MANAGEMENT REPROT AND
FINANCIAL STATEMENTS 2022

TBC BANK

30

years
of growth and
innovation

2022

TBC Bank[1] is the leading financial group in Georgia

1 TBC Bank refers to JSC TBC Bank (the Bank) and its subsidiaries (together Group)

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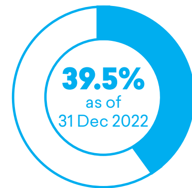
Management Report

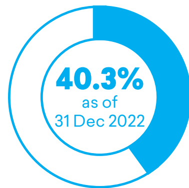
TBC at a glance

1. Who we are

The leading financial group in Georgia with a full suite of financial products and services across all client segments.



Market share[1] of total loans 38.8% as of 31 Dec 2021



Market share[1] of total deposits 40.4% as of 31 Dec 2021

Powered by **TBC Bank**

- Leading retail bank in Georgia
- Number one banking choice for MSMEs
- Number one trusted partner for corporate and investment banking (CIB) clients

Additional financial services provided:

- **TBC Pay**
- **TBC Leasing**
- **TBC Capital**

2. Our mission

3. How we are different

Best-in-class digital solutions

801,000 digital monthly active users as of 31 Dec 2022

Advanced data analytics capabilities

GEL 79 mln additional income generated in 2022

Excellent corporate governance and risk management

1 ISS Governance quality score for TBC PLC[2] as of 31 Dec 2022 indicating the lowest governance risk

Motivated employees

59% Employee Net Promoter Score (ENPS)[3] - well above industry average of 47%

4. Our strategic priorities

Build on our leading position in Georgian Banking

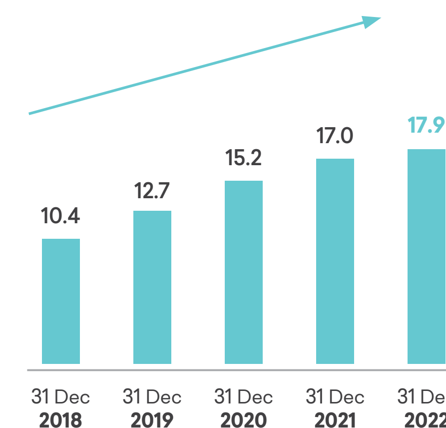
Strengthen our advanced digitalisation levels

Take our customer experience to the next level

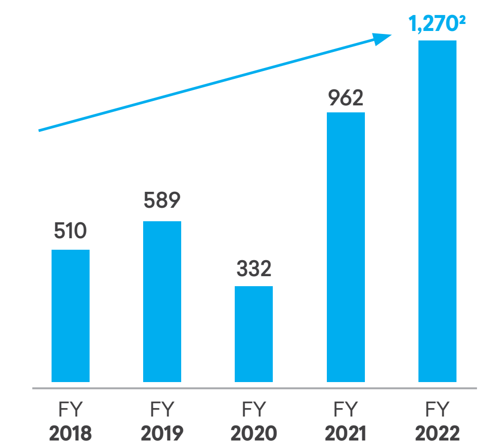
1 Based on data published by the National Bank of Georgia.
2 TBC Bank Group PLC ("TBC PLC") is a holding company of JSC TBC Bank (the "Bank") and its subsidiaries. TBC PLC is incorporated in England and Wales and listed on the premium segment of the London Stock Exchange.
3 The Employee Net Promoter Score© (ENPS) was measured in October 2022 by an independent consultant for the Bank's employees.

A proven track record of growth and profitability[1]

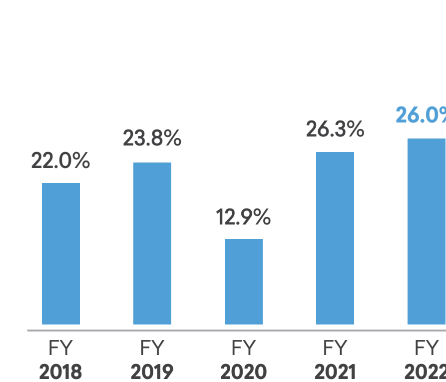
LOAN PORTFOLIO (GEL bln)



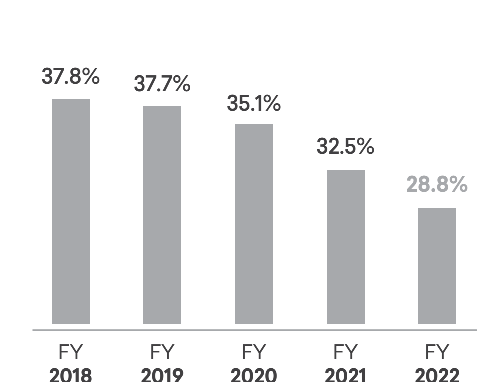
NET PROFIT BEFORE TAX (GEL mln)



RETURN ON EQUITY (ROE)



COST TO INCOME



1 Definitions and detailed calculation of the APMs are given on pages 264-268.
2 For the full year 2022, the average exchange rates for GEL/US$ was 2.92, while GEL/GBP stood at 3.62.

Executive management team

VAKHTANG BUTSKHRIKIDZE
Chief Executive Officer

TORNIKE GOGICHAISHVILI
Deputy CEO, Retail and MSME Banking, Payments

NIKOLOZ KURDIANI
Deputy CEO, Brand Experience and Marketing

NINO MASURASHVILI
Deputy CEO, Chief Risk Officer

GIORGI MEGRELISHVILI
Deputy CEO, Chief Financial Officer

GEORGE TKHELIDZE
Deputy CEO, CIB & Wealth Management

For full biographies please refer to our website: www.tbcbankgroup.com

CEO letter

"While we have achieved a lot over the past 30 years, I am extremely excited about the journey that lies ahead."

DEAR STAKEHOLDERS,

2022 was a year of major instability across the region following the outbreak of the devastating war in Ukraine, which took the lives of so many innocent people, led to the humanitarian crisis due to the forcible displacement of millions of people and negatively affected the global geopolitical and economic landscape. I strongly believe that Ukraine will prevail in its fight for freedom. In the meantime, we will continue to stand by Ukraine by offering our support to those who have suffered from the hardships of the war, through various programmes, charity activities and fundraisers.

The war has had an adverse impact on the global economy, leading to an energy crisis and rising inflation. Even in these difficult times, the Georgian economy has proved its resilience, recording continued strong growth. We remain mindful, however, of the challenging geopolitical situation and continue to monitor and analyse the war's effects closely.

30 YEARS OF INNOVATION AND GROWTH

2022 marked TBC's 30th anniversary. Over the course of these past 30 years, TBC has grown to be the leading financial institution in the country. Everything we have done has been, and continues to be, centred around our mission: "to make people's lives easier". This progress would not have been possible without the efforts of our outstanding team. The enthusiasm and dedication of our people have brought us to where we are today and I would like to thank every current and former colleague for contributing to TBC's success over the past 30 years.

DELIVERING ON OUR STRATEGY

For TBC, 2022 was another highly successful year with its core banking business generating outstanding results. In terms of headline numbers:

- **Financials** - the net profit reached a record GEL 1,023 million, up by 21% year-on-year, while the return on equity was 26.0%, despite one-off tax charges in the amount of GEL 113 million, based on the strong growth backed by solid capital position. Without the one-off tax charges, the net profit would have been GEL 1,136 million, while ROE would have reached 28.8%.
- **User base** - by the end of 2022, the number of registered users of our services reached 3.0 million, out of which 1.5 million were monthly active users (MAU). This compares to a total addressable market of around 3.7 million in Georgia.
- **High digital engagement** - digital MAU saw a major acceleration during the year, reaching 801,000 in December 2022, up by 24% year-on-year, while the average digital daily active users (DAU) amounted to 384,000, an increase of 35% over the same period.

Reinforcing our leadership position

This year, TBC once again reinforced its leadership position with strong growth achieved in both loans and deposits and maintained its market shares of around 40%. Loan growth was largely due to consumer and micro loans in line with our strategy to refocus growth towards higher-yielding loans in local currency. In the Corporate and Investment Banking (CIB) segment, we focused on increasing the share of large and mid-corporate clients and lowering concentration levels. At the same time, the asset quality remained high thanks to prudent credit risk management. In terms of deposits, growth was primarily driven by local currency deposit inflows. As a result, the larisation levels of our loan and deposit portfolios increased throughout the year in line with our strategy.

Furthermore, we are proud to have maintained our position as the leading business supporter. We support businesses during every stage of their development by providing financial expertise, as well as a vast array of non-financial services, including our start-up programme, workshops and seminars. In line with this, our annual TBC Business Awards, which recognises the best companies and services in the country, is one of the most anticipated events among the Georgian business community.

RECORD PROFITABILITY AND PRUDENT CAPITAL LEVELS

In 2022, the operating income amounted to GEL 1,946 million and grew by 39% year-on-year. This growth was driven by a strong increase in the net interest income, on the back of a combination of robust loan book growth and a higher net interest margin, as well as a substantial contribution from FX operations, related to strong business volumes and increased margins.

On the asset quality side, our cost of risk continued to normalise and amounted to 0.6% for the year. Strong focus on digitalisation and data analytics capabilities allows us to manage our business efficiently. As a result, cost to income ratio decreased by 3.7 pp year-on-year to 28.8%. Our capital position has remained strong, supported by robust income generation and the positive effect of a strengthening local currency. At the end of 2022, our CET1 ratio stood at 15.5%, comfortably above the minimum regulatory requirement of 11.6%.

ATTRACTING AND RETAINING TALENT

All the achievements I have mentioned above are attributable to our team of 8,500 dedicated colleagues. TBC pays great attention to attracting and retaining the best talent by offering opportunities for growth and development, thorough career planning, a competitive compensation package, as well as a flexible working environment. We offer education opportunities through TBC Academy, as well as provide financial support to attend various external courses and gain international certifications. As a result of these initiatives and more, it is a source of much pride that our colleagues feel valued and professionally fulfilled, as reflected in high employee net promoter score (ENPS) of 59%[1].

MUCH ACHIEVED OVER 30 YEARS, MUCH TO LOOK FORWARD TO

While we have achieved a lot over the past 30 years, I am extremely excited about the journey that lies ahead. Our focus on maintaining the leadership position in banking will result in strong balance sheet growth, as well as generating both interest and non-interest income streams that will in turn support the Group's robust profitability in the coming years. At the same time, continued technological advancements will help us increase efficiency further.

Vakhtang Butskhrikidze
CEO

24 April 2023

1 The Employee Net Promoter Score (ENPS) was measured in October 2022 by an independent consultant for the Bank's employees.

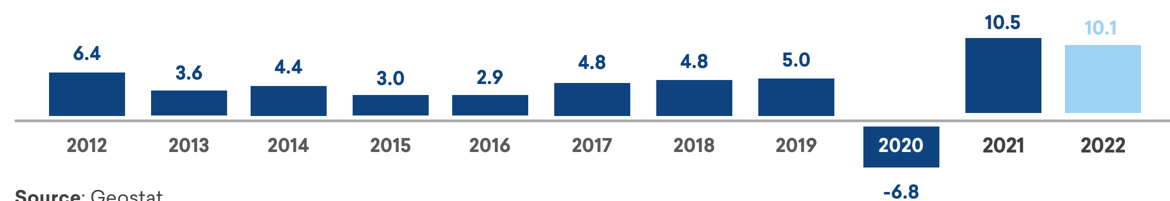
Note: For better presentation purposes, certain financial numbers are rounded to the nearest whole number.

Our operating environment

ECONOMIC GROWTH

After rebounding from the pandemic, the Georgian economy maintained its strong growth momentum in 2022, with real GDP growing by 10.1% year-on-year, according to Geostat's preliminary estimates.

REAL GDP GROWTH (%)



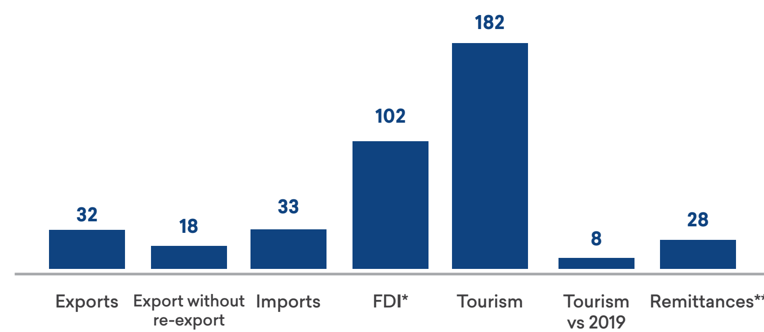
Source: Geostat

EXTERNAL SECTOR

Georgia's external sector performed significantly better throughout the year. Specifically, exports and imports of goods grew by 32% and 33% YoY, respectively. Even though surging international prices were the major driver of the increase in trade, some growth in real terms was also recorded. Notably, investment goods constituted a high proportion of imports, indicating positive sentiments, while the terms of trade remained broadly stable, supporting economic growth and the GEL.

As the initial adverse spillover effects of the Russian invasion of Ukraine was eventually compensated by the impact of migration, the recovery of tourism and remittance inflows reached record highs. Including the migration effect, tourism inflows for the full year 2022 surpassed the 2019 level by 8%. Remittance inflows grew further as well, increasing by 28%[1] year-on-year. Foreign Direct Investment (FDI) also experienced strong growth with a 99% YoY increase in the third quarter and 102% growth in the first nine months of the year. Importantly, higher levels of FDI were primarily due to much stronger additional equity investments rather than reinvested earnings.

YOY GROWTH OF INFLOWS AND IMPORTS (%)



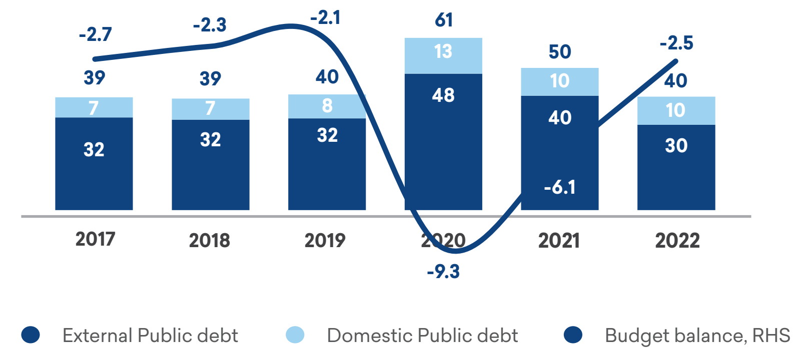
*sum of the first three quarters of the year
**Remittances from Russia are adjusted for double counting with tourism inflows and other similar effects, based on TBC Capital estimates.

Source: NBG, Geostat

FISCAL STIMULUS

The fiscal stimulus, although still sizeable, negatively affected growth in 2021 as the deficit amounted to around 6.1% of GDP, after an expansionary 9.3% of GDP in 2020. In 2022, the deficit was even lower, at 2.5%. According to the Ministry of Finance, fiscal consolidation is expected to take place in the coming years with deficit-to-GDP ratios of 2.8% and 2.3% in 2023 and 2024, respectively.

GOVERNMENT DEBT AND BUDGET BALANCE (% OF GDP)

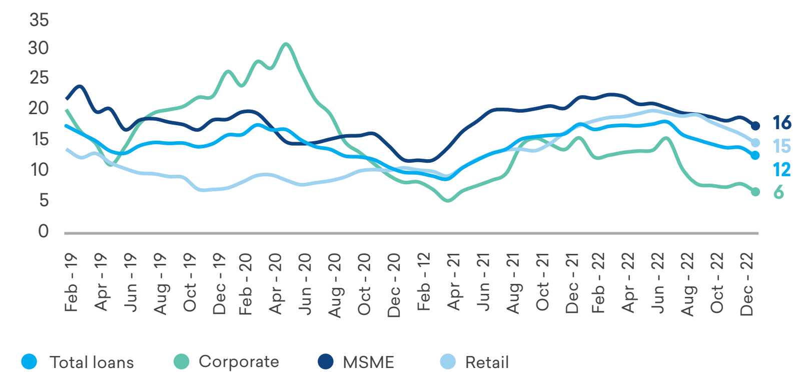


Source: Geostat, MOF

CREDIT GROWTH ON A CONSTANT CURRENCY BASIS

As of December 2022, bank credit increased by 12% year-on-year, compared to 18% growth by the end of 2021, at constant exchange rates. All segments experienced a moderation in growth. Corporate lending activity growth decreased to 6% by the end of December, largely on the back of sizeable prepayments in the second half of the year, compared to 18% in 2021. YoY growth in MSME and retail lending also cooled, although it maintained a relatively strong momentum, with growth going down from 19% at the end of 2021 to 16% at the end of 2022, and from 18% to 15%, respectively.

GROWTH OF LOANS BY SEGMENTS (YOY, EXCL. FX EFFECT, %)



Note: Aug-22 decline in corporate credit was largely due to the prepayments
Source: NBG

1 Remittances from Russia are adjusted for double counting with tourism inflows and other similar effects, based on TBC Capital estimates.

MANAGEMENT REPORT
GOVERNANCE
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ADDITIONAL INFORMATION

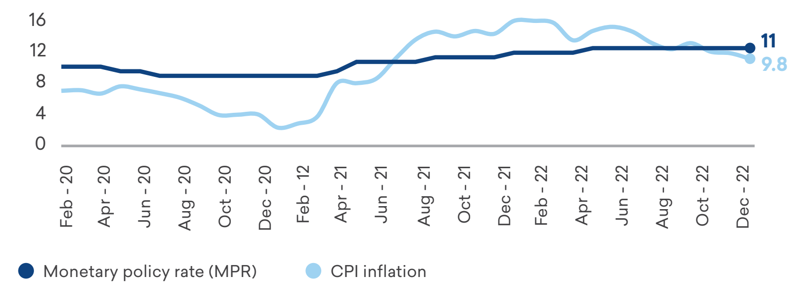
INFLATION, MONETARY POLICY, AND THE EXCHANGE RATE

The initial economic effects of Russian aggression against Ukraine, which led to further depreciation of the GEL and surging commodity prices and was later exacerbated by migration-driven rent increases, resulted in additional upward pressure on inflation, which was already elevated.

Later on, the GEL started to regain its value against US$, supported by strong inflows and tight monetary policy, appreciating to 2.69 at the end of December 2022 from 3.10 at the end of 2021. Over the same period, GEL appreciated to 2.84 and 3.27 from 3.50 and 4.12 against EUR and GBP, respectively.

Initially, after cooling off before the invasion, inflation started to rise again. Thereafter, CPI inflation moderated to 9.8% by the end of 2022 from double-digit levels throughout the year as a result of a stronger GEL and disinflationary pass-through from international markets. Notably, monthly inflation rates have retreated to a larger extent, with a 0.3% deflation in December. Nevertheless, awaiting for the more pronounced evidence for the easing of the still elevated inflation pressures, the NBG, after tightening in April, kept its monetary policy rate (MPR) at 11% until the end of the year.

CPI INFLATION AND MPR(%)



Source: NBG, Geostat

GOING FORWARD

After double-digit growth for two years in a row, the consensus projection appears to be that growth will normalise in 2023 with the IMF, the World Bank and the NBG projecting 4% and the Georgian government, 5%. According to TBC Capital's projections, the economy is expected to grow by around 6.4% in 2023.

More information on the latest analyses and projections can be found at www.tbccapital.ge.

Our business model

We have a customer-centric business model focused on providing the best experience for clients.

HOW WE CREATE VALUE

What we deliver

Our operations

- **Retail banking:** a wide range of convenient digital products.
- **MSME:** A leading partner for micro, small and medium enterprises.
- **CIB & WM:** a full suite of services for our corporate and wealth management customers.
- **Payments:** seamless solutions covering all the payment needs of companies and individuals.
- **Leasing**: an alternative source of financing for our retail and corporate clients.

How we deliver

Cutting edge technology
Innovate through technological advancement.

