December 2023	41,353	3,304	6,882	36	51,575

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

17. INTANGIBLE ASSETS

	Software and other
At cost:	
1-Jan-23	19,167
Additions	5,728
Disposals	(429)
31-Dec-23	24,466
Additions	3,795
Disposals	(111)
31-Dec-24	28,150
Accumulated amortization:	
1-Jan-23	(13,855)
Charge for the year	(1,788)
Disposals	411
31-Dec-23	(15,232)
Charge for the year	(2,971)
Disposals	111
31-Dec-24	(18,092)
Carrying amounts:	
As at 31 December 2024	10,058
As at 31 December 2023	9,234

18. OTHER ASSETS AND LIABILITIES

	31-Dec-24	31-Dec-23
Other assets in foreign currency:		
Prepayments	2,473	1,299
Other debtors	72	46
Total other assets in foreign currency	2,545	1,345
Other assets in national currency:		
Commemorative gold coins and gold bars	8,490	6,921
Prepayments	2,390	4,742
Inventory	511	521
Loans to employees issued in prior years	62	79
Other debtors	231	261
	11,684	12,524
Allowance for expected credit losses on other assets	(35)	(43)
Total other assets in national currency	11,649	12,481

As at 31 December 2024 and 2023, other financial assets, net of loss allowance, amounted to GEL 2,804 thousand and GEL 1,642 thousand, respectively.

Allowance for expected credit losses on other assets represents allowance for expected credit losses on loans to employees issued in prior years. The movements in allowance for expected credit losses are presented in Note 29.

Other liabilities comprise:

	31-Dec-24	31-Dec-23
Other liabilities in foreign currency:		
Amounts due to suppliers	10,169	3,145
Other liabilities	56,026	31,906
Total other liabilities in foreign currency	66,195	35,051
Other liabilities in national currency:		
Profit payable to the Ministry of Finance of Georgia	670,146	302,877
Amount due to suppliers	4,240	4,164
Liability for realized banknotes and coins	2,109	2,091
Lease liability (Note 15)	6,552	519
Deferred income	59	72
Other liabilities	3,405	1,982
Total other liabilities in national currency	686,511	311,705
Total other liabilities	752,706	346,756

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

As at 31 December 2024 and 2023, other financial liabilities amounted to GEL 82,500 thousand and GEL 43,807 thousand, respectively.

19. DUE TO RESIDENT FINANCIAL INSTITUTIONS

Due to resident financial institutions comprise:

	31-Dec-24	31-Dec-23
Due to resident financial institutions under monetary policy instruments		
Correspondent accounts in national currency	486,952	1,591,879
Overnight deposits in national currency	208,667	167,006
Total due to resident financial institutions under monetary policy instruments in national currency	695,619	1,758,885
Obligatory reserves of banks in foreign currency	6,369,707	4,312,166
Total due to resident financial institutions under monetary policy instruments	7,065,326	6,071,051
Due to resident financial institutions, other		
Correspondent accounts in foreign currency	17,835	14,040
Total due to resident financial institutions, other	17,835	14,040
Total due to resident financial institutions	7,083,161	6,085,091

As at 31 December 2024 and 2023, included in due to resident financial institutions are balances with the three largest local commercial banks of GEL 5,465,146 thousand and GEL 4,780,993 thousand, respectively, that represent 77.16% and 78.57% of the total balances due to resident financial institutions, respectively.

Resident commercial banks are required to maintain obligatory reserves with the Bank. As at 31 December 2024, obligatory reserves are calculated as 5% of their eligible liabilities denominated in national currencies (31 December 2023: 5%), and from 10% to 25% of their eligible liabilities denominated in foreign currencies, which depend on the deposit dollarization rate of a particular commercial bank (31 December 2023: from 10% to 20%).

For foreign currency borrowed funds with a remaining maturity of 1-2 years, the reserve requirement rates vary from 10% to 20%, depending on the deposit dollarization rate of a particular commercial bank (31 December 2023: 10% to 15%). As at 31 December 2024 and 2023, the annual interest rate on GEL denominated obligatory reserves was 8.0% and 9.5%, respectively. As at 31 December 2024 and 2023, annual interest rate on USD/EUR denominated obligatory reserves were 4.00%/2.5% and 0.0%/0.0% respectively. Borrowings with remaining maturities of over one year in the national currency and over two years in a foreign currency are exempt from reserve requirements.

20. DUE TO THE MINISTRY OF FINANCE

Amounts due to Ministry of Finance comprise:

	31-Dec-24	31-Dec-23
Due to the Ministry of Finance of Georgia		
Current accounts in foreign currency	428,426	753,038
Current account in national currency	1,018,824	1,692,692
Total due to the Ministry of Finance of Georgia	1,447,250	2,445,730

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

21. DUE TO CUSTOMERS

Amounts due to customers comprise:

	<u>31-Dec-24</u>	<u>31-Dec-23</u>
Due to customers in national currency		
Due to the Deposit Insurance Agency	1,003	6,375
Due to international organizations	525	1,203
Total due to customers in national currency	<u><u>1,528</u></u>	<u><u>7,578</u></u>

22. MONEY ISSUED IN CIRCULATION

Money issued in circulation represents the amount of national currency of Georgia issued by the Bank. Movements during the year ended 31 December 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Balance as at 1 January	<u>5,934,138</u>	<u>5,040,547</u>
Banknotes issued into circulation	11,658,142	9,410,423
Coins issued into circulation	103,831	103,455
Banknotes withdrawn from circulation	(10,997,498)	(8,535,225)
Coins withdrawn from circulation	(81,595)	(85,062)
Balance as at 31 December	<u><u>6,617,018</u></u>	<u><u>5,934,138</u></u>

23. DEBT SECURITIES ISSUED

	<u>Interest rate p.a.</u>	<u>Maturity</u>	<u>Nominal value</u>	<u>Carrying value</u>
Certificates of deposit as at 31-Dec-24	7.47%-7.56%	23 Jan - 20 Mar, 2025	60,000	59,384
Certificates of deposit as at 31-Dec-23	9.00%-9.30%	25 Jan - 21 Mar, 2024	60,000	59,225

24. EQUITY

As stated in the Law, the Bank's capital is comprised of its subscribed and fully paid-up capital and reserve fund.