+

Large data hub
Utilise our advanced data analytics capabilities to maximise customer value via personalised offerings.

Implement AI and automation in relevant business processes.

+

Prudent risk management
Apply risk-adjusted profitability approach in decision-making.

Ensure the resilience of the Group is maintained.

+

Outstanding team
Attract and retain the best talent.

How we share value with our Stakeholders

Customers
Provide tailored solutions and a superior customer experience to our clients.

Colleagues
Support our colleagues in their professional development and provide rewarding career opportunities.

Community
Support business development and foster job creation, as well as take an active part in CSR and ESG activities.

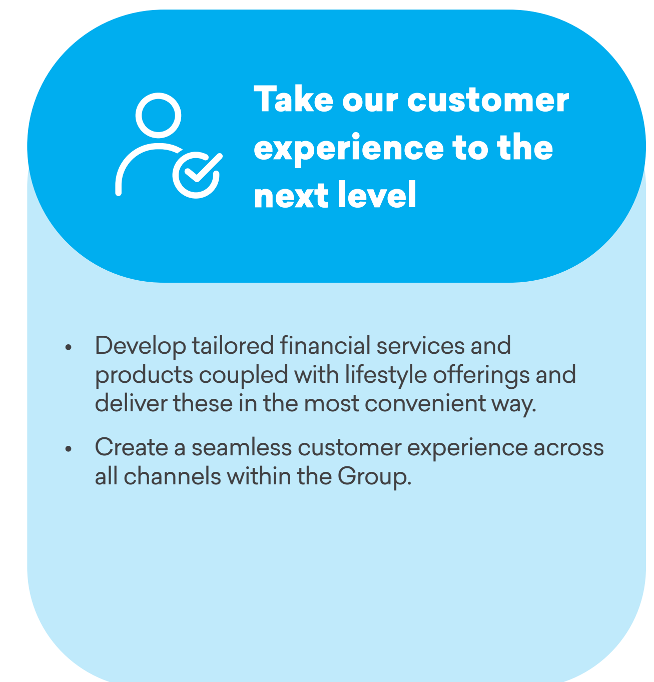
Investors
Generate sustainable returns for our shareholders and continue to be a reliable partner for our debt holders.

Our strategic priorities

Our strategic priorities serve our mission to make people's lives easier.

By delivering superior financial services to both individuals and companies in Georgia, we can achieve our mission.

Each of our priorities has been carefully selected and thought through to ensure that they all contribute towards maintaining robust profitability and strong growth profile.



1 The retail offloading ratios measures the share of transactions conducted in our remote channels, that is outside the branches.

Our key performance indicators

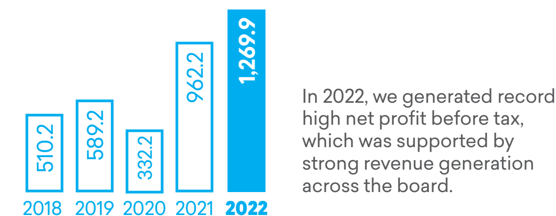
We use a broad range of financial and non-financial measures in order to assess our performance and provide a balanced view that takes into account the interests of all our stakeholders. The Supervisory Board regularly reviews the key performance indicators (KPIs) in order to ensure that they continue to show whether our strategy is working and ensures the long-term sustainable growth of the Group.

	Added KPIs	Removed KPIs
Group-wide financial KPIs:		
Growth and profitability	– Net profit before tax	– Return on assets – Net interest margin – Growth of net F&C income
Balance sheet	– Loan book larisation level	– Liquidity Coverage Ratio
Operational KPIs:		
Customer base	– Total registered users – Monthly active customers	
Digitalisation	– Digital monthly active users	– Retail offloading ratio

GROUP-WIDE FINANCIAL KPIS

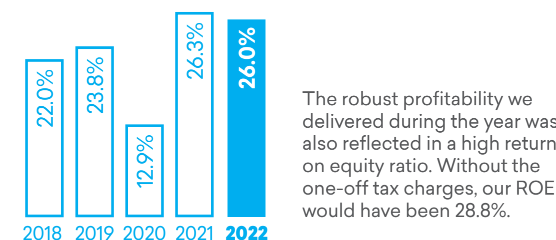
STRONG GROWTH AND PROFITABILITY

NET PROFIT BEFORE TAX (GEL mln)



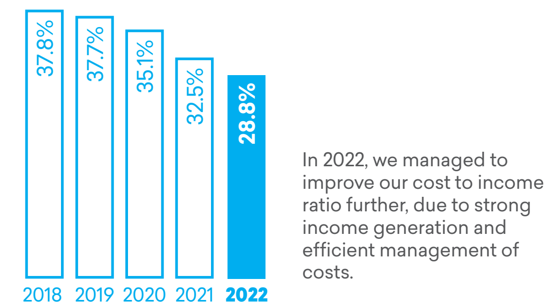
In 2022, we generated record high net profit before tax, which was supported by strong revenue generation across the board.

RETURN ON EQUITY (ROE)[1]



The robust profitability we delivered during the year was also reflected in a high return on equity ratio. Without the one-off tax charges, our ROE would have been 28.8%.

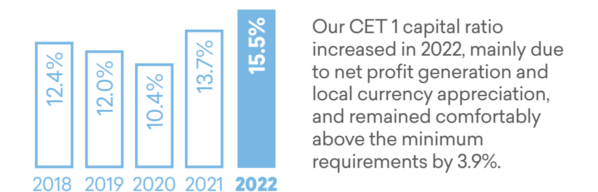
COST TO INCOME RATIO[1]



In 2022, we managed to improve our cost to income ratio further, due to strong income generation and efficient management of costs.

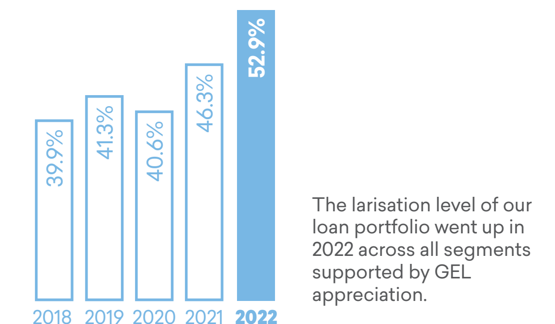
SOLID BALANCE SHEET

CET 1 CAPITAL RATIO



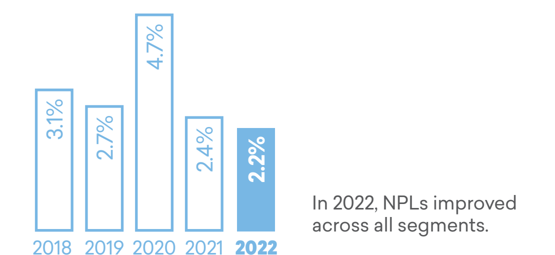
Our CET 1 capital ratio increased in 2022, mainly due to net profit generation and local currency appreciation, and remained comfortably above the minimum requirements by 3.9%.

LOAN BOOK LARISATION[2] LEVEL



The larisation level of our loan portfolio went up in 2022 across all segments supported by GEL appreciation.

NON-PERFORMING LOANS (NPL)[1]



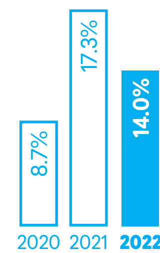
In 2022, NPLs improved across all segments.

1 Definitions and detailed calculation of the APMs are given on pages 264-268.
2 Share of GEL denominated loans in total loan portfolio.

OPERATIONAL KPIS

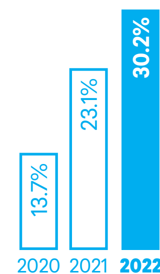
STEADY GROWTH IN GEORGIA

LOAN BOOK GROWTH AT CONSTANT CURRENCY



In 2022, our loan book outpaced the market and increased its market share in total loans by 0.7 pp to 39.5%.

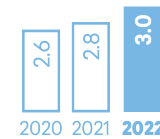
DEPOSIT GROWTH AT CONSTANT CURRENCY



In 2022, our deposits grew broadly in line with the market, maintaining our total deposit share at 40.3%.

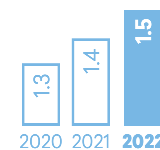
GROWING CUSTOMER BASE AND ENGAGEMENT ACROSS THE GROUP

TOTAL REGISTERED USERS (mln)



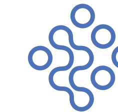
The increase in the number of registered users was mainly attributable to our retail customers.

MONTHLY ACTIVE CUSTOMERS (mln)

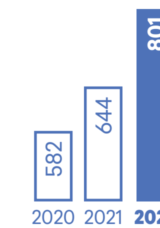


The growth in monthly active customers was mainly driven by our retail customers.

INCREASED DIGITAL FOOTPRINT ACROSS THE GROUP[1]

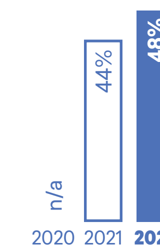


DIGITAL MONTHLY ACTIVE USERS (thousands)



Our digital monthly active users (MAU) experienced significant growth.

DIGITAL DAILY ACTIVE USERS / MONTHLY ACTIVE USERS (DAU/MAU)



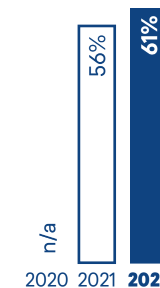
The daily engagement of our digital users went up as the growth in the number of digital daily users surpassed the growth of digital monthly active users.

HIGH EMPLOYEE AND CUSTOMER SATISFACTION LEVELS

EMPLOYEE NET PROMOTER SCORE[2]

The employee net promoter score (ENPS) measures employee loyalty and reflects the likelihood of our colleagues recommending their workplace to their friends and family. In 2022, our employee satisfaction levels decreased but still remained strong, well above the industry average of 47%.

CUSTOMER NET PROMOTER SCORE[3]



The customer net promoter score (NPS) measures how willing customers are to recommend our products and services to others. In 2022, our NPS among retail clients continued to increase, rising to 61%.

1 These terms are defined in Glossary on pages 262-263.
2 The Employee Net Promoter Score (ENPS) was measured in October 2022 by an independent consultant for the Bank's employees.
3 The Net Promoter Score (NPS) was measured based on survey conducted by the independent research company IPM in December 2022.

Our ESG strategy

Our ESG Strategy reaffirms our commitment to making a long-term, sustainable contribution and to be the leading supporter of ESG principles in the country and region.

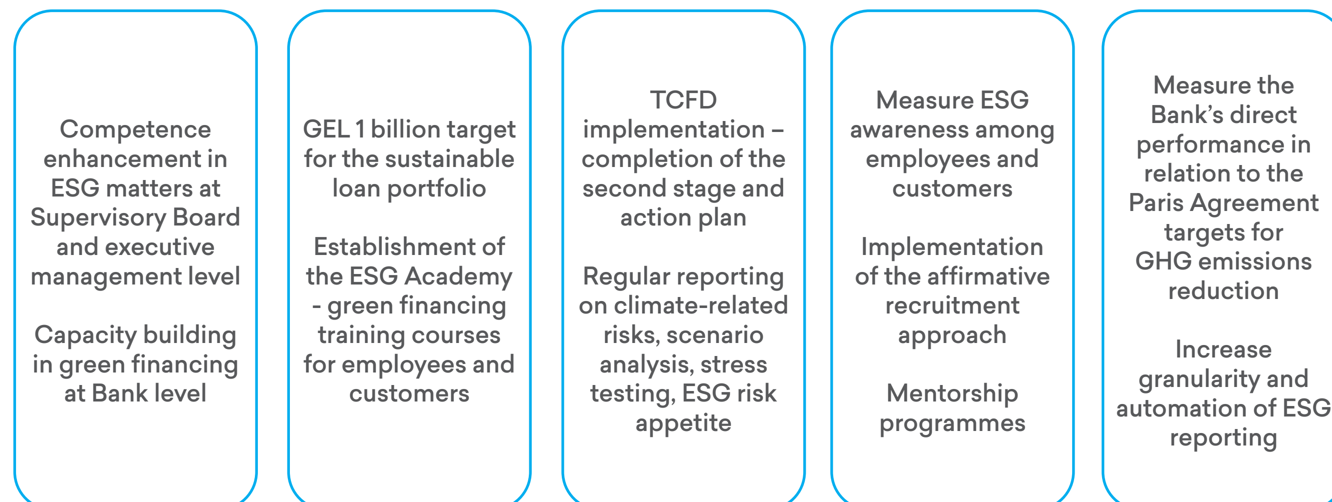
The ESG Strategy is reviewed and approved by the Supervisory Board annually, while implementation is overseen by ESG-related committees at the Board and executive management level.

The ESG Strategy defines several key areas and targets for different time horizons:

Key achievements in 2022:

- GEL 750 million sustainable loan portfolio target for 2022 met. Furthermore, the total volume of the sustainable portfolio reached GEL 782 million, which constitutes a growth of 15.6% in comparison with the end of 2021 (GEL 676 million).
- Climate-related framework in line with the TCFD requirements established.
- Comprehensive ESG training framework covering all employees and different responsibility levels established.
- Diversity, Equality and Inclusion (DEI) Policy, targets and action plan defined.
- ESG strategies in all significant subsidiaries developed.

In 2023, we continue to follow our strategic plan and will focus on the following topics:



VARIOUS INITIATIVES AND PROGRAMMES TO SUPPORT THE TARGETS SET BY THE ESG STRATEGY

Sustainable loan portfolio growth KPIs

In 2021, ESG KPIs were linked to senior management remuneration over the medium term to reflect our mid-term strategy. In 2022, we continued to incorporate ESG-related KPIs for bank-level positions and established sustainable loan portfolio growth targets for business segments – retail, MSME and corporate: the target for green and social loans for 2023 has been set at a total volume of GEL 1 billion.

The ESG Academy

In 2022, we developed the concept of the ESG Academy which was established in February 2023 to raise awareness and knowledge of ESG topics, including green and social financing, regulatory requirements, diversity and affirmative approaches, sustainable business models and practices among the Bank's customers as well as TBC staff. The first training programme 'Green mind-set and green financing' will include extensive training over two days for 900 employees and one-day's training for 300 retail, MSME and corporate customers. The programme will be supported by the partner IFIs – the Green for Growth Fund (GGF) and the European Fund for Southeast Europe (EFSE) and will run for 22 months.

Science-based targets

In 2022, we built internal capacity on relevant GHG emissions calculation methodologies and approaches. This was achieved via training and the use of external consultancies. As the next step, we aim to measure our performance in line with internationally-established standards and align with science-based targets.

Measure ESG awareness among employees and customers

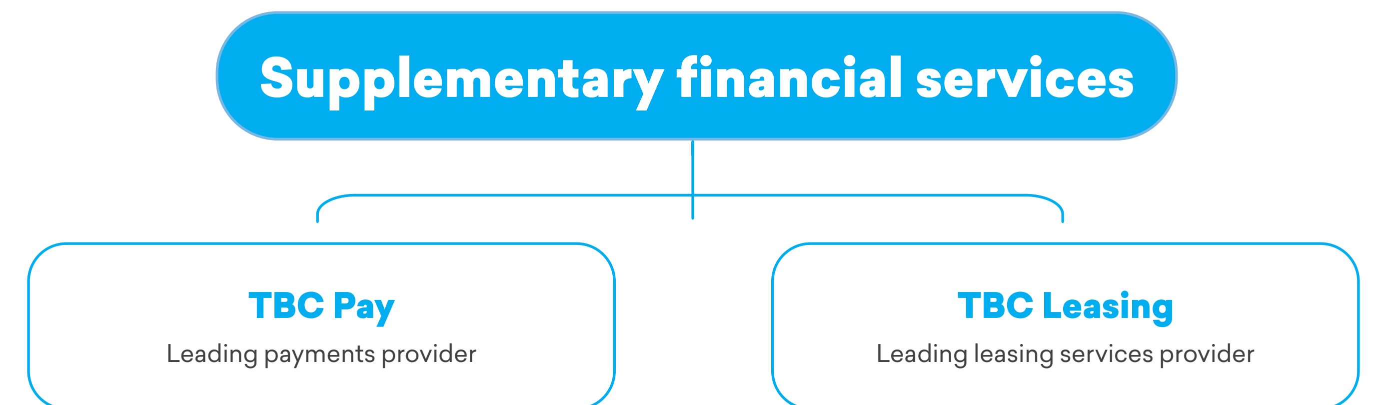
In 2022, 98% of the Bank employees participated in ESG-related training. In 2023, we aim to develop a framework for measuring ESG awareness among employees in order to track the results regularly and identify areas for further improvement. Furthermore, we will seek to establish an approach for customer engagement on ESG topics.

Talent programmes for Information and communication technologies (ICT)

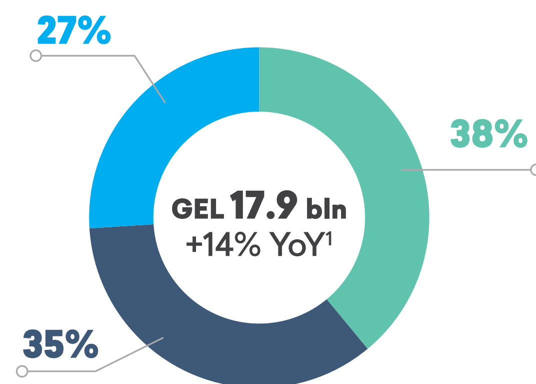
Our diversity targets focus on the empowerment of women, girls, talented young people from regions and rural areas as well as on age-diverse recruitment. As technology is key to TBC Bank, ICT is a priority area. In 2023, through the support of the USAID Industry-led skills programme, we will commence a new ICT programme, consisting of eight new training courses in programming, information security and other technologies. Around 750 people from a diverse range of backgrounds, ages and genders are expected to participate in the programme over the next 24 months. A number of the graduates will be employed by TBC Bank and TBC's partner companies.