Authorized capital

The authorized and fully paid-up capital of the Bank amounted to GEL 15,000 thousand as at 31 December 2024 and 2023.

Capital management

The Bank defines capital as its total equity measured in accordance with IFRS Accounting Standards. Pursuant to Article 24 of the Law, net income of the Bank for each financial year is calculated as the sum of net operational profit or loss and unrealized gain or loss from revaluation. Net operational profit or loss shall be calculated after deducting from revenues of the reporting year all operating expenses intended for the core operations. Retained earnings are transferred to different reserves based on the requirements of the Law after approval of the Council. Following approval of the annual report of the Bank by the Council, the remaining portion of the retained earnings is transferred to the State budget within six months after the end of financial year.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Reserve fund

According to the amended Article 25 of the Law, the Reserve Fund shall make up 15% of the reserve money, which comprises the national currency in cash put into circulation by the Bank together with the correspondent accounts of commercial banks in national currency and is established by allocations from the realised profit for the year, which comprises net profit for the year excluding net foreign currency translation and other revaluation gains and losses. The Council is entitled to determine the establishment of the Reserve Fund of less than 15% of the reserve money.

The Reserve Fund may only be used to offset losses of the Bank. Following the transfers to the Reserve Fund, the residual balance of realised profit of the Bank shall be transferred to the State Budget of Georgia.

In 2024 and 2023, the Bank transferred to reserve fund GEL 0 and GEL 213,976 thousand from realized profits of 2024 and 2023 respectively.

In accordance with Article 25(c) of the Law, residual amount of GEL 670,146 thousand from realized profit of 2024 is distributed to the Ministry of Finance and will be paid within 6 months after financial year-end. Residual amount of GEL 302,877 thousand was distributed to Ministry of Finance from realized profit of 2023 and was transferred in 2024.

Foreign currency and other revaluation reserves

According to the Article 25(a) of the Law, the Bank transfers net unrealized gains from foreign currency revaluation to the foreign currency revaluation reserve and net unrealized gains arising from changes of the FVTPL financial assets' market prices are transferred to the revaluation reserve created for this purpose. These special reserves shall be used for counteracting (compensating) future losses.

During 2024, net unrealized gain on revaluation of foreign currencies of GEL 447,385 thousand was transferred from Retained Earnings to Foreign Currency Revaluation Reserve (2023: unrealized gain of GEL 59,689). During 2024, other revaluation loss of GEL 13,370 thousand was transferred from Other Revaluation Reserve to Retained Earnings (2023: revaluation loss of GEL 17,384 thousand).

Revaluation reserve for investments measured at FVOCI

This reserve records fair value changes of investments measured at FVOCI.

25. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, the Bank is a party to financial instruments with off-balance sheet commitments. The Bank uses the same risk management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Capital commitments

No material capital commitments were outstanding as at 31 December 2024 and 2023.

Operating environment

As an emerging market, Georgia does not possess a well-developed infrastructure that would generally exist in a more mature market economy. Therefore, especially sharp changes of operating environment (including global environment) could affect the Bank's results of operations and financial position in a manner not currently determinable.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Over the last few years the Government of Georgia and the Bank have made a number of developments that positively affect the overall investment climate in Georgia, specifically implementing the reforms necessary for creating efficient banking, judicial, taxation and regulatory systems, as well as, using various measures to fulfill the liquidity needs of the economy and to stabilize the exchange rate of the national currency. This has resulted in a stable macroeconomic environment with higher real growth rates and inflow of foreign investments. The existing tendency aimed at the overall improvement of the economy is expected to persist.

However, future development of the economy of Georgia is largely dependent upon these reforms and developments, and the effectiveness of economic, financial and monetary measures undertaken by the Government and the Bank. Management believes that all the necessary measures are implemented to support the Bank's role in maintaining macroeconomic and financial stability.

Legal proceedings

The Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material effect on the financial position or the results of operations of the Bank. Management is of the opinion that no material unaccrued losses will be incurred and, accordingly, no provision has been made in these financial statements.

Credit commitments and contingent liabilities

As at 31 December 2024 and 2023, the Bank has no material credit commitments and contingent liabilities.

26. RELATED PARTY TRANSACTIONS

The Bank, as a state entity, is related to the Government of Georgia entities. To achieve its policy objectives, the Bank maintains a position of structural and functional independence from the Government of Georgia through its ability to fund its own operations without external assistance and through its management and governance.

Under key management personnel are regarded those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. Key management personnel comprise the members of the Council, Executive Director and heads of departments.

In the normal course of its operations, the Bank enters into transactions with related parties, and material transactions and balances are presented in these financial statements, based on substance of the relationship, and not merely the legal form.

The Bank had the following transactions and outstanding balances with related parties:

	Year ended 31 December 2024		Year ended 31 December 2023	
	Related party transactions	Total category	Related party transactions	Total category
Key management personnel compensation:				
– short-term employee benefits	(7,526)	(59,443)	(5,528)	(44,102)

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

	Notes	31-Dec-24		31-Dec-23	
		Related party balances	Total category	Related party balances	Total category
Statement of financial position					
Assets:					
Investments measured at fair value through other comprehensive income in national currency- <i>Government of Georgia</i>	13	1,871,247	1,871,247	2,668,266	2,668,266
Investments measured at amortised cost in national currency- <i>Government of Georgia</i>	14	41,010	41,010	81,194	81,194
Loans to employees-key management personnel	18	27	62	35	79
Liabilities:					
Due to the Ministry of Finance	20	1,447,250	1,447,250	2,445,730	2,445,730
Other Liabilities - <i>Profit payable to the Ministry of Finance of Georgia</i>	18	670,146	670,146	302,877	302,877
Statement of profit or loss and other comprehensive income					
Interest income		180,035	953,396	222,917	845,733
- <i>Government of Georgia</i>		180,034		222,916	
- <i>Key management personnel</i>		1		1	

In 2024, unrealized fair value gain on government securities measured at fair value through other comprehensive income amounted to GEL 15,347 thousand (2023: gain of GEL 2,436 thousand).

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 *(in thousands of Georgian Lari)*

27. LIABILITIES RELATED TO FINANCING ACTIVITIES

Table below shows reconciliation of movements of liabilities to cash flows arising from financing activities:

	Note	Cash Movement			Non-Cash Movement				
		1-Jan-2024	Interest paid	Net proceeds from financing activities	Accrued interest	Translation differences	Distribution to the Ministry of Finance from 2023 profit	Recognition and other movement	31-Dec-2024
Liabilities arising from financing activities:									
Debt securities issued	23	59,225	(4,638)	(327)	5,124	-	-	-	59,384
Due to the International Monetary Fund	10	2,341,363	(104,462)	(110,575)	101,102	33,688	-	-	2,261,116
Other Liabilities - Lease Liability	15	519	(286)	(924)	286	(202)	-	7,159	6,552
Other Liabilities - Profit payable to the Ministry of Finance of Georgia	25	302,877	-	(302,877)	-	-	670,146	-	670,146
Liabilities arising from financing activities:									
Debt securities issued	23	59,135	(5,505)	(468)	6,063	-	-	-	59,225
Due to the International Monetary Fund	10	2,410,183	(97,756)	(79,863)	102,343	6,456	-	-	2,341,363
Other Liabilities - Lease Liability	15	1,576	(119)	(1,057)	119	-	-	-	519
Other Liabilities - Profit payable to the Ministry of Finance of Georgia	25	462,780	-	(462,780)	-	-	302,877	-	302,877

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 *(in thousands of Georgian Lari)*

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS Accounting Standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

Fair value of the Bank's financial instruments measured at fair value on a recurring basis

Some of the Bank's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

Financial instruments measured at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs:

- Quoted prices in an active market (**Level 1**) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products do not require a significant amount of judgment. This level entails financial instruments under international reserve portfolio which are classified as derivative financial instruments, investments measured at fair value through profit or loss and investments measured at fair value through other comprehensive income. The instruments are valued on a daily basis, based on the bid prices obtained from Bloomberg at the closing of the markets of the current day.
- Valuation techniques using observable inputs (**Level 2**) – Valuations based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:
 - a) quoted prices for similar assets or liabilities in active markets;
 - b) quoted prices for identical or similar assets or liabilities in markets that are not active;
 - c) inputs other than quoted prices that are observable for the asset or liability, for example:
 - interest rates and yield curves observable at commonly quoted intervals;
 - implied volatilities and
 - credit spreads;
 - d) market-corroborated inputs

Georgian government securities, measured at fair value through other comprehensive income, are measured using observable inputs under Level 2, in particular, market yields on similar securities issued by the Georgian government. For fair value assessment, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

- Valuation techniques incorporating information other than observable market data (**Level 3**) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The Bank does not have any financial instruments valued based on unobservable inputs.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices or other observable inputs are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported in the statement of financial position as well as its profit or loss could be material.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

The table below analyses financial instruments measured at fair value at 31 December 2024 and 2023, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	Note	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
		31-Dec-24	31-Dec-23			
Financial Assets						
International reserves						
Monetary Gold	8	1,681,645	-	Level 1	Quoted bid prices in an active market	N/A
Derivative financial assets	11	5,488	15,738	Level 1	Quoted bid prices in an active market	N/A
Investments measured at fair value through profit or loss	12	291,431	272,264	Level 1*	Quoted bid prices in an active market	N/A
Investments measured at fair value through other comprehensive income	13	5,944,958	9,846,621	Level 1	Quoted bid prices in an active market	N/A
Monetary policy instruments						
Investments measured at fair value through other comprehensive income	13	1,871,247	2,668,266	Level 2	Market interest rate for similar instruments	N/A
Derivative financial assets	11	2,520	-	Level 1	Quoted bid prices in an active market	N/A
Financial liabilities						
Derivative financial liabilities	11	2,143	-	Level 1	Quoted bid prices in an active market	N/A

* The Bank's investments measured at fair value through profit or loss comprise a portion of international reserves managed by the Bank for International Settlements ("BIS"), which represents investments placed in the Bank for International Settlements Investment Pool (BISIP CNY). The investments represent instruments, which have quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Therefore, the investment's fair valuation is considered to be Level 1 within fair value hierarchy.

There were no transfers between Level 1, 2 and 3 during the years ended 31 December 2024 and 2023.

Gains and losses included in other comprehensive income relate to investments measured at fair value through other comprehensive income and are reported as changes in revaluation reserve of investments measured at FVOCI.

Net unrealized gains/(losses) from securities and derivatives included in profit or loss relate to derivative financial assets and investments measured at fair value through profit or loss as changes in fair value during the reporting period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

For fixed interest-bearing financial assets and liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without maturity.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

For variable interest-bearing financial assets (Georgian government bond classified as investments measured at amortized cost) and liabilities (borrowings from the IMF), it is assumed that the carrying amounts approximate their fair value. Moreover, management of the Bank believes that due to their specific nature, borrowings from the IMF represent a separate segment of borrowings from international financial organizations to support developing countries. As a result, these borrowings were considered to have been received in an “arm’s length” transaction.

29. RISK MANAGEMENT

Introduction

The activities of the Bank are exposed to various types of risks. These include financial risks in the form of market, credit, and liquidity risks. The Bank’s activities are also exposed to a diverse range of non-financial risks. Due to its unique role and functions, the Bank’s risk management and control is not only based on the institutional risk and return considerations, but also takes into account the national interests, in line with its statutory responsibilities prescribed in the relevant legislation. The Bank views risk management as an integral part of overall management process and an essential element of good corporate governance. The Council of the Bank is ultimately responsible for the oversight of the risk management framework, overseeing the management of the key risks and reviewing its risk management policies and procedures.