Financial services

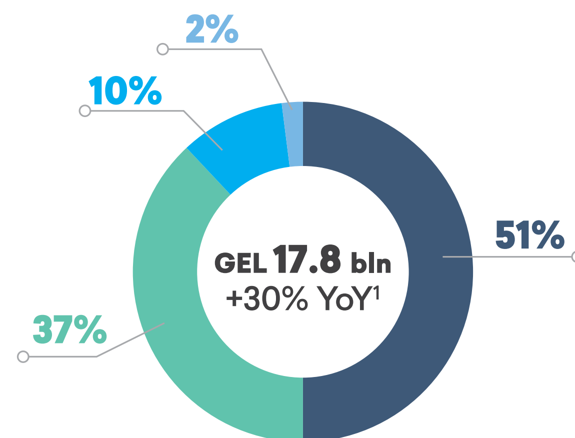
OVERVIEW



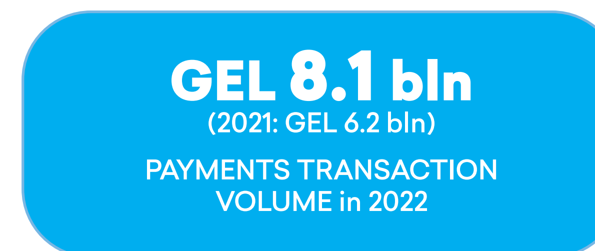
LOAN PORTFOLIO AS OF 31 DEC 2022



DEPOSIT PORTFOLIO AS OF 31 DEC 2022



Retail CIB MSME Other[2]



1 Growth in constant currency.
2 Other includes Ministry of Finance (MOF) deposits.

RETAIL BANKING

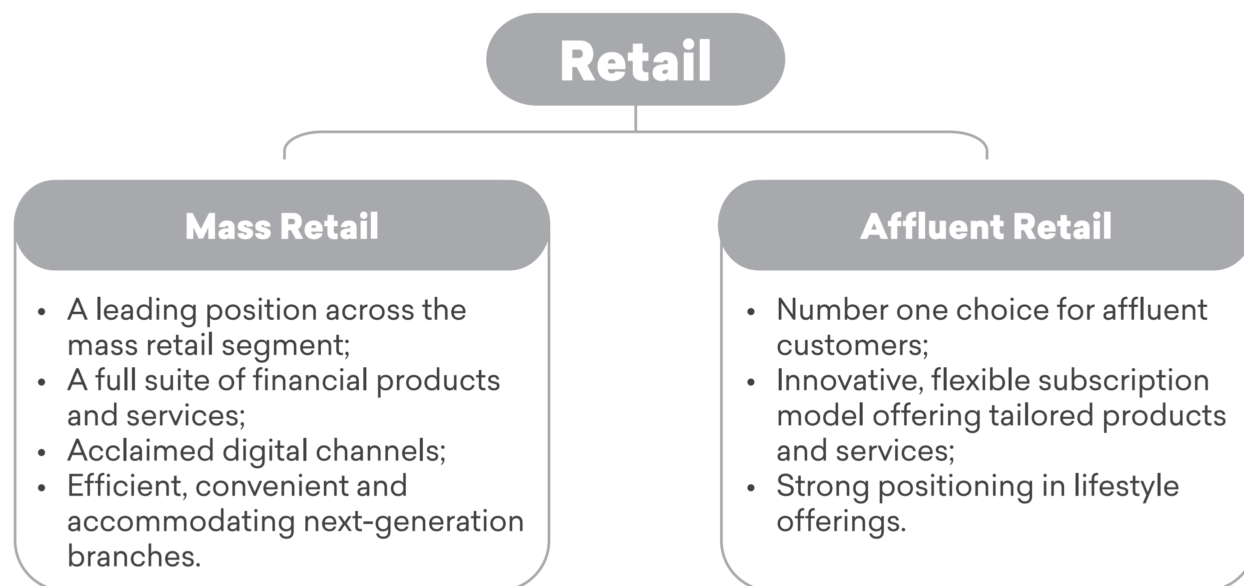
Our retail loan book increased 15% year-on-year in constant currency terms, driven largely by strong growth in higher yield, non-mortgage loans.

LEADING RETAIL BANKING FRANCHISE IN GEORGIA

38.4%
(2021: 38.6%)
RETAIL LOAN MARKET SHARE[1]

38.1%
(2021: 40.3%)
RETAIL DEPOSITS MARKET SHARE[1]

We differentiate ourselves through the superior customer experience we deliver, the best-in-class digital channels we provide and the advanced data analytics tools and fully-fledged payments solutions we have developed.



MEASURING SUCCEESS IN 2022

GEL 6.8 bln
(2021: GEL 6.3 bln)
RETAIL LOANS

GEL 6.5 bln
(2021: GEL 5.6 bln)
RETAIL DEPOSITS

GEL 720 mln
(2021: GEL 577 mln)
RETAIL OPERATING INCOME

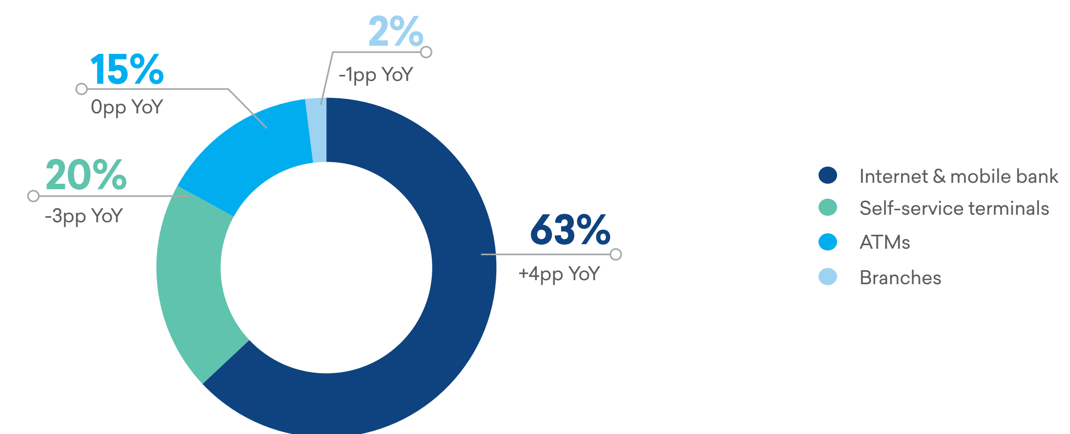
1.5 mln
(2021: 1.4 mln)
MONTHLY ACTIVE CUSTOMERS

801 K
(2021: 644 K)
DIGITAL MONTHLY ACTIVE USERS

WIDE DISTRIBUTION NETWORK IN GEORGIA WITH STRONG FOCUS ON DIGITAL CHANNELS

Our digital channels are an important part of our distribution network and comprise best-in-class mobile and internet banking applications that offer a fast and convenient banking experience. The vast majority of all banking transactions are conducted through these digital channels, which also serve as selling platforms for our core products. In addition, we operate a wide network of self-service terminals, which enable our customers to conduct most of their daily banking operations without the need to enter a branch. At the same time, our newly redesigned, next-generation branches are more focused on consulting and proactive sales. Currently, we have 129 branches covering all major regions of Georgia, compared to 147 by the end of 2021.

98% OF ALL OUR RETAIL TRANSACTIONS WERE CONDUCTED REMOTELY IN 2022



YEAR IN REVIEW

EXPANDING OUR CUSTOMER BASE AND PENETRATION

During 2022, we focused our efforts on expanding our active customer base both by gaining new customers and by increasing engagement with our existing clients. In addition, we increased our penetration levels among payroll clients, who provide a good source of fee and commission income. We also grew our youth customer base as part of our strategy to foster relationships with clients from a young age.

Overall, the number of our monthly active customers increased by 7% year-on-year to 1.5 million, accounting for 66% of total bankable population in Georgia[2].

We also launched a data analytics project aimed at increasing the lifetime value of the customer. Within the scope of the project, we created an AI model, which not only helps us to better understand the expected value of clients, but also enables us to deliver a more tailored offering to our customers. It also provides an estimate for the probability of churn and therefore allows us to take a more proactive approach towards client retention.

1 Based on data published by the National Bank of Georgia as of 31 December 2022; In this context retail refers to individual customers.
2 Bankable population includes population of Georgia, aged 18-65.

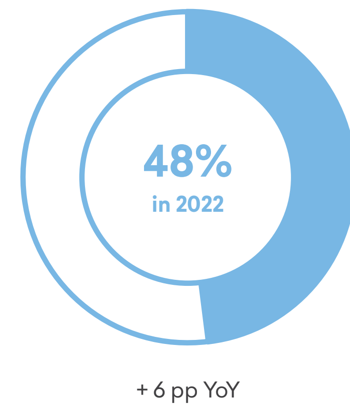
INCREASING DIGITAL ENGAGEMENT

In 2022, we enriched our mobile banking offerings by adding new features and functionalities. The most notable were:

- A refinancing functionality for our end-to-end (E2E) lending process, which gives our customers the opportunity to transfer loans from other banks to TBC.
- Introduction of Buy Now, Pay Later (BNPL), an easy to use new product for our retail clients. The user just has to scan a QR code on a POS terminal and activate the BNPL limit. The repayment, which is interest free for customers, is settled in four instalments.
- Purchase of a public transportation pass and integrating this into our mobile banking app.

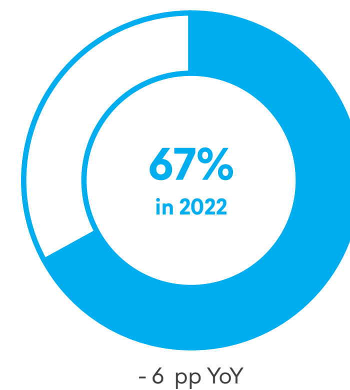
In terms of operating metrics, in December 2022, the number of digital monthly active users (MAU) increased by 24% year-on-year and reached 801,000 representing 54% of total monthly active individual customers. Over the same period, the average number of daily digital active users (DAU) grew 35% year-on-year to 384,000. As a result, our digital DAU/MAU ratio stood at 48%, up by 4 pp year-on-year. We also achieved strong results in the number of consumer loans and retail deposits sold via our digital channels.

CONSUMER LOANS OFFLOADING IN DIGITAL CHANNELS



+ 6 pp YoY

DEPOSITS OFFLOADING IN DIGITAL CHANNELS



- 6 pp YoY

AWARD-WINNING DIGITAL BANKING

We are proud that our digital banking offering once more earned international recognition and received multiple awards from Global Finance.

CONSUMER DIGITAL BANK AWARDS IN CENTRAL AND EASTERN EUROPE 2022 FROM GLOBAL FINANCE

- The Best Bill Payment and Presentment
- The Best User Experience (UX) Design
- The Best in Social Media Marketing and Services
- The Best Open Banking APIs

GROWING OUR PAYMENTS BUSINESS

After introducing Apple Pay in 2019, we launched Google Pay for Android users in 2022. The year under review also saw us focus on digital card issuance. As a result, the share of mobile wallet payments as a proportion of total contactless payments increased from 22% to 30% by the end of 2022, while 99% of all transactions conducted domestically by TBC cards were contactless in 2022. According to the latest update from VisaNet on 1 February 2023, Georgia ranks 1st in contactless payments penetration globally and we are proud of our substantial contribution to this outstanding achievement.

We also signed a long-term partnership agreement with leading delivery business Glovo to provide exclusive offerings to our customers for cashbacks and prime membership.

Furthermore, we extended our transportation payments network, which already covered Tbilisi, Kutaisi, Gori and Poti. By adding two more cities - Telavi and Bakuriani - we now provide a full-scale transport solution to our customers.

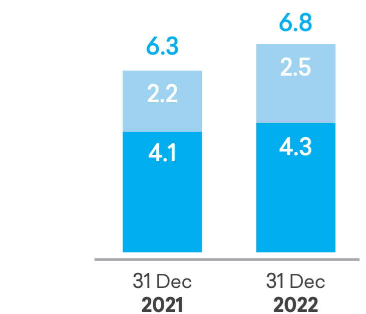
DELIVERING STRONG BALANCE SHEET GROWTH WITH AN INCREASED FOCUS ON FAST CONSUMER LOANS

In 2022, our loan book grew by 15% year-on-year on a constant currency basis. This was largely driven by an increase in higher yield, non-mortgage loans, while growth in the mortgage portfolio was moderate.

The growth in the non-mortgage portfolio was largely supported by fast consumer (cash) loans. To speed up and optimise the disbursement of fast consumer loans, we set up efficient processes for lead generation and implemented a close to real-time follow-up procedure. In addition, we developed a propensity model for fast consumer loans, which enabled us to target customers more efficiently. As a result, the conversion rate of the loans campaigns reached 10%. We have also upgraded risk tools to maintain the cost of risks within acceptable limits.

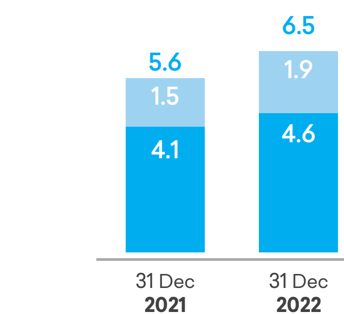
Our deposits also demonstrated strong growth, increasing by 29% year-on-year on a constant currency basis.

RETAIL GROSS LOANS PORTFOLIO (GEL BLN)



Mortgage   Non-mortgage

RETAIL DEPOSIT PORTFOLIO (GEL BLN)



Foreign currency   Local currency

TBC CONCEPT

TBC Concept is a significant part of our retail business. It accounts for around 60% of our retail loans and 55% of our retail deposits. It is also a big contributor to our fee and commission income.

MEASURING SUCCEESS IN 2022

GEL 4.2 bln	GEL 3.5 bln	106 K
(2021: GEL 4.1 bln)	(2021: GEL 3.1 bln)	(2021: 101 K)
LOAN PORTFOLIO	DEPOSIT PORTFOLIO	MONTHLY ACTIVE CUSTOMERS

Serving around 106,000 customers, TBC Concept is the leading private banking service provider in Georgia. We distinguish ourselves by providing convenient and seamless digital services, offering special benefits on banking products and delivering exclusive life-style offerings.

In 2022, TBC Concept generated strong results. By the end of the year, the affluent retail loan and deposit portfolio increased 13% and 26% year-on-year, respectively on a constant currency basis. Revenue per affluent customer also went up by 31% year-on-year.

TBC Concept offers clients various subscription packages, which are tailored to the needs of specific customer groups. For example, our "digital package" is best suited for digital savvy customers, who prefer to do their daily banking operations online without the support of a personal banker. Meanwhile, our "360 package" is designed for individuals who require a wider range of financial tools and are interested in brokerage services to better manage their funds. During the year, we offered our clients a number of options to invest in bonds issued by Georgian companies as well as US Treasury Bills.

In addition, our affluent customers can benefit from our multi-functional TBC Concept Flagship Space. This is comprised of 80% lifestyle and 20% banking and includes exhibition spaces, cafe, co-working areas, self-service and personal banking zones. During the year, TBC Concept Flagship Space hosted many different events for business, art and culture with renowned speakers. Also, in 2022, in collaboration with Primeclass, we opened a new Concept Space in Tbilisi International Airport creating a pleasant area for relaxation and working before departure.

In 2022, affluent customers had exclusive access to over 300 special offers and promotions revolving around music festivals, travel, shopping and other recreational activities. We also continued to offer our Concept clients concierge services, which include trip planning, studying abroad, restaurant reservations, flower delivery, dry cleaning, laundry, car service.

TBC Concept

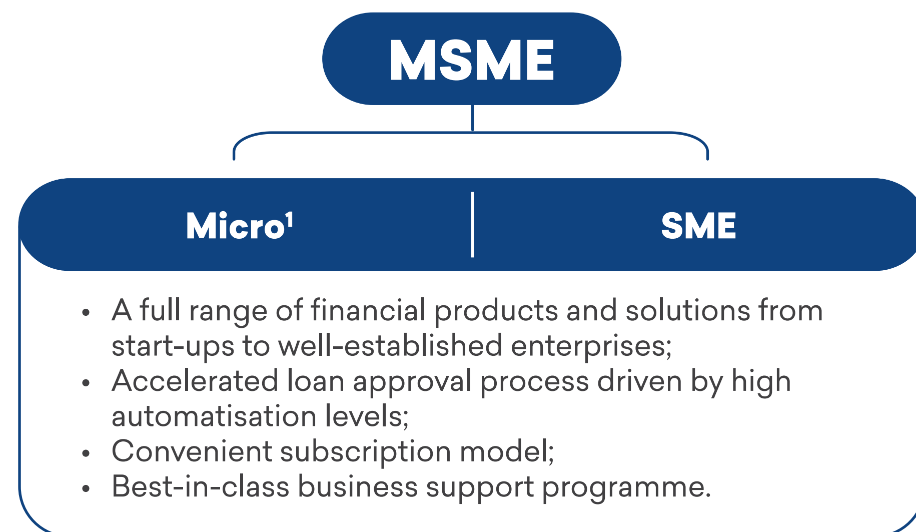
In collaboration with Primeclass, we opened a new Concept Space in Tbilisi International Airport creating a pleasant area for relaxation and working before departure.

MSME BANKING

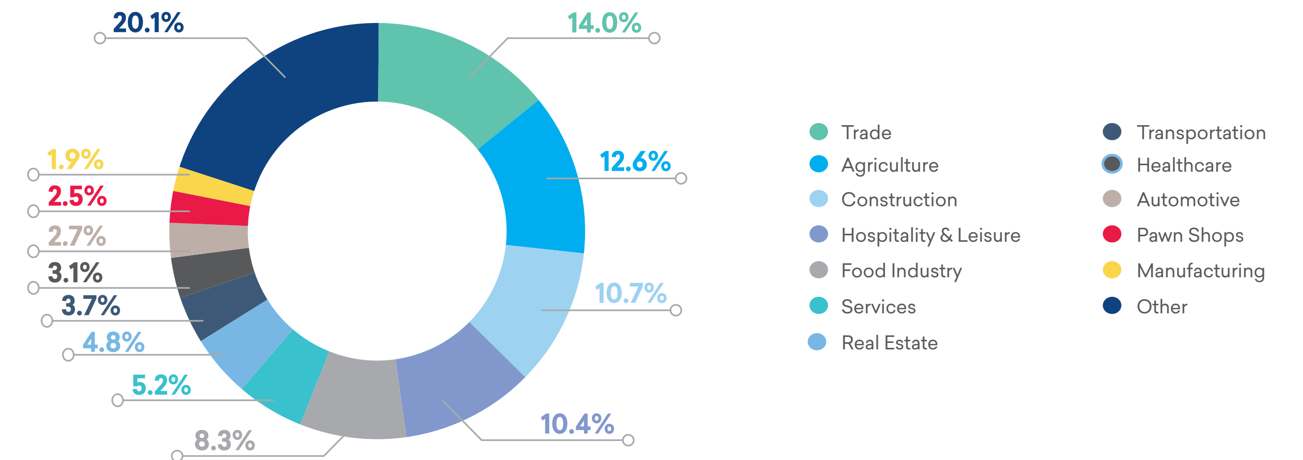
Our MSME loan book increased 25% year-on-year in constant currency terms, on the back of strong growth in the micro sub-segment.

TOP CHOICE BANK FOR MSMEs IN GEORGIA

We differentiate ourselves through the extensive business support programme we offer, the superior customer experience we deliver and the advanced data analytics capabilities we have. This year, we were named the Best SME Bank 2023 in Georgia as well as in Central and Eastern Europe by Global Finance.



WELL-DIVERSIFIED MSME LOAN PORTFOLIO WITH A STRONG PRESENCE IN THE TRADE, AGRICULTURE AND CONSTRUCTION SECTORS AS OF 31 DEC 2022



YEAR IN REVIEW

GROWING OUR CUSTOMER BASE AND INCREASING CUSTOMER DIGITAL ENGAGEMENT

During 2022, the number of our monthly active MSME customers[3] increased 7% year-on-year to 58,000. In addition, usage of our business internet and mobile banking platforms continued to grow with digital monthly active users reaching 34,000 by the end of 2022, up 8% year-on-year. This represents around 60% of our total active business customers. We pride ourselves on having the highest top of mind (TOM) score of 47% among MSME customers in the Georgian banking sector[4].

We are always looking to provide more convenient and efficient services to our customers and in line with this, the year under review saw us upgrade our existing subscription plan with new products better tailored to their needs. The upgraded subscription plan offers several packages and combines financial products with an extensive range of non-financial services, such as exclusive face-to-face and group meetings, seminars and workshops with leading specialists in various areas, as well as special offers from our partners. By the end of the year, around 40% of our MSME clients had subscribed to this service compared to 25% a year ago.

We also started working on the development of a new user-friendly IT tool. This will provide a 360-degree view of our clients and will help us analyse their needs more comprehensively and more efficiently. In addition, we are developing a Machine learning (ML) model, which will be able to estimate the probability of churn for each MSME client and will enable us to take proactive measures in a timely manner.

MEASURING SUCCEESS IN 2022

GEL 4.8 bln
(2021: GEL 4.1 bln)
MSME LOANS

GEL 1.8 bln
(2021: GEL 1.6 bln)
MSME DEPOSITS

GEL 319 mln
(2021: GEL 263 mln)
MSME OPERATING INCOME

77 %
(2021: 63%)
OF NEWLY REGISTERED BUSINESSES CHOOSE TBC[2]

58 K
(2021: 54 K)
MSME MONTHLY ACTIVE CUSTOMERS[3]

1 Includes collateralised business and agri loans up to GEL 1 million, as well as micro businesses with a maximum turnover of GEL 2 million.
2 Based on internal estimates as of 31 December 2022.
3 Includes monthly active MSME legal entities.
4 Based on external survey conducted by an independent research company, ACT in January 2023.