To support the effective and efficient risk management system the Bank established a three lines of defense model. The model allocates clear roles and responsibilities for business departments, risk management, and internal audit.

First line of defense: Departmental management

The first line of defense (the Bank’s departments) is responsible to identify, assess, and manage the risks in their respective departments by designing, implementing and maintaining an adequate and effective systems of control.

Second line of defense: Centralized risk management function

The second line of defense (Centralized Risk Management Department) is responsible to define and implement an effective non-financial risk management framework that is consistent with standards and approaches of best international practices. The Centralized Risk Management Department provides independent forward-looking assessment of the risks, facilitates, risk management processes and provides business continuity support. The department is accountable to the Governor of the Bank.

Third line of defense: Internal audit

Internal Audit represents the third line of defense, which ensures the effectiveness, and appropriateness of the risk management and internal control systems. Internal audit examines both the adequacy of internal controls and the Bank’s compliance with the procedures on a regular basis and reports its findings and recommendations to the Chairman of the Council.

Organization of risk management department

<u>Nature of risk</u>	<u>Management</u>	<u>Guidelines policies issued by</u>	<u>Supervision</u>
		Monetary policy committee	
		International reserve management committee	Board
Financial risks	At department level	Centralized risk management department	Internal Audit, Audit Committee
Non-financial risks	At department level		

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

Financial risks

The Bank uses financial instruments as a means of achieving its monetary policy objectives and for managing international reserves. These two portfolios have different risk policies and characteristics, both of them are managed by the financial market department. The description of financial risks below presents the main risks to which these two portfolios of financial instruments are exposed, as well as the management policy of these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The table below shows the maximum exposure to credit risk for financial instruments of the Bank for which impairment requirements are not applied:

	Notes	Maximum exposure 31-Dec-24	Maximum exposure 31-Dec-23
Foreign currency assets			
International reserves			
Assets related to derivative instruments	11	5,488	15,738
Investments measured at fair value through profit or loss	12	291,431	272,264
National currency assets			
Monetary policy instruments			
Assets related to derivative instruments	11	2,520	-
Total credit risk exposure		299,439	288,002

Exposure to credit risk for instruments where impairment requirements are applied are represented by carrying amounts of the respective assets in the statement of financial position.

International reserve portfolio

According to the Law, the Bank is eligible to hold and manage an international reserve portfolio. The Bank maintains a portfolio to support its monetary and exchange policies and normal functioning of domestic and foreign payments. Reserves are also employed to protect the country from external vulnerability by maintaining sufficient liquidity to absorb shocks during a financial crisis. Therefore, the multiple objectives of holding international reserves feature safety, liquidity, and profitability. Hence, assets under the international reserve portfolio are invested on a conservative basis to facilitate these objectives, with an emphasis on liquidity and capital preservation. For instance, the Bank's Investment Guidelines prioritizes the preservation of capital and a high level of liquidity of reserves. Once these conditions are met, return is to be maximized.

The portfolio is managed in line with investment guidelines approved by the Council. The Reserve Management Committee (the "Committee") of the Bank is responsible for monitoring and implementation of risk mitigation measures prescribed in the investment guidelines and making sure that the Bank operates within the established risk parameters. Typical activities of the Committee are reviewing the monthly reports, approving the list of eligible counterparties, approving changes to the strategy before submitting them to the Council and occasionally making important tactical decisions on asset allocation. The Risk Management and Control Division (the "Division") of the Bank is responsible for the overall day-to-day risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing, and reporting risks.

Monetary policy portfolio

The monetary policy is executed mainly through financial instruments such as Georgian government securities, loans to commercial banks, certificates of deposit, minimum reserve requirements for commercial banks and derivative financial instruments. The monetary policy committee is responsible for monitoring and implementation of risk mitigation tools, such as collateral requirements for refinancing loans.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 *(in thousands of Georgian Lari)*

a) Financial instruments under the international reserves portfolio – internationally rated

In order to control the credit risk of the financial instruments used in the international reserves operations, the strategic asset allocation limits the exposures to credit risk of countries, counterparties and issuers, by setting concentration limits and minimum long-term credit rating, established by the international rating agencies (Standard & Poor's, Moody's and Fitch). For instance, investment guidelines define the minimum level of the credit rating for investing in any debt Instruments (Bonds, Bills) as well as for bank deposits and other financial instruments as A-. However, minimum credit rating of BBB is acceptable for counterparties used only for Nostro accounts.

Additionally, the investment guidelines limit the concentration into non-benchmark financial instruments and the portfolio is diversified into various money market instruments, as well as fixed income and floating rate securities (Government Bonds, Agencies including Regional Governments and Supranational Securities) and other liquid, highly secure instruments.

While selecting the Bank's counterparties, the counterparty's credit rating, the country of its residence, the volume of its assets and capital, the experience of working in international markets and with corporate clients and the spectrum of the services and instruments offered to its clients are taken into consideration. In case of downgrade of the long-term credit rating of the Bank's counterparty by the above-mentioned rating agencies, the counterparty will be withdrawn from the list of eligible counterparties.