EARNING INTERNATIONAL RECOGNITION

We are proud that our digital banking offering once more earned international recognition and received multiple awards from Global Finance.

CORPORATE/INSTITUTIONAL DIGITAL BANK AWARDS IN CENTRAL AND EASTERN EUROPE 2022 FROM GLOBAL FINANCE

COUNTRY AND GLOBAL AWARDS 2022 FROM GLOBAL FINANCE

EXPANDING OUR MERCHANT BASE

We continue to support businesses by introducing different payment solutions that are tailored to their specific requirements.

In December 2022, we launched the Tap2Phone solution for small and micro merchants allowing them to use android-based mobile devices for card acceptance though NFC technology, a cheaper alternative of a POS terminal. In 2023, we plan a full scale roll out of this product to penetrate the small and micro segment and increase the number of merchant terminals.

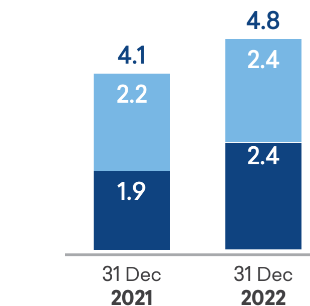
In addition, we have introduced a dynamic currency conversion service for POS terminals. This enables cardholders from different countries to make payments in the original currency, making the payment process more comfortable and transparent for international visitors.

We also opened a dedicated support centre for our merchant acquiring business, which provides full support to our clients with regards to POS terminals and e-commerce. In addition, we enriched our online payment platform (available at www.tbcpayments.ge) with new features allowing our merchants to monitor their transactions online and generate advanced analytical reports.

DRIVING LOAN BOOK GROWTH VIA THE MICRO SUB-SEGMENT

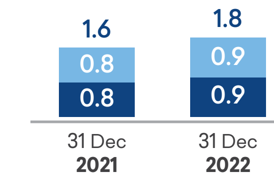
In 2022, our loan book grew 25% year-on-year on a constant currency basis to GEL 4.8 billion. Growth was mainly driven by micro loans and was supported by a more streamlined business process, including confirmation of loan agreement via SMS, and a high automation level for loans below GEL 100,000. During the year, around 77% of such loans were processed automatically, using pre-determined rules and a scoring model, which significantly decreased the time-to-yes period. As a result, the share of micro loans in our total MSME portfolio increased by 4 pp year-on-year and reached 50%, making us the largest provider of micro business financing in the country. Over the same period, our deposits went up by 22% year-on-year at constant currency basis.

MSME GROSS LOANS PORTFOLIO (GEL BLN)



Micro SME

MSME DEPOSIT PORTFOLIO (GEL BLN)



Foreign currency Local currency

ENHANCING OUR BUSINESS SUPPORT PROGRAMME

PROVIDING EDUCATIONAL RESOURCES FOR BUSINESSES

In 2022, we continued to run our successful full-scale business support programme. We also enhanced it further by adding extensive educational resources, which are accessible from a single platform www.tbcbusiness.ge. During the year, we conducted 100 trainings for 3,800 business representatives in the following subjects: marketing, finance, management and taxation.

The programme has been developed in partnership with the Asian Development Bank and provides free access to live lectures on various relevant topics, such as technology, digital marketing and human resources. Our educational programme is the largest in Georgia and has attracted over 30,000 attendees to around 1,000 lectures over the past six years.

SUPPORTING STARTUPS

Since 2017, we have run our renowned programme Startuperi, which is designed to provide financial and non-financial support for companies at an early stage of development. The programme aims to increase the number of successful startups in Georgia by providing them with easily accessible capital, a digital platform for advertising campaigns, as well as various educational programmes, conferences and partnerships with large companies. In 2022, we disbursed around 90 loans totalling GEL 42 million through this programme - the total outstanding loan portfolio within this programme amounted to GEL 131 million as of 31 December 2022.

During 2022, in partnership with Impact Hub Georgia, we launched a pre-acceleration programme for 40 selected technology start-ups in order to increase their ability to attract investment by helping them to develop a business plan, communication strategy and technical plan. The pre-accelerator programme lasted for 12 weeks and consisted of individual mentoring, networking events, and lectures.

COLLABORATING WITH GOVERNMENTAL AND INTERNATIONAL PROJECTS TO SUPPORT LOCAL ENTREPRENEURSHIP

In order to foster business development in rural areas and help create new job opportunities, we actively support local businesses through the provision of affordable finance.

We work in partnership with several state programmes, “Produce in Georgia”, “Host in Georgia” and “Preferential Agro Credit”, to support local production, as well as agricultural and hospitality businesses. The programmes offer reduced interest rates through government subsidies. In 2022, we disbursed around 3,800 loans totalling GEL 240 million. The

total outstanding portfolio of these loans amounted to GEL 475 million as of 31 December 2022, making us the biggest partner bank for these programmes.

In addition, in cooperation with the European Bank for Reconstruction and Development ("EBRD"), we run two programmes:

- "Business loan for women entrepreneurs"- offering special loan terms and conditions for women entrepreneurs to support gender equality.
- "Business Loan with 15% Cash Back"- a project that aims to promote EU trade standards in the following areas: agriculture, food production and laboratories.

The outstanding MSME loan book under these programmes amounted GEL 28 million, which was comprised of around 100 loans as of the year end.

Detailed information about these programmes is available at www.tbcbusiness.ge.

CONTINUING OUR ANNUAL BUSINESS AWARDS

Established in 2015, our renowned Annual Business Awards event aims to promote and support business activities in Georgia. Over the past seven years, it has become the most anticipated business event of the year, attracting more than 3,500 businesses from various fields, who have shared their success stories with the public at large and have inspired others to turn their ideas into reality.

This year, we added a new "outstanding customer experience" category to the four existing ones, which are:

- The best product
- The best innovative start-up
- Outstanding social responsibility
- Outstanding role in the development of the region

In addition, two special awards have been also included: "gender equality" and "green initiatives", which have been sponsored by our partners UN Women and Global Climate Partnership Fund (GCPF) respectively.

This year we had an unprecedently high number of around 410 applicants compared to 360 last year. The event was organised in partnership with VISA and attracted 60 million views, while top of mind awareness reached 68%[1].

1 Based on survey conducted by an independent research company, ACT.

CORPORATE AND INVESTMENT BANKING

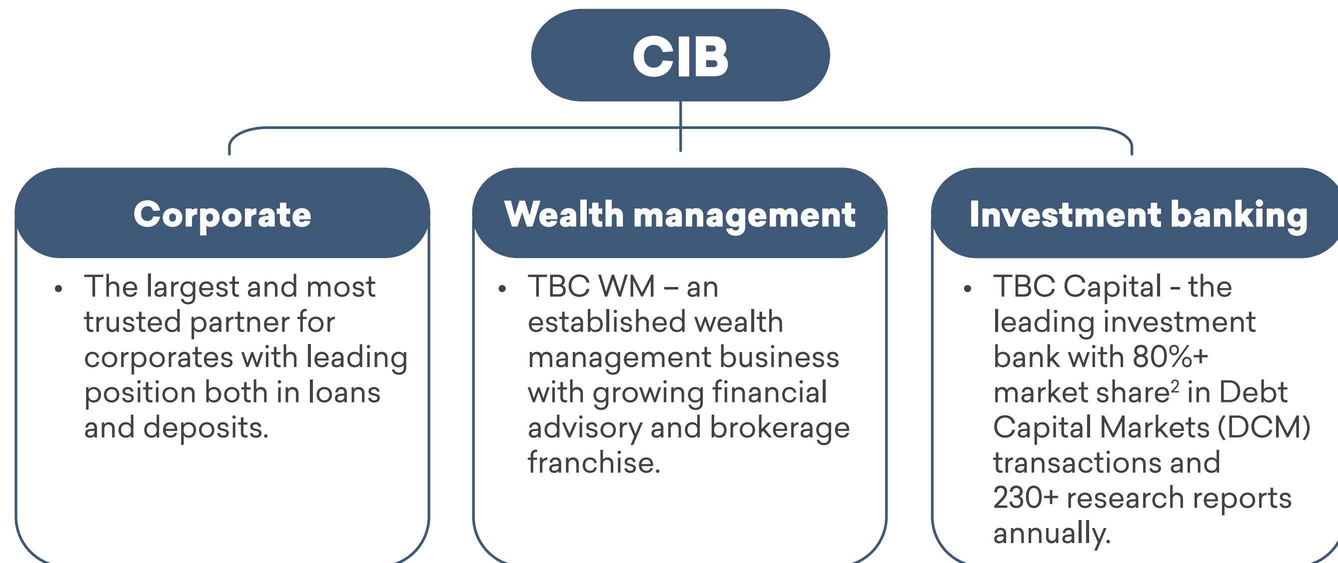
"Our CIB deposits increased by 33% year-on-year in constant currency terms led by local currency deposits, translating into improved larisation levels and strong income generation in transactional business."

LEADING CIB AND WEALTH MANAGEMENT FRANCHISE IN GEORGIA

40.8%
(2021: 39.1%)
CIB LOAN MARKET SHARE[1]

42.9%
(2021: 40.5%)
CIB DEPOSIT MARKET SHARE[1]

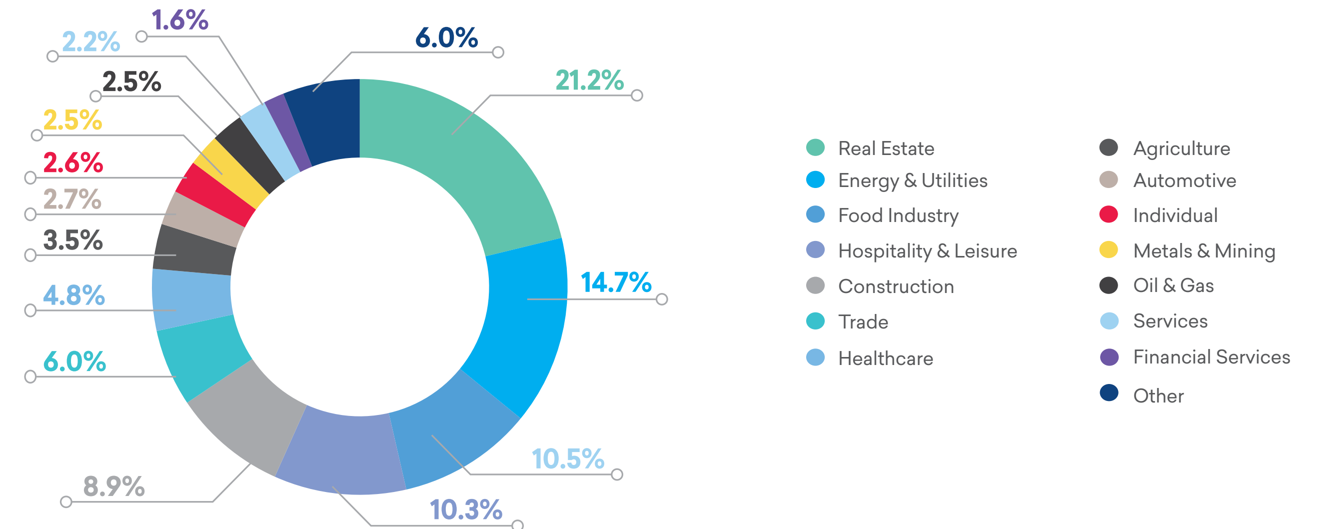
Our success is driven by our client-centric business model, our investment in talent and our focus on advancing data analytics and digital capabilities.



MEASURING SUCCESS IN 2022

GEL 6.3 bln	GEL 9.1 bln	GEL 607 mln	GEL 1.4 bln	7.7 K
(2021: GEL 6.5 bln)	(2021: GEL 7.4 bln)	(2021: GEL 483 mln)	(2021: GEL 0.5 bln)	(2021: 7.0 K)
CIB LOANS	CIB DEPOSITS	CIB OPERATING INCOME	TOTAL ASSETS UNDER MANAGEMENT	NUMBER OF CIB CUSTOMERS

WELL-DIVERSIFIED LOAN PORTFOLIO WITH STRONG PRESENCE IN EVERY SECTOR OF THE GEORGIAN ECONOMY AS OF 31 DEC 2022



YEAR IN REVIEW

CORPORATE BANKING

STRENGTHENING OUR PRESENCE AMONG LARGE AND MID-CORPORATE CLIENTS

In 2022, our CIB loan book grew by 6% year-on-year in constant currency terms. This was mainly driven by large and mid-sized corporate clients which together accounted for 53% of the CIB loan book, a 6 pp year-on-year increase. At the same time, our top 10 loans accounted for a smaller proportion of the total loan book - down 2 pp year-on-year to 5%.

Our loan book remains well-diversified with a strong presence in all the major sectors of the Georgian economy - no single industry accounts for more than 22% of the total CIB book. In addition, our established syndication desk further enhanced the diversification of our portfolio as well as generated additional fee and commission income. During the year, we syndicated 40 transactions with a total amount of GEL 248 million.

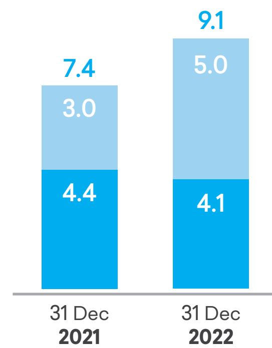
We are always looking to strengthen our leading position in corporate lending and with this in mind the year under review saw us initiate an end-to-end credit process redesign and digitalisation project, the objective of which is to increase efficiency - we are aiming to decrease our "time to yes" and "time to cash" by around 30-40% next year.

1 Based on data published by the National Bank of Georgia as of 31 December 2022; in this context, corporate refers to legal entities.
2 TBC Capital market share in publicly and privately issued bonds in Georgia during 2022.

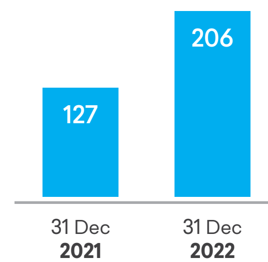
GENERATING A STRONG PERFORMANCE IN TRANSACTIONAL BANKING

In 2022, our CIB deposit book increased by 33% year-on-year in constant currency terms thanks largely to solid growth in local currency deposits in line with our lari ation strategy. As a result, the share of local currency deposits increased by 14 pp year-on-year on a constant currency basis and reached 55%. This has translated into solid non-interest income generation from our transactional business, as shown below:

CIB DEPOSIT PORTFOLIO (GEL BLN)



CIB NON-INTEREST INCOME (GEL MLN)



Our focus on digitalisation and new products is also enabling us to enhance the experience our customers have when they transact with us. This year, for example, we redesigned the FX customer journey, which has resulted in faster execution times. In addition, our bulk cash depository machines, which were introduced late last year, collected GEL 1.3 billion cash from our customers during 2022, resulting in considerable time savings for both our clients and our cashiers at our branches. In all, we managed to offload 50% of cash transactions from the branches. Currently, we operate 47 of these machines, which are located in the premises of our large clients and in all our major branches across the country.

In terms of trade finance operations, we continue to lead the market with our GEL 2.2 billion guarantees portfolio and more than 48% market share. In 2022, we also introduced a new factoring platform which has significantly enhanced the customer journey. Not only has this resulted in a threefold increase in the number of factoring transactions, but also a reduction in the time it takes to process the financing to just 30 minutes. Furthermore, all transactions are paperless and require no physical interaction, making the customer journey more seamless and efficient. At the end of the year, our factoring portfolio reached GEL 132 million, up 48% year-on-year.

In 2022, we received the following awards:

TRADE FINANCE AND FACTORING AWARDS

- Market Leader and Best Service Provider in Trade Finance in Georgia 2022 from Euromoney
- Trade Finance and Supply Chain Finance 2022 from Global Finance
- Best Deal of the Year in Trade Finance 2022 from ADB
- Best Deal of the Year in Factoring 2022 from FCI
- Domestic Factoring Provider of the Year 2022 from RFIx

STRIVING TO ENHANCE THE CUSTOMER EXPERIENCE

As part of our commercial excellence transformation project, which was launched in 2020, we continued to advance our corporate client management and analytical tool. This provides a full 360-degree view of each client based on industry benchmarks. The AI tool delivers a number of benefits: firstly, full transparency and instant availability of information enables clients' profitability to be managed efficiently; secondly, relationship managers are able to identify solutions that match clients' needs instantly. As a result, our corporate clients receive a timely and high-quality service, while our employees spend less time on routine tasks and more on value-add ones, thereby increasing their productivity and wellbeing. In terms of financial benefits, this project generated an additional c. GEL 20 million net banking income during 2022.

INVESTMENT BANKING AND WEALTH MANAGEMENT

Established in 1999 as a wholly-owned investment banking subsidiary of TBC Bank and a licensed brokerage firm, TBC Capital is a leading provider of investment, brokerage and corporate finance solutions. TBC Capital offers a full range of financial services from structuring to executing deals or advising on complex corporate transactions. This year, we strengthened our corporate advisory team and secured a solid pipeline of more than 50 high-quality assets, closed one small sell-side M&A transaction and executed two landmark strategic advisory projects for large corporates with international shareholder bases.

DRIVING CAPITAL MARKETS DEVELOPMENT IN GEORGIA

With a more than 80% market share in debt capital market transactions[1], 2022 saw TBC Capital maintain its leadership position in terms of total public and private bonds placed on the Georgian market. We conducted several milestone transactions acting as either sole manager or joint managers alongside other local or international investment banks, including our first-ever US$ 80 million Secured Green Bond placement.

LOCAL MARKET

GEORGIA REAL ESTATE JSC
US$ 35,000,000
2 Year Public Placement - 8.50%
October 2022
Joint Lead Manager

GEORGIAN RENEWABLE POWER OPERATIONS JSC
US$ 80,000,000
5 Year Public Placement - 7.00%
October 2022
Joint Lead Manager

NIKORA JSC
GEL 35,000,000
3 Year Public Placement
TIBR3M+3.50%
November 2022
Joint Lead Manager

TBC LEASING
US$ 6,050,000
6 Year Private Placement - 9.50%
December 2022
Sole Lead Manager

TEGETA HOLDING
GEL 150,000,000
3 Year Public Placement
3M+3.50%
December 2022
Sole Lead Manager

GEOPLANT
US$ 2,560,000
2 Year Private Placement - 9.00%
December 2022
Sole Lead Manager

1 TBC Capital market share in publicly and privately issued bonds in Georgia during 2022.

In terms of Eurobond placements on international markets, TBC Capital was the only local investment bank to act as a Joint Lead Manager on a US$ 300 million Eurobond placement by Silknet JSC in January 2022. TBC Capital was also active in private bond placements and acted as Sole Lead Manager for TBC Leasing, EBRD, FMO, ADB and AIIB.

SERVING AS A TRUSTED STRATEGIC ENABLER IN BUSINESS AND INVESTMENT DECISIONS THROUGH OUR SOPHISTICATED RESEARCH SERVICES

Our research division equips decision makers with in-depth and timely macroeconomic and sectoral analyses of Georgia and the wider region. During the year, we continued to issue our regular weekly, monthly, and quarterly publications. We also added to our offering new publications and reports, such as Global Industry Overview, Education Market Overview and focused series on Residential Real Estate and Tourism. Overall, TBC Capital issued more than 230 publications in 2022. The full list of publications is available at www.tbccapital.ge. In addition, during the year TBC Capital hosted several large-scale conferences for local and international stakeholders of the Georgian economy.

In 2022, National Bank of Georgia named TBC Capital as The Best Macroeconomic Forecaster of 2021. Furthermore, TBC Capital continued to be a research contributor to Bloomberg and Refinitiv, targeting a wider international audience interested in Georgia.