When different credit ratings are designated by the rating agencies (Standard & Poor's, Moody's and Fitch) for the assets, the second-best credit rating is used for credit risk assessment.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 *(in thousands of Georgian Lari)*

Credit quality analysis

The table below shows, by class of financial instruments, gross carrying amount of assets within the international reserve portfolio for which impairment requirements are applied according to second-best credit rating based on international ratings:

	31 December 2024			31 December 2023				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Second-best credit rating (credit ratings range)								
Cash and cash equivalents (excluding cash on hand)								
AAA (from AA+ to AAAA)	337,965	-	-	337,965	191,765	-	-	191,765
AA (from A+ to AA+)	1,709,572	-	-	1,709,572	894,257	-	-	894,257
A (from BBB+ to AA-)	871,764	-	-	871,764	641,741	-	-	641,741
Gross carrying amount	2,919,301	-	-	2,919,301	1,727,763	-	-	1,727,763
Loss allowance	-	-	-	-	-	-	-	-
Net carrying amount	2,919,301	-	-	2,919,301	1,727,763	-	-	1,727,763
Special Drawing Rights holdings with the International Monetary Fund								
AAA	1,273,804	-	-	1,273,804	1,214,799	-	-	1,214,799
Gross carrying amount	1,273,804	-	-	1,273,804	1,214,799	-	-	1,214,799
Loss allowance	-	-	-	-	-	-	-	-
Net carrying amount	1,273,804	-	-	1,273,804	1,214,799	-	-	1,214,799
Investments measured at fair value through other comprehensive income								
AAA (from AA+ to AAA)	1,553,261	-	-	1,553,261	1,568,291	-	-	1,568,291
AA (from A+ to AAA)	4,333,978	-	-	4,333,978	8,275,847	-	-	8,275,847
A (from A to A+)	57,719	-	-	57,719	2,483	-	-	2,483
Net carrying amount - fair value	5,944,958	-	-	5,944,958	9,846,621	-	-	9,846,621
Loss allowance (recognised in other comprehensive income)	(971)	-	-	(971)	(1,789)	-	-	(1,789)

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

b) Financial instruments under the monetary policy portfolio – internally rated

Credit risk is associated with open-market operations and facilities that inject liquidity to the financial system. The Bank's securities portfolio is comprised exclusively of securities issued by the Government of Georgia, considered as assets with low credit risk. To mitigate the risk associated with loans to banking institutions, the Bank requires collaterals eligible according to their credit quality, which are valued at market prices at the time of their receipt and subject to the application of discounts or haircuts according to the instrument specific characteristics. As at 31 December 2024 and 31 December 2023 credit rating of monetary policy instrument was assessed as AAA, in accordance with internally developed ratings (for expected credit loss estimation purposes, the internally rated AAA grade corresponds to the B-BB grade of the international rating agencies).

The Bank classifies its financial assets other than international reserves based on internally developed ratings as follows:

AAA grade – borrowers with excellent financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

AA grade – borrowers with stable financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

A grade – borrowers with satisfactory financial performance, having changes in the terms and conditions of loan agreements and no overdue in principal and interest.

B grade – loans issued to borrowers with satisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The attributed risk ratings are assessed and updated regularly.

The table below shows, by classes of financial instruments, gross carrying amounts of monetary policy and other financial assets, for which impairment requirements are applied, based on the Bank's internal credit rating system:

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

The following table shows reconciliation of opening and closing balances of the loss allowance by classes of those financial instruments for which expected credit losses are recognised:

	2024		2023			
	12-month ECL	Lifetime ECL credit-impaired	Total	12-month ECL	Lifetime ECL credit-impaired	Total
Foreign currency assets						
<i>International reserves</i>						
Investments measured at FVOCI						
Balance at 1 January	1,789	-	1,789	236	-	236
New financial assets recognised	656	-	656	1,678	-	1,678
Remeasurement of loss allowance	(98)	-	(98)	34	-	34
Foreign exchange and other movements	12	-	12	-	-	-
Financial assets that have been derecognized - repayment	(1,388)	-	(1,388)	(159)	-	(159)
Balance at 31 December	971	-	971	1,789	-	1,789
National currency assets						
<i>Other national currency assets</i>						
Other assets						
Balance at 1 January	-	43	43	-	54	54
New financial assets recognized	-	-	-	-	-	-
Remeasurement of loss allowance	-	-	-	-	-	-
Financial assets that have been derecognized, including repayment	-	(8)	(8)	-	(11)	(11)
Balance at 31 December	-	35	35	-	43	43
Total balance at 1 January	1,789	43	1,832	236	54	290
Total balance at 31 December	971	35	1,006	1,789	43	1,832

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to minimize excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a low credit risk profile. The concentration risks by counterparties and asset quality are disclosed in relevant notes to the financial statements.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

Geographical concentration

The Bank's financial assets and liabilities are generally concentrated in Georgia, except for the international reserve portfolio and borrowings from the IMF. The below table provides information on geographical concentration for these financial assets and liabilities outside of Georgia:

As at 31 December 2024	Notes	US	EU*	Australia	Canada	International	Other	Total
Assets:								
International reserves								
Cash and cash equivalents (excluding cash on hand)	7	1,281,178	1,162,916	0	394,810	1,272	79,125	2,919,301
Special Drawing Rights holdings with the IMF	10	-	-	-	-	1,273,804	-	1,273,804
Assets related to derivative instruments	11	-	-	-	-	-	5,488	5,488
Investments measured at fair value through profit or loss	12	-	-	-	-	291,431	-	291,431
Investments measured at fair value through other comprehensive income	13	3,278,413	1,143,880	17,140	730,472	611,327	163,726	5,944,958
		4,559,591	2,306,796	17,140	1,125,282	2,177,834	248,339	10,434,982
Liabilities:								
Due to the IMF	10	-	-	-	-	2,261,116	-	2,261,116
Net position		4,559,591	2,306,796	17,140	1,125,282	(83,282)	248,339	8,173,866
As at 31 December 2023								
Assets:								
International reserves								
Cash and cash equivalents (excluding cash on hand)	7	276,571	892,093	5	2,271	-	556,823	1,727,763
Special Drawing Rights holdings with the IMF	10	-	-	-	-	1,214,799	-	1,214,799
Assets related to derivative instruments	11	-	-	-	-	-	15,738	15,738
Investments measured at fair value through profit or loss	12	-	-	-	-	272,264	-	272,264
Investments measured at fair value through other comprehensive income	13	7,375,570	920,995	24,516	696,230	646,573	182,737	9,846,621
		7,652,141	1,813,088	24,521	698,501	2,133,636	755,298	13,077,185
Liabilities:								
Due to the IMF	10	-	-	-	-	2,341,363	-	2,341,363
Net position		7,652,141	1,813,088	24,521	698,501	(207,727)	755,298	10,735,822

*EU-including Norwegian agency securities.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Liquidity risk

Liquidity risk considers the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

c) Financial instruments under the international reserve portfolio

The purpose of the management of the liquidity risk is to ensure that the Bank fulfills all the financial commitments that it has assumed. Accordingly, the Bank diversifies maturities and also establishes limits aiming to ensure that the securities purchased may be traded in the secondary market without causing abrupt changes in the prices of the assets. Due to these guidelines, even securities with longer maturities have immediate liquidity.