EXPANDING OUR WEALTH MANAGEMENT VALUE PROPOSITION BASED ON BROKERAGE SERVICES

TBC WM is Georgia's leading wealth management franchise, serving around 2,900 resident and non-resident high net worth clients. We offer a wide range of personalised banking and investment products that are carefully designed to meet the individual needs of our customers and maximise their wealth. In addition, our clients benefit from exclusive lifestyle offerings for major elite events taking place in the country. We also have a representative office in Israel, TBC Invest, which acts as an intermediary with high net worth clients from Israel and offers fast and efficient consulting services on the ground.

During 2022, we continued to broaden our alternative investment offerings in order to help our wealth management clients diversify their funds and earn higher yields. In May 2022, we launched the first credit fund in Georgia managed by our subsidiary company, TBC Asset Management, which allows our clients to invest in a diversified portfolio of Georgian senior secured loans spread across a range of different sectors. We also upgraded our trading platform, operated by our subsidiary, TBC Capital, providing our clients with an easy access to more than 60 stock exchanges across 20 countries. Next year, we are planning to add pre-market and post-market trading capabilities, along with shorting and margin trading solutions.

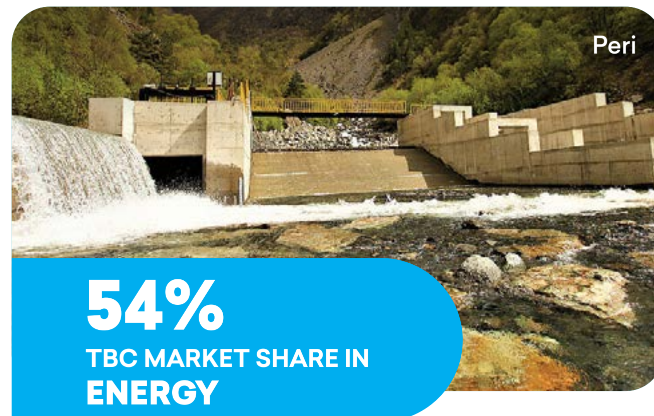
As a result of the above, the share of capital-light, alternative investment products as a proportion of our total WM's assets under management increased by 8% and reached 19% by the end of 2022.

Over the past 30 years, TBC Bank has been actively supporting companies operating in different sectors, helping them to achieve success and contributing to the entire country's development.

REAL ESTATE

HORECA

ENERGY



PRODUCTION

FMCG & RETAIL

AUTOMOTIVE

Note: market shares are calculated based on data published by the National Bank of Georgia as of 31 December 2022.

TBC PAY

TBC Pay is the leading payments provider in Georgia offerings convenient payments solutions to customers via its wide network of self-service terminals.

MEASURING SUCCESS IN 2022

4.3 K	+31% YoY	622 K	GEL 20 mln
(2021: 4.2 K)	GEL 8.1 bln	(2021: 582 K)	(2021: GEL 10 mln)
NUMBER OF SELF-SERVICE TERMINALS	VOLUME OF PAYMENTS TRANSACTIONS	NUMBER OF USERS	NET PROFIT

AT A GLANCE

TBC Pay is a leading payments provider in Georgia, offering individuals and businesses convenient payment solutions. TBC Pay is a wholly owned subsidiary of TBC Bank and has been operating since 2008.

We offer a wide range of services, including utility payments, mobile top-ups, payments for public transportation, loan repayments and money transfers through a wide and easily accessible distribution network. We are focused on providing superior customer services and ensuring our services are accessible.

We mainly service our customers via self-service terminals that are conveniently distributed across the country - at the end of 2022, the number of self-service terminals amounted to 4,300. These terminals allow customers to conduct a range of payments instantly on a 24/7 basis, using both cash and cards. In addition, TBC Pay operates a website (www.tbcpay.ge), along with a mobile app, both of which offer user friendly and engaging user interface. By the end of 2022, the number of registered users who use our app reached 396,000, while the number of active users stood at 64,000.

For businesses with large cash operations, TBC Pay offers cash management services in the form of specialised cash boxes. After depositing cash into these boxes, the sum is automatically transferred to the company's bank account. The cash boxes are secured via a strong authorisation process.

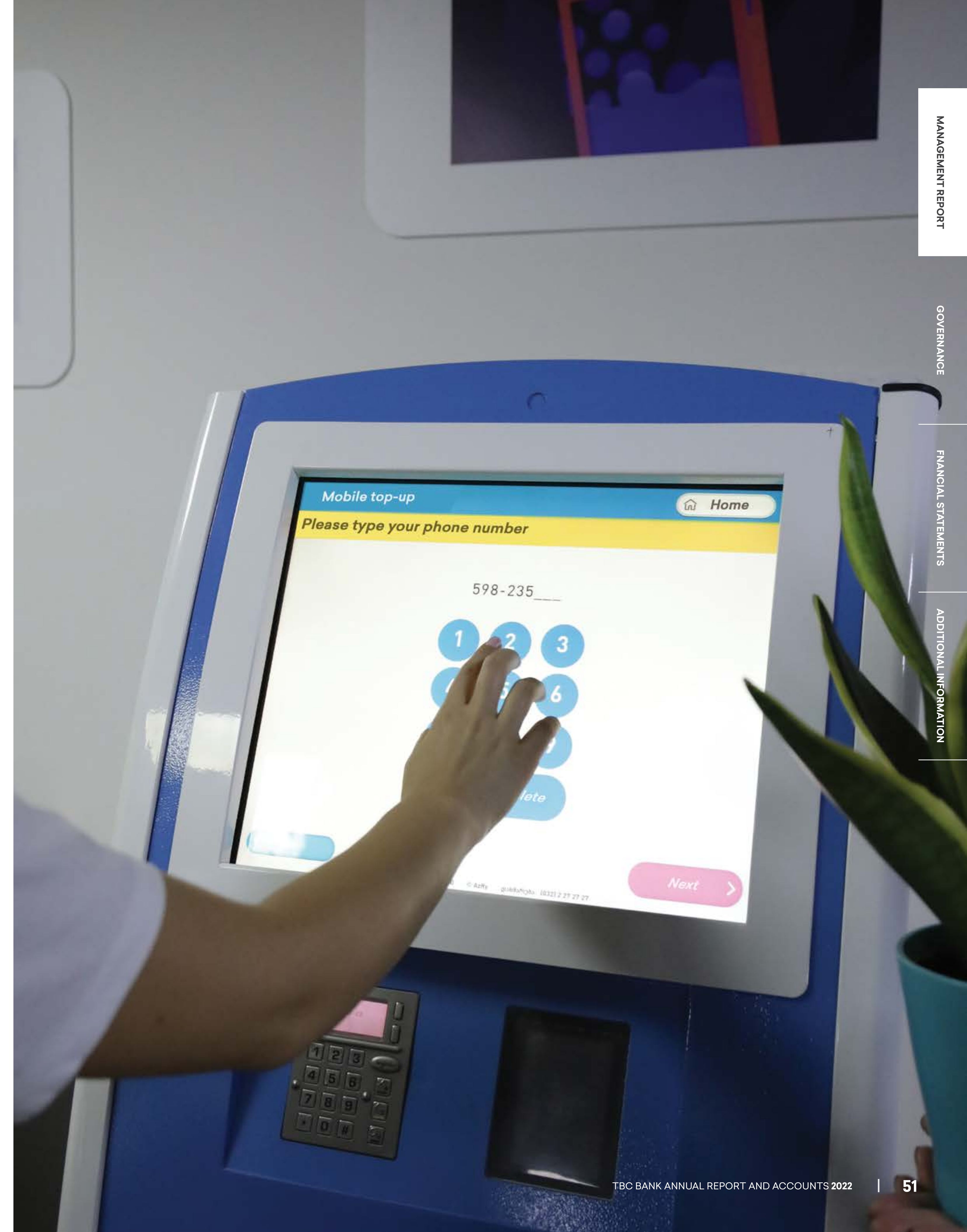
YEAR IN REVIEW

In order to support the increased scale of the business, the company is streamlining its processes and implementing new technologies. During 2022, we continued implementing enterprise resource planning software and BI tools. These programmes will enable us to speed up the decision-making process across the company. In parallel, we have been working on the development of OpenApi products, which will enable us to attach other banks' accounts onto our online platforms.

Over 2022, the volume of transactions conducted through self-service, cash management terminals, digital channels, as well as payment aggregation business grew by 32% to GEL 8.1 billion. Over the same period, net profit amounted to GEL 20.4 million, up 105% year-on-year.

LOOKING AHEAD

Our strategy is to further support the offloading of cash transactions from TBC branches by increasing the accessibility of our services via effective cash collection process and timely technical support.



TBC LEASING

With an 80% market share, TBC Leasing is a leading leasing services provider in Georgia.

MEASURING SUCCESS IN 2022

AT A GLANCE

Delivering comprehensive solutions, TBC Leasing offers an alternative source of financing to our retail and business clients. A wholly owned subsidiary of TBC Bank, TBC Leasing is a leading leasing services provider in Georgia and as of 31 December 2022 had a market share[1] of 80%.

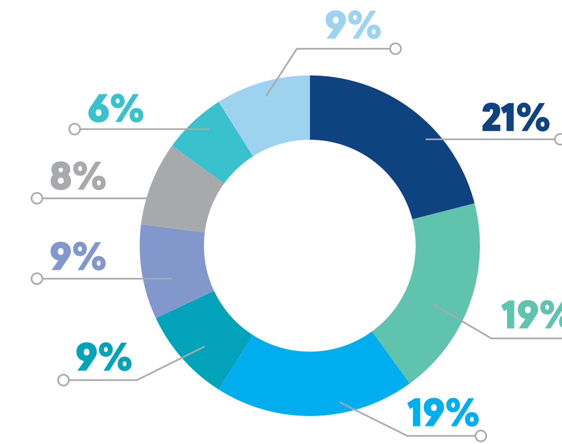
Our technical know-how and specialist knowledge and expertise enable us to offer our clients all-round asset finance solutions and other complementary advisory services, including financial leasing, operating leasing, sale and leasebacks, all of which are tailored to the individual customer's needs. In 2022, to meet our customers' needs, we introduced a new product for the Georgian market, commercial real estate leasing, which accumulated a portfolio of GEL 41 million by the end of the year.

We serve both individuals and business clients and have extensive geographical coverage throughout Georgia via official representative dealerships, vendors, direct sales channels as well as TBC Bank branches. We actively leverage TBC Bank's wide sales network, which further supports our book creation via referral synergies.

YEAR IN REVIEW

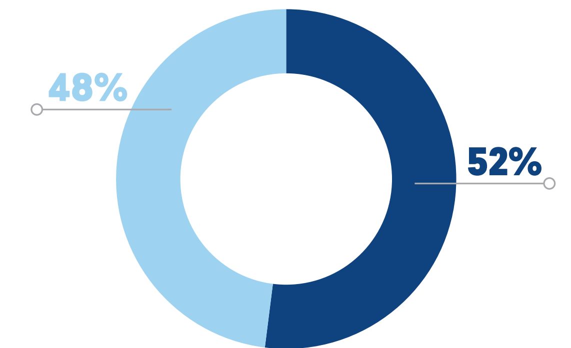
Our leasing portfolio increased by 27% during the year on a constant currency basis and stood at GEL 290 million as of 31 December 2022. 92% of the portfolio related to legal entities, particularly in the construction, service and manufacturing sectors. The remaining 8% of the portfolio related to individual clients. New cars accounted for 48% of the total retail portfolio, used cars the remaining 52%. In 2022, TBC Leasing generated net profits of GEL 13.9 million, up 20% year-on-year.

CORPORATE LEASING PORTFOLIO BREAKDOWN AS OF 31 DEC 2022



- Construction
- Manufacturing
- Trade
- Medicine
- Service
- Agriculture
- Development
- Other

RETAIL LEASING PORTFOLIO BREAKDOWN AS OF 31 DEC 2022



- Used cars
- New ccars

TBC Leasing continued its active involvement in the financing of green, renewable and energy-efficient assets through various initiatives, including:

- TBC Leasing continues to support local businesses, especially small and medium-sized enterprises. For this purpose, TBC Leasing attracted EUR 3 million from its reliable partner - the European Bank for Reconstruction and Development (EBRD). At least 70% of the resource will be directed to finance investments in green technologies, which, in turn, will give us the opportunity to support local enterprises in expanding their green activities and increasing their competitiveness.
- In addition, we commenced a collaboration with Green for Growth Fund (GGF) to develop a digital platform, which will allow our customers to submit requests for funding for prospective solar photovoltaic projects and obtain quotes from TBC Leasing in a more efficient way. This platform will be integrated into TBC Leasing's website and will be equipped with a leasing and an impact calculator for solar PV systems – enabling potential clients to estimate the leasing rates from different technology suppliers, including the main impact metrics such as energy and carbon dioxide (CO_2) emission reduction, savings in monetary terms and estimated payback period. The platform is expected to go live in the first quarter of 2023.

As a result, our green leasing portfolio has grown to GEL 25 million from just GEL 3 million last year. We plan to further increase our green leasing portfolio in the coming years.

LOOKING AHEAD

The Georgian leasing market has substantial growth potential given its low penetration level - leasing represents only around 1% of Georgia's GDP, significantly below peer countries where leasing accounts for approximately 5%[2] of GDP.

Importantly, over the past five years, the compound annual growth (CAGR) of the Georgian leasing market was around 22%[1], as awareness of leasing products as an alternative way of financing for SME clients has increased. We expect to see further growth in both the Georgian leasing market and TBC Leasing in the year ahead.

1 Based on internal estimates.
2 Based on UK Good Governance Fund, Leasing Market Research.

Our colleagues

We are committed to providing a healthy and safe workplace environment, where people can develop and grow, encouraging diversity, equality and inclusion among our workforce while delivering top-quality services to our clients.

MEASURING SUCCESS IN 2022

59% (2021: 66%) EMPLOYEE NET PROMOTER SCORE[1]	36% (2021: 35%) WOMEN IN MIDDLE MANAGERIAL POSITIONS[2]	89% (2021: 88%) ENGAGEMENT INDEX[3]

OVERVIEW

We strongly believe that people are our vital capital and strive to become the most attractive employer in the country in which we operate. With an effective talent acquisition and development framework, we support Group strategy and create maximum value for both TBC and our employees.

Post COVID-19, we introduced hybrid working arrangements, allowing our employees to work from wherever they choose. Today, most of our non-customer facing employees work outside the office, which has resulted in higher employee satisfaction levels and increased efficiency across the Group.

In 2022, in the light of increased inflation, we raised the salaries for around 58% our mass position employees in customer-facing and support roles. The average increase was around 20-25%.

During 2022, our main priorities were: talent acquisition and development, performance management, engagement and motivation, as well as ensuring equality and diversity.

OUR MAIN STRATEGIC PRIORITIES

TALENT ACQUISITION AND DEVELOPMENT

We strive to be one of the best employers in the Georgian market and in line with this, we aim to build a best-in-class talent acquisition and development function.

We actively monitor the labour market, both in Georgia and abroad, in order to expand our network for attracting key personnel, including but not limited to: business, finance, risk and tech positions.

For entry-level positions, we run a wide-scale internship programme to attract the best students from Georgia's leading universities. After the successful completion of a one-year internship, top candidates are offered employment in various departments, including finance, risk, corporate, marketing, IT and data analytics. In addition, we have started active cooperations with local universities and colleges, in order to attract recent graduates for entry level positions at the front office.

We continue to run a talent development programme for middle management which is focused on enhancing leadership skills and developing a growth mindset. Since the launch of the programme in 2021, up to 110 people have successfully graduated from this programme. Highly positive feedback has been received from the graduates of this programme.

Case study

"I began working at TBC as a teller, but I was interested in pursuing a career in programming. In my free time I would learn the basics of programming by myself, using online resources, however I felt the need for mentorship from experienced tutors.

This is when I decided to register for the education programme at TBC IT Academy. The selection process was challenging, but I worked hard and was selected to participate in the programme, which was fully financed by TBC. This programme gave me invaluable knowledge, as well as the opportunity to begin my career in programming. One year later, I am now a part of TBC's tech team and can continue my professional growth in a job that I find interesting and fulfilling. My experience has shown me that dedication and hard work are necessary to succeed, however having the right opportunity is just as important. I am grateful to TBC for giving me the opportunity to unlock my true potential and change my career path in line with my interests."

Giorgi Shengelia
Developer at TBC Bank

1 The Employee Net Promoter Score (ENPS) was measured in October 2022 by an independent consultant for the Bank's employees.
2 Branch managers, division and department heads, as well as directors of the Group's subsidiaries.
3 Engagement Index was measured in October 2022 by an independent consultant for the Bank's employee's and measures how much employees feel involved and committed to TBC Bank.

Since 2019, we have run an internal IT academy, which offers courses in front-end and back-end development for both our existing employees as well as potential ones. This programme is free of charge for selected candidates and is run by experienced staff members and leading professionals from relevant fields. Since its establishment, we have trained approximately 800 people and recruited 290 people.

In addition, TBC Academy, which was established in 2011, continues to offer various development opportunities to our employees. During 2022, more than 1,200 employees took various courses, such as business development, banking, change management, leadership, financial analytics and many more. We also provide financial support to our employees to attend various external courses and gain international certifications such as MBA, CFA, FRM, ACCA and others.

We offer competitive remuneration packages to our employees, which are comprised of a fixed salary, performance-based bonuses and a benefits package. Benefits include health insurance, critical disease and life insurance, paid sick leave, as well as six months fully-paid maternity and paternity leave. Additional benefits include a social assistance package in case of marriage, childbirth and family member support, paid days off for all employees and extra paid days off for employees with more than three children, as well as special social payments for employees with more than four children.

PERFORMANCE MANAGEMENT

Through our effective performance management system, we strive to increase employee productivity and reinforce a culture of feedback.

Our performance management system is closely linked with the overall objectives of the Group and is based on three core principles: clarity, fairness and integrity. We make sure that our colleagues have a clear understanding of their role in the company and that they are actively engaged in setting their personal goals. Employees are also given appropriate coaching by their managers to help them achieve their goals. Regular employee feedback and constructive dialogue are important parts of our performance appraisal system and have been incorporated into middle management KPIs.

We use different assessment systems for front and non-customer facing employees, depending on the positions held. For front-office staff, targets are set on a monthly basis and rewards are linked to sales and customer service quality levels. Middle managers, as well as our non-customer facing staff, are assessed by KPIs and a competency-based system.

In addition, we run a 360-degree evaluation that provides each employee with the opportunity to receive feedback from his/her manager, peers and subordinates. 360-degree feedback allows our employees to understand how their performance is viewed by others. It also helps them to identify their strengths and weaknesses and develop new skills. Furthermore, during 2022, we conducted a series of effective feedback training for our employees in order to strengthen the feedback culture within the organisation.

EMPLOYEE ENGAGEMENT AND MOTIVATION

We strive to develop a supportive and empowering work culture to offer equal opportunities for work and development and to encourage a healthy work-life balance.

Our CEO and the executive management team play a special role in promoting the corporate culture and values through regular communication with employees. They also share the Group's strategy and achievements as well as obtain feedback.

We support and encourage our employees to participate in rotations as well as to obtain promotions within the Group. Under equal conditions, the priority is given to the internal candidate. In 2022, the promotion and horizontal transfer rate was around 30% for the Bank. For certain positions, we have implemented a special career mapping programme. We are also actively working on developing a succession planning framework for senior positions in order to ensure smooth transition.

Special attention is given to the recognition of achievements by our team members by sharing success stories in our internal communication channels. In addition, we have several internal rewards to grow the service culture and customer focus among employees.

We carefully listen to our colleagues and conduct an annual survey to measure their satisfaction and engagement levels. 78% of employees participated in the satisfaction survey this year and our employee net promoter score remained high at 59%[1] compared to 66% of 2021, but still remained well above industry average of 47%. The results of the survey are thoroughly analysed and presented to the management and Board to plan future actions.

EQUALITY AND DIVERSITY

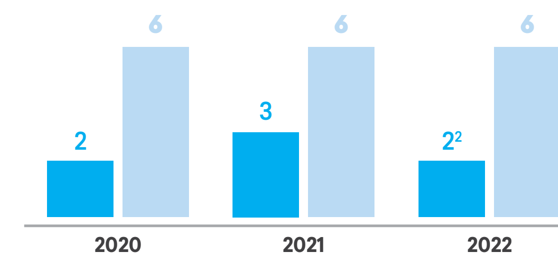
We are committed to encouraging diversity, equality and inclusion among our workforce, and eliminating any kind of discrimination. We embrace and encourage our employees' differences in age, sex, colour, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, and other characteristics that make our employees unique.

This year, we upgraded the Diversity, Equality and Inclusion Policy. The Policy provides clear guidance for ensuring the proactive and consistent integration of diversity, equality and inclusion in the Group's work inside the company, in the marketplace and in the community at large. The updated policy is available at: www.tbcbankgroup.com.

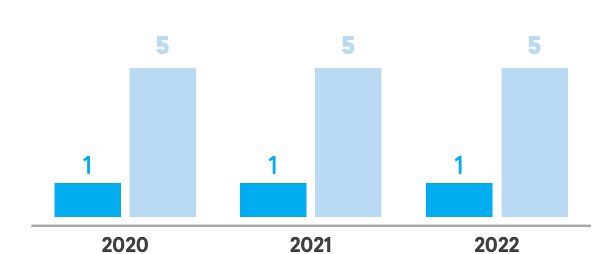
We remain committed to having a gender-balanced workforce and culture that supports and empowers women. In 2021, we set a target at the Bank level to increase the number of women in middle managerial positions from the current level of 36% to 40% by 2023. By the end of 2022, this indicator remained unchanged. Starting from 2023, the agile managerial positions - Product Owners and Chapter Leads will be included in the calculations of the Middle Management in order to reflect the organisational transformation and structure in the Bank. In 2019, TBC was the first company in Georgia to introduce agile structure which creates more dynamic working environment, instills an open culture and empowers women and men in different roles and functions. The agile structure differs from the traditional organisational set-up and is founded on cross-functional teams. As of 31 December 2022, representation of women in newly classified middle managerial positions stood at 41%. Therefore, we adjusted the targets for the share of women in middle managerial positions and set them at 43% in 2023 and 45% in 2024, respectively. Furthermore, in 2022, we expanded our approach to certain subsidiaries of the Group and incorporated individual diversity targets within their ESG strategies.

The tables below show the data at the Group level.

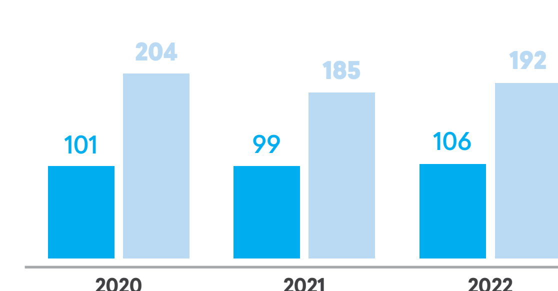
SUPERVISORY BOARD



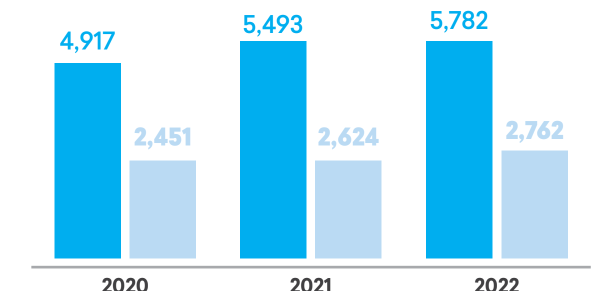
EXECUTIVE MANAGEMENT



MIDDLE MANAGERIAL POSITIONS[3]



ALL EMPLOYEES

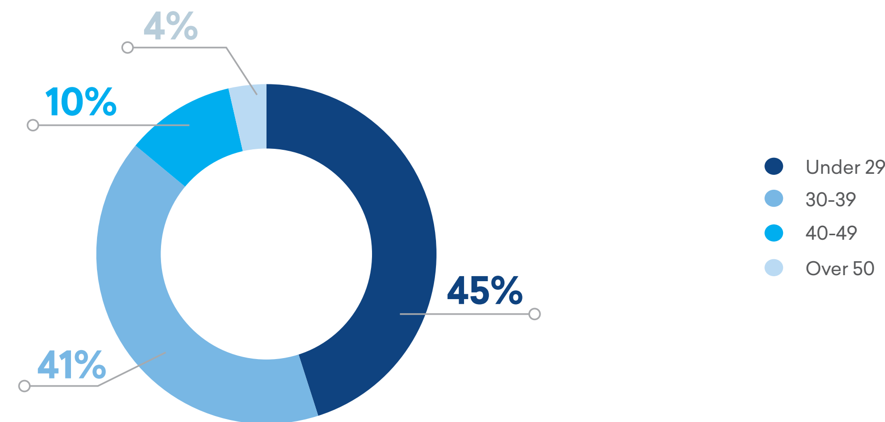


● Female ● Male

1 The Employee Net Promoter Score (ENPS) was measured in October 2022 by an independent consultant for the Bank's employees.
2 Throughout 2022, we had three female non-executive Supervisory Board members until Maria Luisa Cicognani stepped down from the Supervisory Board in September 2022. In February 2023, we appointed Janet Heckman - a new female non-executive member of Supervisory Board of the Bank, approved by National Bank of Georgia on 21 April 2023.
3 Branch managers, division and department heads, as well as directors of the Group's subsidiaries.

We have a good mix of people comprised of employees with extensive work experience and young and bright talents with innovative and fresh ideas who have just graduated from top universities in Georgia and abroad. We believe that age diversity creates a more dynamic and high-performing team which in turn leads to better results.

AGE DIVERSITY STATISTICS 2022



ETHICAL STANDARDS, RESPONSIBLE CONDUCT AND SAFETY AT WORK

TBC Bank is committed to running a business that promotes high ethical standards and values, respects human rights, cares about the environment and community and encourages its employees to act with integrity and responsibility towards each other and other stakeholders.

For this purpose, we have developed a set of policies at the Group level. We closely monitor adherence to these. These policies can be found on our IR website at www.tbcbankgroup.com and are comprised of:

- Code of Ethics;
- Code of Conduct;
- Diversity, Equality and Inclusion Policy;
- Human Rights Policy;
- Incident Response Policy (Whistleblowing Policy);
- Anti-Bribery, Anti-Corruption and Prevention of the Facilitation of Tax Evasion Policy;
- Global Data Protection Policy;
- Environmental Policy;
- Climate Change Policy.

In addition, we have introduced an Employee Discrimination, Violence and Harassment policy and a Health Safety and Environment Policy at the Bank level and plan to introduce these across the Group going forward.

The Compliance Department regularly conducts tailored training sessions for different employee groups based on their job specifications in the following areas: anti-corruption, anti-bribery, ethical issues, as well as anti-money laundering and sanctions. During 2022, around 6,700 employees have undergone such training. Periodic audits are also conducted by the Internal Audit Department to identify any violations or inappropriate behaviour.

Furthermore, on an annual basis, we conduct mandatory tests for all employees of the Bank to raise awareness and highlight the importance of our internal policies and procedures. The topics include but are not limited to: safe working environment, code of conduct and code of ethics, data and information security, whistleblowing, environmental issues, inside information, corruption, money laundering and operational risks.

30

Celebrating
30 years of success

SCAN TO WATCH THE VIDEO

THIS YEAR, WE CELEBRATED OUR 30TH ANNIVERSARY TOGETHER WITH 8,500 EMPLOYEES IN TSINANDALI ESTATE

Our community

Being a systemically important bank in Georgia, we acknowledge our responsibility towards society and are committed to creating a better future for the communities in which we operate. Our wide range of high-impact, sustainable projects are primarily focused on supporting business development, the young, women, culture and sport.

ENCOURAGING MSME BUSINESS DEVELOPMENT AND ENTREPRENEURSHIP

TBC has always been an avid supporter of start-ups and MSME businesses. In order to address the social and economic challenges in Georgia, the development of small and medium businesses is vital. It contributes to the reduction of unemployment and boosts economic growth. We assist businesses through the provision of both financial and non-financial support, including facilitating access to capital, sharing knowledge and expertise and developing products and services specially customised for business needs. Detailed information regarding these initiatives is outlined in our MSME Banking section on pages 36-41.

SUPPORTING THE YOUNG GENERATION

During our 30 years of operations, TBC has always supported young talented people, many of whom are now successful artists, scientists and professionals, enjoying prominent careers in different fields in Georgia as well as abroad. In 2022, TBC continued to stand by the young generation with the following initiatives:

- TBC Scholarship is the largest private scholarship programme for schoolchildren in Georgia. In cooperation with 14 partner organisations that specialise in children's education and development, TBC selects talented and motivated schoolchildren from all over Georgia and provides them with financial support, as well as new opportunities for education. Since its inception in 2018, up to 400 schoolchildren with various talents in art, science, sport and social activism have participated in the programme.
- Since 2019, TBC has supported the Tbilisi Book Festival, the largest event in the Georgian book sector which brings writers, publishers and readers together. In 2022, TBC continued supporting the festival and remained its partner for the whole year.
- Supporting STEM education is one of TBC's priorities. For the past eight years, TBC has partnered with Leonardo da Vinci, the Young Researchers and Innovators Annual Competition for Georgian high school students. The competition enables schoolchildren to demonstrate their talents in tech fields and gain access to further educational opportunities. TBC Bank provides marketing support for the competition, allocates its facilities and awards the winners.
- TBC has also established a number of academies in Georgia, which provide free education opportunities to individuals interested in IT, risk management and other business fields, along with the opportunity of being employed by TBC. We also continue to run TBC Camp, a programme that was established in 2019 and envisages the conduct of a Stock Pitch Competition for fourth year finance students. This competition is integrated into the syllabus of several universities' curricula and is comprised of intensive online lectures, training and the preparation of real investment cases. These are presented to a panel of judges. Selected teams are awarded special prizes.

CREATING EQUAL OPPORTUNITIES FOR WOMEN

We pay great attention to fostering equality of opportunities for different members of society. In this regard, we have launched several initiatives that support the education and career development of Georgian women:

- TBC is a partner of the Grace Hopper Award, which was founded in Georgia by USAID and UN Women. The Award recognises the contributions of individuals and organisations that empower women in the information and communication technology (ICT) industry and leads to positive change in the sector.
- Another important project targeting the elimination of gender biases is '500 women in tech', which has been developed in cooperation with the Business and Technology University of Tbilisi, UN Women and the Government of Norway. The programme, which lasts for 18 months, allows female candidates to study the following professions: front-end and back-end development, user experience and graphic design, digital marketing and product testing.

PRESERVING CULTURAL HERITAGE

Preserving and popularising the cultural heritage of our country of operations across the wider community is very important for TBC. In line with this, the year under review saw us continue high-impact initiative:

- In 2022, TBC celebrated the 20th anniversary of the literary award Saba, which was founded by TBC and is the biggest and most important literary event in Georgia. Each year, up to GEL 50,000 is awarded to winners in various categories. In addition, Saba celebrated another anniversary in 2022: 10 years since the foundation of www.saba.com.ge, the Saba online books store. Hosting up to 7,000 books and accessible via an easy-to-use mobile app, where readers can enjoy a wide choice of books for a reasonable price, www.saba.com.ge is the biggest online library in the Georgian language.

SUPPORTING SPORT AND HEALTHY LIFESTYLES

Supporting and promoting sport and healthy lifestyles are also important priorities for TBC. Here, we undertook several initiatives in 2022:

- Since 2015, TBC has been the general sponsor of Georgian Rugby Union. This year, we extended the partnership for another five years to 2027. Rugby is Georgia's national game and is close to the heart of Georgians. We are proud to contribute to the development of rugby in Georgia and are committed to supporting our national rugby team, as well as implementing various projects to promote this sport.
- In late 2022, TBC signed a partnership agreement with Georgian Ski Federation to host the 2023 Freestyle ski, Snowboard and Freeski World Championships in Bakuriani, Georgia. The Championships will be held for three weeks in 2023 and will provide a number of benefits, including supporting infrastructure development, attracting professionals and fans from all over the world, as well as popularising these sports among Georgians.

SUPPORTING UKRAINIAN PEOPLE

Following the Russian invasion of Ukraine, TBC established a fund with an initial down payment of GEL 200,000, and invited organisations and individuals to donate funds in support of Ukrainian People. More than GEL 1,800,000 has been raised collectively by individuals and organisations and transferred to the National Bank of Ukraine. In the second half of the year and in response to the large numbers of Ukrainian nationals who entered Georgia fleeing the war, TBC switched to fundraising for Georgian organisations that assist Ukrainians in Georgia. We will continue supporting Ukrainian people in 2023, in order to help alleviate the hardship caused by the unjust war.

Our efforts did not go unnoticed and we won the Corporate Responsibility Award 2022 in category SDG 16 – Peace, Justice and Strong Institutions for Supporting Ukraine. The Corporate Responsibility Award is held annually by Global Compact Network Georgia, with support from the Swedish Government and the USAID Civil Society Engagement Program.

Corporate Responsibility Award 2022 in category SDG 16 – Peace, Justice and Strong Institutions for Supporting Ukraine

TBC is the general sponsor of Georgian Rugby Union

We are proud to contribute to the development of rugby in Georgia and are committed to supporting our national rugby team, as well as implementing various projects to further popularise this sport.

Financial review

FINANCIAL HIGHLIGHTS

Income statement highlights

in thousands of GEL	2022	2021	Change YoY
Net interest income	1,243,095	995,792	24.8%
Net fee and commission income	265,650	224,887	18.1%
Other operating non-interest income	437,644	177,229	NMF
Operating income	**1,946,389**	**1,397,908**	**39.2%**
Total credit loss (allowance)/recovery	(115,507)	21,034	NMF
Losses from modifications of financial instruments	-	(1,726)	NMF
Operating expenses	(560,982)	(454,993)	23.3%
Profit before tax	**1,269,900**	**962,223**	**32.0%**
Income tax expense[1]	(246,825)	(119,278)	NMF
Profit for the period	**1,023,075**	**842,945**	**21.4%**

Balance sheet and capital highlights

in thousands of GEL	31-Dec-22	31-Dec-21	Change YoY
Total Assets	28,329,010	24,039,512	17.8%
Gross Loans	17,857,276	16,954,553	5.3%
Customer Deposits	17,841,357	14,884,145	19.9%
Total Equity	4,265,802	3,590,055	18.8%
CET 1 Capital (Basel III)	3,333,039	2,759,894	20.8%
Tier 1 Capital (Basel III)	3,873,439	3,379,414	14.6%
Total Capital (Basel III)	4,516,525	4,102,927	10.1%
Risk Weighted Assets (Basel III)	21,508,072	20,217,629	6.4%

Key APMs[2]

	2022	2021[3]	Change YoY
ROE[1]	26.0%	26.3%	-0.3 pp
ROA[1]	4.0%	3.7%	0.3 pp
NIM	5.9%	5.0%	0.9 pp
Cost to income	28.8%	32.5%	-3.7 pp
Cost of risk	0.6%	-0.3%	0.9 pp
NPL to gross loans	2.2%	2.4%	-0.2 pp
NPL provision coverage ratio	92.1%	99.2%	-7.1 pp
Total NPL coverage ratio	155.1%	174.6%	-19.5 pp
CET 1 CAR (Basel III)	15.5%	13.7%	1.8 pp
Tier 1 CAR (Basel III)	18.0%	16.7%	1.3 pp
Total CAR (Basel III)	21.0%	20.3%	0.7 pp
Leverage (Times)	6.6x	6.7x	-0.1x

Net interest income

In 2022, net interest income amounted to GEL 1,243.1 million, up by 24.8% on a YoY basis.

The YoY rise in interest income by GEL 356.7 million, or 19.1%, was mostly attributable to an increase in interest income from loans related to the GEL 902.7 million, or 5.3%, increase in the respective portfolio, as well as a 1.0 pp rise in the respective yield.

YoY interest expense increased by GEL 109.4 million, or 12.6%, mainly related to an increase in the deposit portfolio of GEL 2,957.2 million, or 19.9%, and increased deposit costs by 0.2 pp.

As a result, our NIM for full year 2022, stood at 5.9%, up by 0.9 pp on a YoY basis.

In thousands of GEL	2022	2021	Change YoY
Interest income	2,219,781	1,863,077	19.1%
Interest expense*	(976,686)	(867,285)	12.6%
Net interest income	1,243,095	995,792	24.8%
NIM	**5.9%**	**5.0%**	**0.9 pp**

* Interest expense includes net interest gains from currency swaps

Non-interest income

Total non-interest income amounted to GEL 703.3 million during 2022, increasing by 74.9% on a YoY basis.

Net fee and commission income increased by 18.1% on a YoY basis, related to increased payment transactions in Georgia and increased business activities through the year.

Net gains from FX operations increased more than three times on a YoY basis, mainly related to the high volume of transactions and wider spreads.

The decrease in other operating income was related to a non-recurring gain from the disposal of our investment property in amount of GEL 26.3 million in 2021.

1 Includes GEL 112.9 million one-off tax charge impact, due to changes to the corporate taxation model for financial institutions in Georgia.
2 The detailed information about APMs is given on pages 264-268

In thousands of GEL	2022	2021	Change YoY
Net fee and commission income	265,650	224,887	18.1%
Net gains from currency derivatives, foreign currency operations and translation	411,806	124,194	NMF
Other operating income	25,838	53,035	-51.3%
Total other non-interest income	**703,294**	**402,116**	**74.9%**

Credit loss allowance

Credit loss allowance for loans during FY 2022 amounted to GEL 105.2 million, which translated into a 0.6% cost of risk.

In thousands of GEL	2022	2021	Change YoY
Credit loss (allowance)/recovery for loans to customers	(105,247)	43,176	NMF
Credit loss allowance for other transactions	(10,260)	(22,142)	-53.7%
Total credit loss (allowance)/recovery	**(115,507)**	**21,034**	**NMF**
Operating income after expected credit and non-financial asset impairment losses	**1,830,882**	**1,418,942**	**29.0%**
Cost of risk	**0.6%**	**-0.3%**	**0.9 pp**

Operating expenses

During FY 2022, our operating expenses increased by 23.3% on a YoY basis.

During FY 2022, the annual increase in operating expenses was mainly driven by increased staff costs due to the expansion of business as well as higher performance-related costs. The increase in administrative and other operating expenses was mainly related to investments in our IT capabilities and business development.

Our cost to income ratio amounted to 28.8%, down by 3.7 pp on a YoY basis.

In thousands of GEL	2022	2021	Change YoY
Operating expenses			
Staff costs	(306,526)	(255,747)	19.9%
Provision for liabilities and charges	(2,000)	-	NMF
Depreciation and amortisation	(85,108)	(70,622)	20.5%
Administrative and other operating expenses	(167,348)	(128,624)	30.1%
Total operating expenses	**(560,982)**	**(454,993)**	**23.3%**
Cost to income	**28.8%**	**32.5%**	**-3.7 pp**

Net profit

In 2022, we delivered robust profitability and generated GEL 1,023.1 million in net profit, up by 21.4% YoY, driven by robust income generation in both, interest and non-interest income streams. As a result, our ROE stood at 26.0%.

In 2022, our income tax expenses increased and reached GEL 246.8 million by the end of the year. The increase was related to changes in the taxation model in Georgia. The model change had an immediate impact of GEL 112.9 million on income tax expenses.

Without one-off tax charges, our underlying net profit and ROE would have been GEL 1,136.0 million and 28.8%, respectively.