The Bank's Monetary Policy and International Reserves Management Committees set limits on the minimum proportion of maturing funds available to cover cash outflows. The liquidity management policy of the Bank requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flows; and
- Maintaining liquidity and funding contingency plans.

The Financial Markets Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future transactions. The Bank's liquidity risk relates to foreign currency cash flows.

The table below summarizes the maturity profile of the Bank's financial liabilities in foreign currency as at 31 December 2024 and 2023 based on contractual undiscounted repayment obligations. The financial assets in foreign currencies are presented in "less than 3 months" category on the basis that the Bank can realize them within the period not exceeding 3 months to meet the liquidity requirements:

As at 31 December 2024	Notes	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Foreign currency assets						
International Reserves						
Cash and cash equivalents (excluding cash on hand)	7	2,919,301	-	-	-	2,919,301
Special Drawing Rights holdings with the IMF	10	1,273,804	-	-	-	1,273,804
Assets related to derivative instruments	11	5,488	-	-	-	5,488
Investments measured at fair value through profit or loss	12	291,431	-	-	-	291,431
Investments measured at fair value through other comprehensive income	13	5,944,958	-	-	-	5,944,958
Other foreign currency assets						
Other financial assets	18	2,545	-	-	-	2,545
Total foreign currency assets		10,437,527	-	-	-	10,437,527
Foreign currency liabilities						
Due to resident financial institutions	19	6,387,542	-	-	-	6,387,542
Due to the Ministry of Finance	20	428,426	-	-	-	428,426
Due to the IMF	10	1,282,286	208,468	757,598	123,854	2,372,206
Other liabilities	18	66,195	-	-	-	66,195
Total foreign currency liabilities		8,164,449	208,468	757,598	123,854	9,254,369
Net position		2,273,078	(208,468)	(757,598)	(123,854)	1,183,158

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

As at 31 December 2023	Notes	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Foreign currency assets						
International Reserves						
Cash and cash equivalents (excluding cash on hand)	7	1,727,763	-	-	-	1,727,763
Special Drawing Rights holdings with the IMF	10	1,214,799	-	-	-	1,214,799
Assets related to derivative instruments	11	15,738	-	-	-	15,738
Investments measured at fair value through profit or loss	12	272,264	-	-	-	272,264
Investments measured at fair value through other comprehensive income	13	9,846,621	-	-	-	9,846,621
Other foreign currency assets						
Other financial assets	18	1,345	-	-	-	1,345
Total foreign currency assets		13,078,530	-	-	-	13,078,530
Foreign currency liabilities						
Due to resident financial institutions	19	4,326,206	-	-	-	4,326,206
Due to the Ministry of Finance	20	753,038	-	-	-	753,038
Due to the IMF	10	1,270,910	150,068	867,732	256,110	2,544,820
Other liabilities	18	34,822	-	229	-	35,051
Total foreign currency liabilities		6,384,976	150,068	867,961	256,110	7,659,115
Net position		6,693,554	(150,068)	(867,961)	(256,110)	5,419,415

d) Financial instruments under the monetary policy portfolio

Considering the inherent characteristics of a monetary authority, which includes controlling the liquidity of the financial system, the Bank is not exposed to the limitations resulting from a mismatch between assets and liabilities in national currency.

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges rates. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate and currencies, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

e) Financial instruments under the international reserve portfolio

Market risk implies possible losses due to variations in the prices of investments.

The Strategic Asset Allocation (SAA) process limits the market risk based on the risk tolerance of the Bank. Strategic benchmarks are defined for individual portfolios to maximize returns, after assessing various interest rate scenarios, while staying within the market risk limit. Currency exposures are defined based on the analysis of the foreign debt and diversification effects are also considered to decrease overall currency risk (refer to note on currency risk below).

All portfolios are actively managed versus strategic benchmarks. Active market risk versus benchmarks is defined during the risk budgeting process and active market risk limits are established for each portfolio through limiting ex-ante tracking error and duration deviation. Regular stress testing is conducted to assess resilience of active portfolios to market shocks.

Strategic Benchmark Durations and Active Market Risk Limits for the international reserve portfolio are as follows:

Tranches	2024		2023	
	Benchmark Duration (Duration Deviation Limits)	Ex-Ante Tracking Error Limits	Benchmark Duration (Duration Deviation Limits)	Ex-Ante Tracking Error Limits
Liquidity Portfolio in USD*	1.5 year (+/-3 Months)	15 Basis Point	1.5 year (+/-3 Months)	15 Basis Point
Investment Portfolio in USD*	2 year (+/-3 Months)	30 Basis Point	2 years (+/-3 Months)	30 Basis Point
Investment Portfolio in CAD*	2 year (+/-3 Months)	30 Basis Point	2 years (+/-3 Months)	30 Basis Point
Investment Portfolio in EUR*	1.5 year (+/-3 Months)	30 Basis Point	1 year (+/-3 Months)	30 Basis Point

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

* Due to the annual SAA decision, the Benchmark Durations for the Liquidity and Investment Portfolios have increased from February 2023.

Market risk is monitored through daily measurement of the duration and composition of currencies, and by the follow-up of ex-ante tracking error. The international reserve management daily report, prepared by the Financial Markets Department, includes measurements of performance and risk in an absolute manner and as compared to a benchmark, and presents an evaluation of the implemented investment strategy.

The Bank's exposure to fair value interest rate risk arises principally through its investments in International Reserves portfolio, which are exposed to fluctuations because of changes in market interest rates.

Interest rate risk for Foreign Currency Reserves is the risk of changes in fair value of financial instruments due to changes in market interest rates.