In thousands of GEL	2022	2021	Change YoY
Losses from modifications of financial instruments	**-**	**(1,726)**	**NMF**
Profit before tax	**1,269,900**	**962,223**	**32.0%**
Income tax expense	(246,825)	(119,278)	NMF
Profit for the period	**1,023,075**	**842,945**	**21.4%**
ROE	**26.0%**	**26.3%**	**-0.3 pp**
ROA	**4.0%**	**3.7%**	**0.3 pp**

Funding and liquidity

As of 31 December 2022, the total liquidity coverage ratio (LCR), as defined by the NBG, was 146.6%, above the 100% regulatory limit, while the LCR in GEL and FC stood at 164.2% and 135.9%, accordingly, above the respective regulatory limits of 75% and 100%.

Over the same period, NSFR stood at 135.3%, compared to the regulatory limit of 100%.

In thousands of GEL	2022	2021	Change YoY
Minimum net stable funding ratio, as defined by the NBG	*100.0%*	*100.0%*	*0.0 pp*
Net stable funding ratio as defined by the NBG	135.3%	127.3%	8.0 pp
Net loans to deposits + IFI funding	87.7%	101.3%	-13.6 pp
Leverage (Times)	6.6x	6.7x	-0.1x
Minimum total liquidity coverage ratio, as defined by the NBG	*100.0%*	*100.0%*	*0.0 pp*
Minimum LCR in GEL, as defined by the NBG	*75%*	*75.0%*	*0.0 pp*
Minimum LCR in FC, as defined by the NBG	*100.0%*	*100.0%*	*0.0 pp*
Total liquidity coverage ratio, as defined by the NBG	146.6%	115.8%	30.8 pp
LCR in GEL, as defined by the NBG	164.2%	107.7%	56.5 pp
LCR in FC, as defined by the NBG	135.9%	120.8%	15.1 pp

Regulatory capital

As of December 2022, our CET1, Tier 1 and Total Capital ratios stood at 15.5%, 18.0% and 21.0%, respectively, and remained comfortably above the minimum regulatory requirements by 3.9%, 4.2% and 3.7%, accordingly.

The YoY increase in, CET1 Tier 1 and total capital adequacy ratios was mainly driven by net profit generation and the appreciation of the local currency, which was partially offset by the 2021 final and 2022 interim dividends.

In thousands of GEL	2022	2021	Change YoY
CET 1 Capital	3,333,039	2,759,894	20.8%
Tier 1 Capital	3,873,439	3,379,414	14.6%
Total Capital	4,516,525	4,102,927	10.1%
Total Risk-weighted Exposures	21,508,072	20,217,629	6.4%
Minimum CET 1 ratio	*11.6%*	*11.7%*	*-0.1 pp*
CET 1 Capital adequacy ratio	15.5%	13.7%	1.8 pp
Minimum Tier 1 ratio	*13.8%*	*14.0%*	*-0.2 pp*
Tier 1 Capital adequacy ratio	18.0%	16.7%	1.3 pp
Minimum total capital adequacy ratio	*17.3%*	*18.4%*	*-1.1 pp*
Total Capital adequacy ratio	21.0%	20.3%	0.7 pp

Loan portfolio

As of 31 December 2022, the gross loan portfolio reached GEL 17,857.3 million, up by 5.3% YoY or 14.0% on a constant currency basis.

The proportion of gross loans denominated in foreign currency decreased by 6.6 pp on a YoY basis and accounted for 47.1% of total loans. On a constant currency basis, the proportion of gross loans denominated in foreign currency decreased by 2.5 pp YoY and stood at 51.2%.

As of 31 December 2022, our market share in total loans stood at 39.5%, up by 0.7 pp on a YoY basis. Our loan market share in legal entities was 40.8%, up by 1.7 pp YoY. Our loan market share in individuals stood at 38.4%, down by 0.2 pp on a YoY basis.

In thousands of GEL	**2022**	**2021**	**Change YoY**
Loans and advances to customers			
Retail	**6,765,392**	**6,265,507**	**8.0%**
– Retail loans GEL	4,374,223	3,580,468	22.2%
– Retail loans FC	2,391,169	2,685,039	-10.9%
CIB	**6,282,469**	**6,547,741**	**-4.1%**
– CIB loans GEL	2,435,737	2,188,776	11.3%
– CIB loans FC	3,846,732	4,358,965	-11.8%
MSME	**4,809,415**	**4,141,305**	**16.1%**
– MSME loans GEL	2,627,760	2,082,204	26.2%
– MSME loans FC	2,181,655	2,059,101	6.0%
Total loans and advances to customers	**17,857,276**	**16,954,553**	**5.3%**

FC refers to foreign currency

	2022	**2021**	**Change YoY**
Loan yields	**11.2%**	**10.2%**	**1.0 pp**
– Loan yields GEL	15.5%	15.1%	0.4 pp
– Loan yields FC	7.0%	6.5%	0.5 pp
Retail Loan Yields	**12.6%**	**11.5%**	**1.1 pp**
– Retail loan yields GEL	16.3%	16.1%	0.2 pp
– Retail loan yields FC	6.5%	6.1%	0.4 pp
CIB Loan Yields	**9.8%**	**9.0%**	**0.8 pp**
– CIB loan yields GEL	14.1%	13.7%	0.4 pp
– CIB loan yields FC	7.6%	7.0%	0.6 pp
MSME Loan Yields	**11.1%**	**10.2%**	**0.9 pp**
– MSME loan yields GEL	15.1%	14.9%	0.2 pp
– MSME loan yields FC	6.4%	6.0%	0.4 pp

FC refers to foreign currency

Loan portfolio quality

On a YoY basis, total Par 30 (loans overdue by 30 days) remained stable at level of 2.0%, while total NPL improved by 0.2 pp and amounted to 2.2%.

The 0.4 pp increase in retail Par 30 was driven by an unsecured consumer portfolio, while the 0.9 pp improvement in Par 30 for the MSME segment was mainly attributable to the SME sub-segment. Par 30 for the CIB segment remained broadly stable.

By the end of the year, total portfolio NPL slightly improved by 0.2 pp, improvements were observed across all segments.

Par 30	**31-Dec-22**	**31-Dec-21**	**Change YoY**
Retail	2.6%	2.2%	*0.4 pp*
CIB	0.5%	0.6%	*-0.1 pp*
MSME	3.1%	4.0%	*-0.9 pp*
Total Loans	**2.0%**	**2.0%**	***0.0 pp***

Non-performing Loans	**31-Dec-22**	**31-Dec-21**	**Change YoY**
Retail	2.2%	2.5%	*-0.3 pp*
CIB	1.3%	1.4%	*-0.1 pp*
MSME	3.4%	4.0%	*-0.6 pp*
Total Loans	**2.2%**	**2.4%**	***-0.2 pp***

NPL Coverage	**31-Dec-22**		**31-Dec-21**	
Retail	Provision Coverage	Total Coverage	Provision Coverage	Total Coverage
Retail	147.8%	192.1%	157.0%	222.7%
CIB	57.9%	119.9%	56.8%	126.4%
MSME	58.8%	139.2%	68.0%	155.5%
Total	**92.1%**	**155.1%**	**99.2%**	***174.6%***

Cost of risk

In FY 2022, the cost of risk started to normalise, after significant recoveries in 2021, and amounted to 0.6%.

Cost of Risk	**2022**	**2021**	**Change YoY**
Retail	1.4%	0.4%	1.0 pp
CIB	0.0%	-1.0%	1.0 pp
MSME	0.4%	-0.2%	0.6 pp
Total	**0.6%**	**-0.3%**	**0.9 pp**

Deposit portfolio

The total deposits portfolio amounted to GEL 17,841.4 million, increasing by 19.9% YoY or 30.2% on a constant currency basis.

The proportion of deposits denominated in a foreign currency decreased by 9.1 pp YoY and stood at 53.7% of total deposits. On a constant currency basis, the proportion of deposits decreased by 5.5 pp YoY and accounted for 57.3% of total deposits.

As of 31 December 2022, our market share in deposits amounted to 40.3%, down by 0.1 pp on a YoY basis, while our market share in deposits to legal entities stood at 42.9%, down by 2.4 pp YoY. Our market share in deposits to individuals stood at 38.1%, down by 2.2 pp on a YoY basis.

In thousands of GEL	31-Dec-22	31-Dec-21	Change YoY
Customer Accounts			
Retail	**6,536,649**	**5,629,823**	**16.1%**
– Retail deposits GEL	1,905,377	1,492,325	27.7%
– Retail deposits FC	4,631,272	4,137,498	11.9%
CIB	**9,133,452**	**7,378,552**	**23.8%**
– CIB deposits GEL	5,045,557	2,970,310	69.9%
– CIB deposits FC	4,087,895	4,408,242	-7.3%
MSME	**1,758,814**	**1,564,150**	**12.4%**
– MSME deposits GEL	905,500	761,493	18.9%
– MSME deposits FC	853,314	802,657	6.3%
Total Customer Accounts*	**17,841,357**	**14,884,145**	**19.9%**

* Total deposit portfolio includes Ministry of Finance deposits in the amount of, GEL 412 million and GEL 312 million as of 31 December 2022 and 31 December 2021, respectively.

FC refers to foreign currency

	2022	2021	Change YoY
Deposit rates	**3.6%**	**3.4%**	**0.2 pp**
– Deposit rates GEL	7.7%	6.7%	1.0 pp
– Deposit rates FC	0.9%	1.5%	-0.6 pp
Retail Deposit Yields	**2.0%**	**2.2%**	**-0.2 pp**
– Retail deposit rates GEL	5.6%	4.9%	0.7 pp
– Retail deposit rates FC	0.7%	1.3%	-0.6 pp
CIB Deposit Yields	**4.8%**	**4.3%**	**0.5 pp**
– CIB deposit rates GEL	9.5%	8.5%	1.0 pp
– CIB deposit rates FC	1.2%	2.0%	-0.8 pp
MSME Deposit Yields	**0.7%**	**0.8%**	**-0.1 pp**
– MSME deposit rates GEL	1.2%	1.4%	-0.2 pp
– MSME deposit rates FC	0.2%	0.2%	0.0 pp

FC refers to foreign currency

APMS

APMs (based on monthly averages, where applicable)	2022	2021
Profitability ratios:		
ROE[1]	26.0%	26.3%
ROA[1]	4.0%	3.7%
Cost to income	28.8%	32.5%
NIM	5.9%	5.0%
Loan yields	11.2%	10.2%
Deposit rates	3.6%	3.4%
Cost of funding	4.6%	4.4%
Asset quality & portfolio concentration:		
Cost of risk	0.6%	-0.3%
PAR 90 to Gross Loans	1.2%	1.2%
NPLs to Gross Loans	2.2%	2.4%
NPL provision coverage	92.1%	99.2%
Total NPL coverage	155.1%	174.6%
Credit loss level to Gross Loans	2.0%	2.4%
Related Party Loans to Gross Loans	0.1%	0.1%
Top 10 Borrowers to Total Portfolio	5.4%	6.9%
Top 20 Borrowers to Total Portfolio	8.5%	10.6%
Capital & liquidity positions:		
Net Loans to Deposits plus IFI* Funding	87.7%	101.3%
Net Stable Funding Ratio	135.3%	127.3%
Liquidity Coverage Ratio	146.6%	115.8%
Leverage	6.6x	6.7x
CET 1 CAR (Basel III)	15.5%	13.7%
Tier 1 CAR (Basel III)	18.0%	16.7%
Total 1 CAR (Basel III)	21.0%	20.3%

* International Financial Institutions

The detailed information about APMs is given on pages 264-268.

1 Includes GEL 112.9 million one-off tax charge impact, due to changes to the corporate taxation model for financial institutions in Georgia.

Risk management

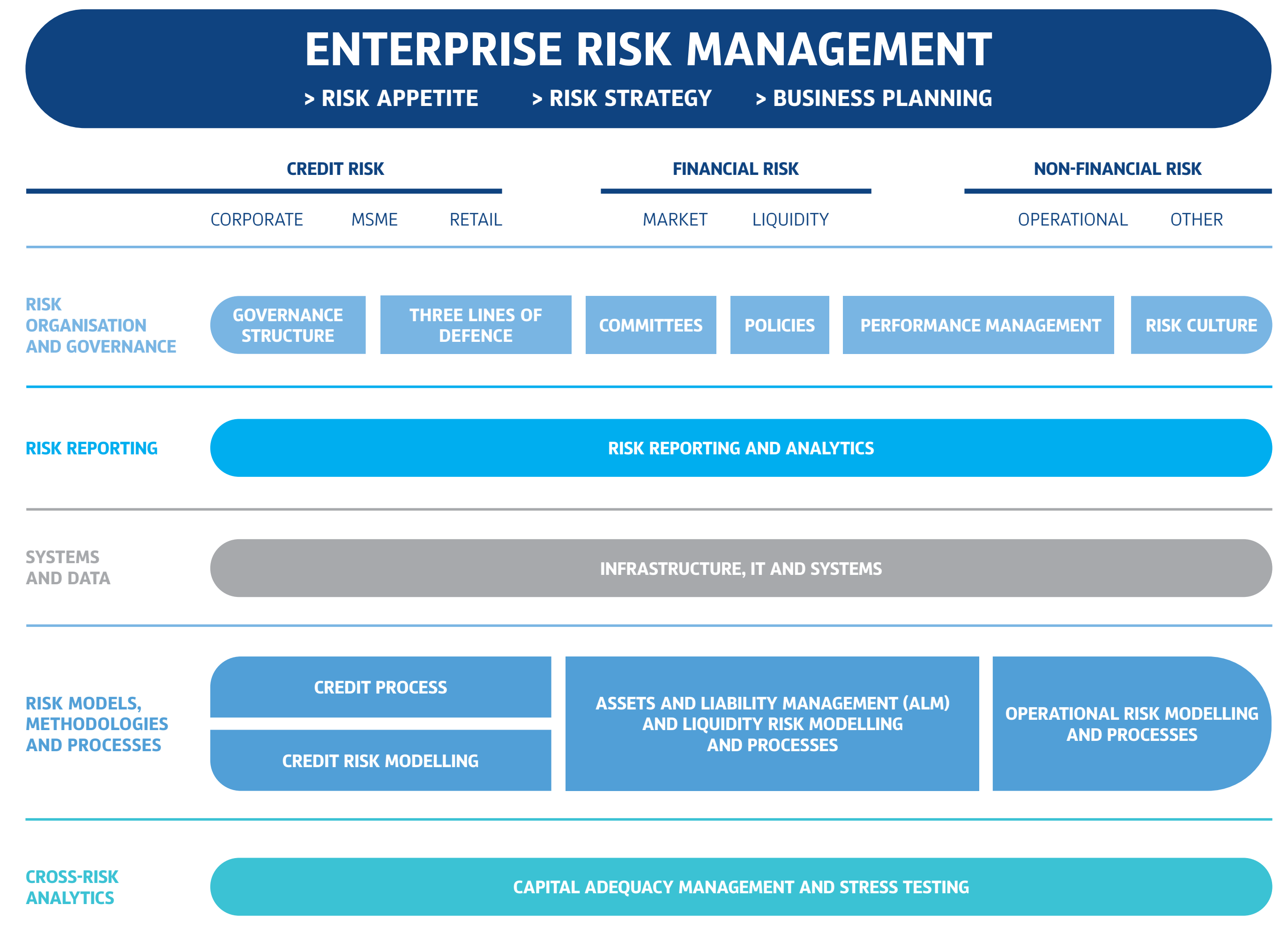
OVERVIEW

The Group operates a strong, independent, business-minded risk management system. Its main objective is to contribute to the sustainability of risk-adjusted returns through the implementation of an efficient risk management system. The Group has adopted four primary risk management principles to better accomplish its major objectives:

- Govern risks transparently to obtain understanding and trust. Consistency and transparency in risk-related processes and policies are preconditions for gaining the trust of multiple stakeholders. Communicating risk goals and strategic priorities to governing bodies and providing a comprehensive follow-up in an accountable manner are key priorities for the staff responsible for risk management;
- Manage risks prudently to promote sustainable growth and resilience. Risk management acts as a backstop against excessive risk-taking. Capital adequacy management and strong forward-looking tools and decision-making ensure the Group's sustainability and resilience;
- Ensure that risk management underpins the implementation of strategy. Staff responsible for risk management provide assurance on the feasibility of achieving objectives through risk identification and management. Identifying and adequately pricing risks, as well as taking risk mitigation actions, supports the generation of desired returns and the achievement of planned targets;
- Use risk management to gain a competitive advantage. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensuring the sustainability and resilience of the business model and the positioning of risk management as the Group's competitive advantage and strategic enabler.

Risk management framework

The Group's risk management framework incorporates all the necessary components for comprehensive risk governance and is comprised of enterprise risk management, credit, financial and non-financial risk management, risk reporting and supporting IT infrastructure, cross-risk analytical tools and techniques such as capital adequacy management and stress testing. The following diagram depicts the risk management framework:



GOVERNANCE

The Group conducts its risk management activities within the framework of its unified risk management system. The involvement of all governance levels in risk management, the clear segregation of authority, and effective communication between the different entities facilitate clarity regarding the Group's strategic and risk objectives, adherence to its established risk appetite and sound risk management. The Group's governance structure ensures adequate oversight and accountability, as well as a clear segregation of duties. The Supervisory Board has joint overall responsibility to set the tone at the top of the Group and monitor compliance with established objectives, while the Executive Management governs and directs the Group's daily activities.

The risk governance structure consists of two board levels, including the Supervisory Board and the Executive Management of the Bank. The Supervisory Board has a Risk Committee that supervises the risk profile and risk governance practices within the Group, as well as an Audit Committee that is responsible for implementing key accounting policies and facilitating internal and external auditors activities. The Supervisory Board also has an ESG and Ethics Committee, which supports the Supervisory Board in its oversight of the strategy, policies, initiatives and programmes of the Group in relation to ESG matters, and a Technology and Data Committee, which supports the Supervisory Board in its oversight of key enablers of the strategy, data and cyber issues, and the company's IT resources.

The Executive Management's Assets and Liabilities Management Committee (ALCO) is responsible for the implementation of asset-liability management policies. The Executive Management' Information Security Steering Committee governs information and cyber-security to ensure that relevant risks are at an acceptable level and that management processes are continuously improved. In addition, the ESG Committee is established at the Executive Management level and takes responsibility for implementing the Group's ESG strategy and approving its action plans, while the Environmental Committee supervises the proper implementation and functioning of the Environmental Management System in the Group.

The Supervisory Board and the Bank's senior management govern risk objectives through the Risk Appetite Statement, which establishes the desired risk profile and risk limits. The statement also sets monitoring and reporting responsibilities and escalation paths for different trigger events, and limits breaches, which prompt risk teams to frame and implement established mitigation actions. To effectively incorporate the Group's risk appetite into day-to-day operations, Risk Appetite Statement metrics are cascaded into more granular limits at the business unit level, establishing risk allocation across different segments and activities.

The process of setting and cascading the risk appetite is undertaken in parallel with the business planning process. The interactive development of business and risk plans aligns the plans by solving risk-return trade-offs in the process and increases the feasibility of achieving targets. Supervisory Board level oversight, coupled with the permanent involvement of senior management in the Group's risk management and the exercise of top-down risk allocation by the enterprise risk management function, ensures clarity regarding risk objectives, intense monitoring of the risk profile against the risk appetite, the prompt escalation of risk-related concerns and the establishment of remediation actions.

The daily management of individual risks is based on the three lines of defence principle. While business lines are the primary owners of risks, risk teams act as the second line of defence by sanctioning transactions, tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees established at operational levels are charged with making transaction-level decisions as part of a framework comprised of clear and sophisticated delegations of authority, based on the "four-eyes" principle. All new products and projects pass through risk teams to ensure that the risks are comprehensively analysed.