The Bank's internally managed Foreign Currency Reserve's portfolio is divided into tranches and the Bank measures interest rate risk for its tranches, in all currencies, based on a 1% change in interest rates that indicates a change in the fair market value of financial instruments per 1% change in market yields. The fair market values of tranches held by the Bank are exposed to fluctuations, however these variations would not affect the ability of the Bank to fulfil its obligations.

Market yield sensitivity of the Bank's International Reserve tranches

The table shows the sensitivity of reserve tranches to a 1% increase or decrease in market yields to the asset values (figures are provided in thousands of USD):

Currency	2024		2023	
	Increase in market yield	Impact on equity	Increase in market yield	Impact on equity
Investment Tranche in USD	1%	(27,879)	1%	(48,280)
Investment Tranche in CAD	1%	(2,370)	1%	(2,753)
Investment Tranche in EUR	1%	(3,510)	1%	(2,454)
Investment Tranche in CNY External (BIS)	1%	(1,615)	1%	(3,278)
Liquidity Tranche in USD	1%	(3,350)	1%	(9,804)
Working Capital Tranche in USD	1%	(70)	1%	(8)
Working Capital Tranche in EUR	-	-	1%	(49)

Currency	2024		2023	
	Decrease in market yield	Impact on equity	Decrease in market yield	Impact on equity
Investment Tranche in USD	1%	28,703	1%	49,791
Investment Tranche in CAD	1%	2,435	1%	2,832
Investment Tranche in EUR	1%	3,610	1%	2,512
Investment Tranche in CNY External (BIS)	1%	1,615	1%	3,278
Liquidity Tranche in USD	1%	3,444	1%	10,087
Working Capital Tranche in USD	1%	71	1%	8
Working Capital Tranche in EUR	-	-	1%	49

f) Financial instruments under the monetary policy portfolio

For open-market operations, this risk is mainly associated with changes in the market value of Georgian government bonds, and the change in value of collaterals received in liquidity injection transactions. For collaterals the risk of value loss is mitigated by using margins and haircuts that write-down their value and allow the effective amount lent to be lower than the collateral received.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Georgian Lari)

Market yield sensitivity of the Bank's financial assets

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The following table demonstrates the net effect of 1% change in interest rates, with all other variables held constant, on the Bank's statement of profit or loss and other comprehensive income, taking into account the effect of derivatives.

The sensitivity of equity is calculated by revaluing fixed-rate investments measured at fair value through other comprehensive income at 31 December 2024 and 2023 for 1% change in market interest rates:

	2024		2023	
	Increase in market yield	Impact on equity	Increase in market yield	Impact on equity
Georgian Government bonds	1%	(50,203)	1%	(46,858)

	2024		2023	
	Decrease in Market Yield	Impact on equity	Decrease in Market Yield	Impact on equity
Georgian Government bonds	1%	50,203	1%	49,425

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. Subject to the currency profile of assets, the value of assets of the Bank is exposed to the risk of changes in exchange rates of major foreign currencies. Within the overall exposure and to a limited extent, foreign currency risk can be partially mitigated by holding assets across a diversified portfolio of currencies. Since 14 December 2015, the target currency composition is 80% USD, 10% EUR, 10% Other (Canadian dollars, Chinese yuan and other currencies up to 10%). Under SAA, +/-10% is allowed for the U.S. dollar, the Euro, and other currencies' target currency composition.

Sensitivity to foreign currency

The table below provides the concentration of the Bank's financial assets and liabilities by major currencies and analyses of the effect of a 1%, 5%, 10% and 15% movement of the currency rate against Georgian Lari, with all other variables held constant, on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in the statement of profit or loss and other comprehensive income, while a positive amount reflects a net potential increase.

As at 31 December 2024	USD	EUR	SDR	CNY	CAD	Other	Total
Foreign currency assets	9,385,067	1,106,512	1,276,277	291,431	428,479	2,012	12,489,778
Foreign currency liabilities	(5,243,658)	(1,616,358)	(2,259,247)	-	-	(22,146)	(9,141,409)
Net position	4,141,409	(509,846)	(982,970)	291,431	428,479	(20,134)	3,348,369

As at 31 December 2023	USD	EUR	SDR	CNY	CAD	Other	Total
Foreign currency assets	9,949,273	1,610,555	1,216,098	272,264	424,353	1,552	13,474,095
Foreign currency liabilities	(3,470,413)	(1,626,729)	(2,339,583)	-	-	(17,153)	(7,453,878)
Net position	6,478,860	(16,174)	(1,123,485)	272,264	424,353	(15,601)	6,020,217

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

	Effect on total comprehensive income and equity						
	2024						
	USD	EUR	SDR	CNY	CAD	Other	Total
Increase in currency rate of 1%	41,414	(5,098)	(9,830)	2,914	4,285	(201)	33,484
Increase in currency rate of 5%	207,070	(25,492)	(49,149)	14,572	21,424	(1,007)	167,418
Increase in currency rate of 10%	414,141	(50,985)	(98,297)	29,143	42,848	(2,013)	334,837
Increase in currency rate of 15%	621,211	(76,477)	(147,446)	43,715	64,272	(3,020)	502,255
Decrease in currency rate of 1%	(41,414)	5,098	9,830	(2,914)	(4,285)	201	(33,484)
Decrease in currency rate of 5%	(207,070)	25,492	49,149	(14,572)	(21,424)	1,007	(167,418)
Decrease in currency rate of 10%	(414,141)	50,985	98,297	(29,143)	(42,848)	2,013	(334,837)
Decrease in currency rate of 15%	(621,211)	76,477	147,446	(43,715)	(64,272)	3,020	(502,255)

	Effect on total comprehensive income and equity						
	2023						
	USD	EUR	SDR	CNY	CAD	Other	Total
Increase in currency rate of 1%	64,789	(162)	(11,235)	2,723	4,244	(156)	60,203
Increase in currency rate of 5%	323,943	(809)	(56,174)	13,613	21,218	(780)	301,011
Increase in currency rate of 10%	647,886	(1,617)	(112,349)	27,226	42,435	(1,560)	602,021
Increase in currency rate of 15%	971,829	(2,426)	(168,523)	40,840	63,653	(2,340)	903,033
Decrease in currency rate of 1%	(64,789)	162	11,235	(2,723)	(4,244)	156	(60,203)
Decrease in currency rate of 5%	(323,943)	809	56,174	(13,613)	(21,218)	780	(301,011)
Decrease in currency rate of 10%	(647,886)	1,617	112,349	(27,226)	(42,435)	1,560	(602,021)
Decrease in currency rate of 15%	(971,829)	2,426	168,523	(40,840)	(63,653)	2,340	(903,033)

Other risks

Settlement risk

Settlement risk (i.e., the risk that the counterparty may not be able to complete a transaction) is mitigated in a number of ways. The Bank will only transfer funds after sufficient collateral has been secured. For outright transactions in securities, settlement risk is eliminated through the use of systems that are based on delivery versus payment, that is, the simultaneous exchange of securities and cash. Additionally, the settlement of the cash component is performed through the payment system referred to as Real Time Gross Settlement, which is owned and managed by the Bank, which determines the position of each participant in real time on an individual payment-to-payment basis. This automatically avoids overdrafts and as it simultaneously uses accounts in the Bank as settlement asset, it mitigates credit risk.

NATIONAL BANK OF GEORGIA

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2024 (in thousands of Georgian Lari)

Non-financial risks

Non-financial risks to which the Bank is exposed are: reputational and operational risks. Operational risks originate from inadequate or failed internal processes, people and systems or external events. The Bank is exposed to the following sub-categories of operational risks: legal, information technology, human resources, security (physical and information), third-party, business continuity, fraud and compliance risks. Realization of non-financial risks may result in financial loss, damage to reputation or failure in achieving the Bank's business objectives. Hence, the Bank developed Centralized Risk Management (CRM) system in order to minimize the impact of non-financial risks and ensure solid internal control system.

CRM framework is comprised of non-financial risks management, incident management and business continuity systems and is supported by internal control system of procedures. Non-financial risk assessment is based on qualitative method (5-scale) and includes all bank-wide processes, where risks could jeopardize the achievement of the objectives. Incident Management system captures and analyzes incidents in order to avoid the repetitive occurrence of incidents. To expand and improve operational risk assessment, the Bank selected and accepted quantification method - Standardised Measurement Approach (SMA). In order to finalize the implementation, the Bank will continue working on financial loss data, consequent processes and procedure development. The Bank applies model risk management framework to register, describe and assess the models used by the Bank, which supports to create unified documentation for each model and non-financial risk assessment process. Business continuity management system continuously improves the resilience of the Bank's critical processes and provides adequate procedures, regular testing and expansion of scenarios.

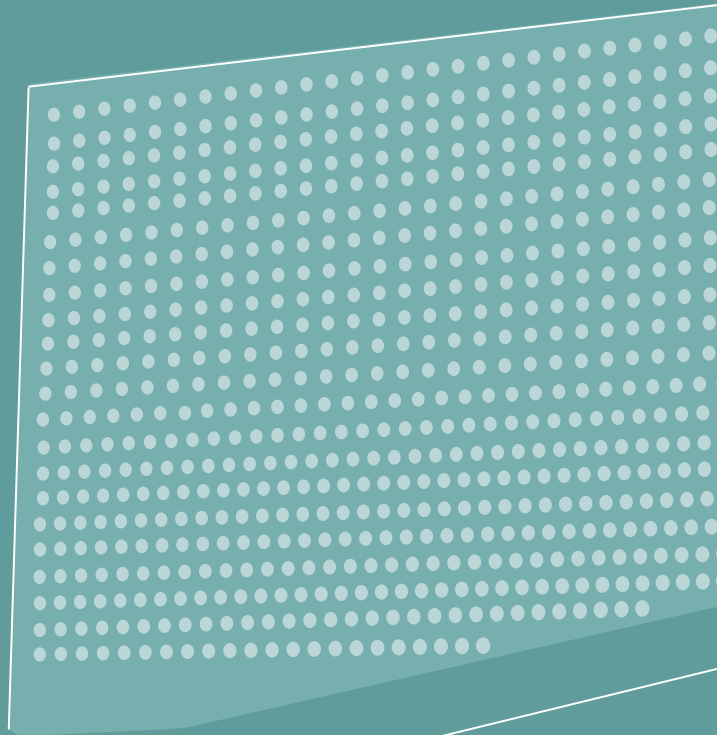
The Bank defined the aggregate level (Risk Appetite) of non-financial risks the Bank is willing to assume within its risk capacity to achieve its strategic objectives and goals. Overall, the Bank has conservative approach to operational and reputational risks and operates within low-risk appetite and tolerance levels. Hence, the Bank makes resources available and sets effective governance processes to control and maintain non-financial risks at low risk level. Risk appetite statement is reviewed and approved annually by the Council of the Bank.

30. EVENTS AFTER THE REPORTING PERIOD

In February 2025 Natela Turnava was appointed as Governor of the Bank and Vakhtang Burkiashvili, Nino Jeladze, Levan Dzneladze and Otar Shamugia were elected as members of the Council of the Bank. At the date of authorization of these financial statements for issue, the composition of the Council is as follows:

Position	Name
Chairman	Ms. Natela Turnava (Governor)
Member	Ms. Ekaterine Mikabadze (First Vice-governor)
Member	Ms. Ekaterine Galdava (Vice-governor)
Member	Ms. Nino Jeladze (Vice-governor)
Member	Ms. Nana Keinishvili
Member	Mr. Teimuraz Khomeriki
Member	Mr. Vakhtang Burkiashvili
Member	Mr. Otar Shamugia
Member	Mr. Levan Dzneladze

Up to the date these financial statements were authorized for issue, no other significant subsequent events have occurred that require adjustment of, or disclosure in, these financial statements.



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