These control arrangements are designed to ensure that the Group makes informed decisions that are adequately priced and that any risks exceeding the Group's established targets are not taken. Credit, liquidity, market, operational and other non-financial risks are each managed by dedicated teams. The Group's strong and independent risk-management structure enables the fulfilment of all required risk management functions within the second line of defence by highly skilled professionals, with a balanced mix of credentials in the banking sector in local and international markets. In addition to the risk teams subordinated to the Bank's Chief Risk Officer, the Bank's compliance department reports directly to the CEO and is specifically in charge of anti-money laundering, compliance, and financial sanction risk management. As a third line of defence, the internal audit department is responsible for providing independent and objective assurance and recommendations to the Group to promote the further improvement of operations and risk management.

Sustainability risk management is done within a framework of established processes for risk management. According to the Group's vision, a sustainable bank is a profitable institution that offers adequate, affordable and need-based services to its clients, treats its employees, suppliers and all other stakeholders with a high sense of responsibility, and strongly supports the development of society. It is also a technologically advanced and environmentally aware bank that is trusted by society. The sustainability risks are related to the Group's different roles as a lender, asset manager, service provider, purchaser and employer. Of particular interest in the area of sustainability are risks related to compliance, conduct and digitalisation, as well as human rights, working conditions, the environment, climate change, financial crime, and information and IT security. Sustainable development policies and management structures are represented in various policy documents and management domains.

The Group has developed several thematic policies and codes that regulate various social and environ mental protection issues related to company activity. They include: the Code of Ethics, the Incident Management Policy, the Anti-Corruption Policy, the Personal Data Protection Policy, the Conflict of Interests Management Policy, Green Purchase Recommendations etc. In 2021, the ESG Coordination Department was created in order to support the establishment of an integrated ESG framework synergizing business, social, environmental and governance aims. The department reports to the Chief Risk Officer. For more details about management of ESG matters, please see Our ESG Strategy section on pages 26-27 and the TCFD reporting on pages 100-113.

ENTERPRISE RISK MANAGEMENT

A centralised Enterprise Risk Management (ERM) function is in place to ensure the effective development, communication and implementation of risk strategy and risk appetite across the Group. The ERM function facilitates cross-risk activities such as aggregation, analytics and reporting, and addresses issues that are not specific to a single type of risk. Accordingly, the ERM function complements the role of other risk functions to ensure the coverage of key risk activities and responsibilities and builds capabilities in a centralised team. The major ERM functions can be summarised as follows:

- Risk appetite development, cascading and monitoring are essential elements of the Group's strategy. A risk budget is allocated to individual business lines to ensure the achievement of aggregated metrics;
- Stress-testing exercises are one of the crucial tools for effective risk identification, measurement and mitigation. In that regard, the Group continuously advances its stress-testing capabilities and tools. Various scenario analysis and stress-testing methods are conducted by the Bank to ensure that it maintains adequate capital in order to withstand the given stress scenario and remain in a stable financial condition;
- Sign-off of long-term capital plans and capital adequacy analytics, as the second line of defence for the risk of capital adequacy;
- Development and update of Internal Capital Adequacy Assessment Procedure (ICAAP) and Internal Liquidity Adequacy Assessment Procedure (ILAAP);
- Consistency of risk management practices within the Bank is also an important task of the ERM. A risk management function dedicated to promoting consistency ensures that risks are identified, measured and governed in an optimal manner within the Bank, and reported and understood on a consolidated basis;
- Estimating expected losses, monitoring and analytics across various segments and products are further key features of our strategy;
- All risk metrics are aggregated and analysed to assess the Group's risk profile on a consolidated basis. Regular reports on the Bank's risk profile are submitted to the Executive Management and to the Supervisory Board's Risk Committee.

1 These terms are defined in the glossary on page 262-263.

CREDIT RISK MANAGEMENT

As a provider of banking services, the Group is exposed to the risk of losses due to the failure of a customer or counterparty to meet their obligations to settle outstanding amounts in accordance with agreed terms. Credit risk is the greatest material risk faced by the Group since it is engaged mainly in traditional lending activities. Therefore, the Group dedicates significant resources to its management.

The major objectives of credit risk management are to put in place a sound credit approval process for informed risk-taking and procedures for effective risk identification, monitoring and measurement. The Group adopts segment and product-specific approaches for prudent and efficient credit risk management. Therefore, the corporate, MSME and retail portfolios are managed separately to address the specifics of individual segments. Corporate and MSME (except micro) borrowers have larger exposures and are managed on an individual basis, whereas micro and retail borrowers are managed on a portfolio basis. The major credit risk functions can be summarised as follows:

Credit approval

The Group strives to ensure a sound credit-granting process by establishing well-defined lending criteria and building up an efficient process to assess each borrower's risk profile. A comprehensive credit risk assessment framework is in place with a clear segregation of duties among parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, and is further differentiated across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision-making process for smaller retail and micro loans is largely automated. After a thorough assessment of borrowers' requirements, credit analysts, in the case of corporate borrowers, and loan officers, in the case of SME borrowers, prepare a presentation containing certain key information in relation to the potential borrower and submit it for review to the business underwriting risk management unit. An underwriting risk manager ensures that the project analysis provided by the credit analyst/loan officer is complete, that all risks and mitigating factors are identified and adequately addressed, and that the loan is properly structured. Business underwriting risk managers specialise in a particular sector to be aware of current industry trends and developments.

A multi-tiered system of loan approval committees is in place with different approval levels to consider the borrower's overall indebtedness and risk profile. These committees are responsible for reviewing credit applications and approving exposures, with different committees based on the size and risk of the loan. At the highest level, the Chief Executive Officer, Corporate Business Director and Chief Risk Officer are involved. In addition, exposures to the 20 largest borrowers or for amounts exceeding 5% of the Bank's Tier 1 capital would require review and approval by the Supervisory Board Risk Committee. Loan officers submit the credit applications for retail and micro exposures to the respective underwriting risk management units. Depending on the amount of the loan, a loan approval committee will review the loan request based on specified limits regarding the risk level of the customer. For the underwriting of unsecured loans, point-of-sale loans and credit cards, an income verification process is performed in line with the regulations on responsible lending. For decision-making, internal scorecard models and ratings provided by the credit bureau are utilised. Different scorecard models are developed based on the type of product and the borrowers' segment, taking into consideration a range of internal and external data. The performance of scorecard models is closely monitored to ensure that decisions are in line with predefined risk limits. The credit scoring and underwriting models are developed by an independent Credit Modelling team within the risk function and then validated as well by an independent Model Risk Management team, also from the risk function.

Currency-induced credit risk

The Bank faces currency-induced credit risk, given that a large part of its exposure is denominated in foreign currency. However, limits have been established within the risk appetite framework to ensure that the Bank continues its efforts toward minimising the share of foreign currencies in the portfolio. Various management tools and techniques are applied to mitigate the inherent currency-induced credit risk in the loan book, encompassing all phases of credit risk management. In January 2019, the Government continued its efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000, under which loans must be disbursed in local currency. In addition, the NBG, under its responsible-lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers, further limiting exposure to currency-induced credit risk. In 2022, the NBG continued its conservative approach for unhedged retail borrowers and several new initiatives were introduced affecting the required PTI thresholds and tenors for foreign currency loans.

The Bank applies conservative lending standards to unhedged borrowers with exposures denominated in foreign currencies to ensure that they can withstand a certain amount of forex depreciation without credit quality deterioration. In addition to the measures in place throughout the underwriting process, the Bank actively monitors and assesses the quality of loans denominated in foreign currencies through stress-testing exercises and holds sufficient capital buffers against unexpected losses. In the event of a material currency depreciation, the Group has tools in place to accelerate its monitoring efforts, identify customers with potential weaknesses and introduce prompt mitigation.

The Bank has set a strategy to decrease the share of foreign currency loans in its portfolio. Annual targets have been defined in the medium-term strategy, gradually decreasing the foreign currency share. The Assets and Liabilities Committee (ALCO) of the Bank is closely monitoring the achievement of these targets.

Credit concentration risk

The Bank is exposed to concentration risk, defined as a potential deterioration in portfolio quality due to large exposures or individual industries. It has established a set of tools to efficiently manage concentration risk and, in particular, concentrations of single names and sectors in the portfolio. The Bank is subject to concentration limits on single names and the largest 20 borrowers, and is focused on optimising the structure and quality of the latter portfolio. In addition, the Bank imposes limits on individual sectors with more conservative caps applied for high-risk sectors, which are defined based on a comprehensive analysis of industry cycles and outlooks. Credit concentrations are monitored monthly. Trends in the risk positions are analysed in detail and corrective actions are recommended, should new sources of risk or positive developments emerge. Along with managing concentration levels in the portfolio, the Bank estimates unexpected losses and the respective economic capital for concentrations of both single-name borrowers and sectors using the Herfindahl-Hirschman Index, thus ensuring that sufficient capital is held against concentration risk.

Collateral management policy

Collateral represents the most significant credit risk mitigation tool for the Bank, making effective collateral management one of the key risk management components. Collateral on loans extended by the Bank may include, but is not limited to, real estate, cash deposits, vehicles, equipment, inventory, precious metals, securities and third-party guarantees. The collateral accepted against a loan depends on the type of credit product and the borrower's credit risk. The Bank has a largely collateralised portfolio in all segments, with real estate representing a major share of collateral. A centralised unit for collateral management governs the Bank's view and strategy in relation to collateral management, and ensures that collateral serves as an adequate mitigating factor for credit risk management. The collateral management framework consists of a policy-making process, a sound independent valuation process, a haircut system throughout the underwriting process, collateral monitoring (including revaluations and statistical analysis) and collateral portfolio analysis.

The Bank's Collateral Management and Appraisal Department (CMAD) defines collateral management policy and procedures, which are approved by the Supervisory Board; purchases an appraisal service that must be in line with International Valuation Standards (IVS), acting NBG regulations and internal rules (policy/ procedures and etc.); authorises appraisal reports; and manages the collateral monitoring process (assets with a high fair value are revaluated annually, while statistical monitoring is used for collaterals with low value). The CMAD uses a mixed quality check scheme for valuation: appraisal reports are reviewed internally by its staff and separately by an external company. Almost all activities under collateral management are automated through an in-house web application. The collateral management function uses market research conducted under the Real Estate Market laboratory (REM lab) project.

Credit monitoring

The Bank's risk management policies and processes are designed to identify and analyse risk in a timely manner and to monitor adherence to predefined limits, using reliable and timely data. The Bank dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Bank uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposure, overall portfolio performance and external trends that may impact the portfolio's risk profile. The Risk Committee reviews reports relating to the credit quality of the loan portfolio quarterly. By comparing current data with historical figures and analysing forecasts, the management believes that it can identify risks and respond to them by amending its policies in a timely manner.

Restructuring and collections

The Bank uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions when necessary. The collection and recovery processes are initiated when the borrower does not meet the agreed payments or the borrower's financial standing is weakened, potentially jeopardising the repayment of the loan. Dedicated units manage weakened borrowers across all business segments, with collection and recovery strategies tailored to business segments and individual exposure categories.

Apart from standard, business-as-usual restructurings that are carried out in all branches of the Bank, the restructuring unit's primary goal is to rehabilitate borrowers and transfer exposures back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of an exposure. Business loans are transferred to the recovery unit when there is a strong probability that a material portion of the principal amount will not be paid, and the main stream of recovery is no longer the borrower's cash flow. Loan recovery plans may include all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees.

The Bank's goal in the recovery process is to negotiate a loan recovery strategy with the borrower and secure cash recoveries to the extent possible, or to negotiate repayment through the sale or repossession of collateral. Collection functions for retail and micro loans support customers who are experiencing difficulties in fulfilling their obligations. Such customers may miss payments or notify the Bank about their difficulty with loan repayments. A centralised team monitors retail borrowers in delinquency, which, coupled with the branches' efforts, aims to maximise collection. Special software from FICO is used for early collection management purposes.

Collection strategies are defined based on the size and type of exposure. Specific strategies are tailored to different subgroups of customers, reflecting their respective risk levels, so that greater effort is dedicated to customers with a higher risk profile. Both secured and unsecured loans are transferred to the internal recovery unit, but in the case of unsecured loans the Bank also collaborates with external collection agencies. The forms of collaboration normally include outsourcing to collection services agencies, which act on behalf of the Bank when dealing with borrowers, or selling specific parts of unsecured portfolios to external companies in order to secure immediate cash recoveries.

To recover collateralised loans, a recovery plan is outlined that considers the individual borrower's specifics and may involve loan repayments under revised schedules or the sale of collateral. Once the exposure has been transferred to the recovery unit, if the Bank is unable to negotiate acceptable terms with the borrower, the Bank may initiate collateral repossession, which is usually a standard process with limited legal complications, and may include court, arbitration or notary procedures. Qualified incumbent lawyers support the restructuring and recovery units to ensure that litigation and repossession processes are carried out efficiently.

Counterparty risk

Through performing banking services such as lending in the interbank money market, settling a transaction in the interbank foreign exchange market, entering into interbank transactions related to trade finance or investing in securities, the Bank is exposed to the risk of losses due to the failure of a counterparty bank to meet its obligations.

To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty, while on a portfolio basis it limits the expected loss from both treasury and trade finance exposures. As of 31 December 2022, the Bank's interbank exposure was concentrated with banks that external agencies, such as Fitch, Moody's and Standard and Poor's, have assigned high A-grade credit ratings.

Measurement of Expected Credit Losses

Since January 2018, the Bank has been using a provisioning methodology that is in line with IFRS 9 requirements. The methodology, along with a corresponding IT provisioning tool, was developed with support from Deloitte and representatives of the Bank's risk, finance and IT departments.

The IFRS 9 models are complex and make it possible to incorporate expectations of macro developments based on predefined scenarios. The expected credit loss (ECL) measurement is based on four components used by the Group: (i) the probability of default (PD); (ii) exposure at default (EAD); (iii) loss given default (LGD); and (iv) the discount rate. The Bank uses a three-stage model for ECL measurement and classifies its borrowers in three stages:

- Stage I – the Bank classifies its exposures as Stage I if no significant deterioration in credit quality has occurred since the initial recognition, and the instrument was not credit-impaired when initially recognised;
- Stage II – the exposure is classified as Stage II if any significant deterioration in credit quality has been identified since the initial recognition but the financial instrument is not considered credit-impaired; and
- Stage III – the exposures for which credit-impaired indicators have been identified are classified as Stage III instruments.

The ECL amount differs depending on exposure allocation to one of the three stages:

- Stage I instruments – the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the subsequent 12 months from the reporting date;
- Stage II instruments – the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as the existence of contractual repayment schedules, options for the extension of repayment maturity and monitoring processes held by the Bank affect the lifetime determination;
- Stage III instruments – a default event has already occurred and the lifetime ECL is estimated based on the expected recoveries.

The Bank actively reviews and monitors the results produced from the IFRS 9 models to ensure that the respective results adequately capture the expected losses.

FINANCIAL RISK MANAGEMENT

Liquidity risk management

Liquidity risk is the risk that the Group either may not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or may only be able to access those resources at a high cost. Both funding and market liquidity risks can emerge from a number of factors that are beyond the Group's control. Due to financial market instability, factors such as a downgrade in credit ratings or other negative developments may affect the price or the ability to access the funding necessary to make payments in respect of the Group's future indebtedness.

The Bank's liquidity risk is managed by the Financial Risk Management and Treasury departments and is monitored by the Executive Management and the Assets and Liabilities Management Committee (ALCO), within their pre-defined functions.

The principal objectives of the Group's Liquidity Risk Management Policy are to:

- Ensure the availability of funds to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price;
- Recognise any structural mismatch existing within the Group's statement of financial position and set monitoring ratios to manage funding in line with the Group's well-balanced growth; and
- Monitor liquidity and funding on an ongoing basis to ensure that approved business targets are met without compromising the Group's risk profile.

The Executive Management reviews the Liquidity Risk Management Policy, which is then presented to the Risk Committee and approved by the Supervisory Board.

Liquidity risk is categorised into two risk types: funding liquidity risk and market liquidity risk.

Funding liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows without affecting either its daily operations or its financial condition under both normal conditions and during a crisis. Liquidity risk is measured by the Bank in accordance with NBG requirements. Additionally, the Group applies, in accordance with best practice, stress tests and "what if" scenario analyses and monitors the various liquidity risk parameters that the Group has developed internally.

To manage funding liquidity risk, in accordance with NBG requirements, the Bank currently monitors the following Basel III-based parameters:

- For Short-term Liquidity Risk Management, the Bank applies the Liquidity Coverage Ratio (LCR); and
- For Long-term Liquidity Risk Management, the Bank applies the Net Stable Funding Ratio (NSFR).

In 2017, the NBG introduced its own LCR for liquidity risk management purposes. In addition to the Basel III guidelines, the ratio applies conservative approaches to the deposit withdrawal rates, depending on the client group's concentration. Since September 2017, the Bank has also monitored compliance with the NBG's LCR limits. In addition to the total LCR limit, the NBG has also defined limits per currency for the GEL and foreign currencies (FC). The LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows. It is used to help manage

short-term liquidity risks. To promote larisation in Georgia, the NBG defines a lower limit for the GEL LCR than that for the FC LCR. Since October 2019, FC Mandatory Reserves have been considered at 100% within high-quality liquid assets for NBG LCR purposes. In addition, in the same period, the NBG lowered FC mandatory reserve requirements from 30% to 25%. Since July 2021, the NBG regulation on mandatory FC reserve requirements has been further adjusted, to reflect the decreased share of FC deposits in total deposits. The FC mandatory reserve requirements will be reduced by 1% for every 2% decrease in the share of FC in total deposits. The initiative will have a positive effect on the capital adequacy position of the Bank.

In September 2019, the NBG introduced a Net Stable Funding Ratio (NBG NSFR) for funding liquidity risk management purposes. The NSFR is calculated by dividing the available stable funding by the required stable funding. It is used for long-term liquidity risk management to promote resilience over a long-time horizon by creating additional incentives for the Bank to rely on more stable sources of funding on a continuing basis. On a monthly basis, the Bank monitors compliance with the set limit for the NBG NSFR. As of 31 December 2022, the ratios were above the prudential limits set by the NBG, as follows:

	31-Dec-22	31-Dec-21	31-Dec-20
Minimum net stable funding ratio, as defined by the NBG	*100.0%*	*100.0%*	*100.0%*
Net stable funding ratio as defined by the NBG	135.3%	127.3%	126.0%
Minimum total liquidity coverage ratio, as defined by the NBG	*100.0%*	*100.0%*	*100.0%*
Minimum LCR in GEL, as defined by the NBG	*75.0%*	*75.0%*	*n/a*
Minimum LCR in FC, as defined by the NBG	*100.0%*	*100.0%*	*100.0%*
Total liquidity coverage ratio, as defined by the NBG	146.6%	115.8%	134.2%
LCR in GEL, as defined by the NBG	164.2%	107.7%	132.2%
LCR in FC, as defined by the NBG	135.9%	120.8%	134.9%

Stress testing, conducted under the ILAAP framework, is the major tool for managing the liquidity risk. The ILAAP assesses the adequacy of the liquidity position and relevant buffers, to see whether they can withstand plausible severe shocks from both a normative and an economic perspective.

Market liquidity risk is the risk that the Bank cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption.

To manage market liquidity risk, the Bank follows the Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Bank's high-quality liquid assets can be sold without causing a significant movement in price, and with minimum loss of value. In addition, the Bank has a recovery plan framework in place, which provides recovery options for those unlikely cases of extreme stress, in which the regulatory requirements on liquidity may be breached.

Funding and maturity analysis

The Bank's principal sources of liquidity include customer deposits and accounts, borrowings from local and international banks and financial institutions, subordinated loans from international financial institution investors, local interbank short-duration term deposits and loans, proceeds from the sales of investment securities, principal repayments on loans, interest income, and fee and commission income. The Supervisory Board believes that a strong and diversified funding structure is one of the Bank's differentiators. The Bank relies on relatively stable deposits from Georgia as its main source of funding. The Bank also monitors deposit concentration for large deposits and sets limits for deposits by non-Georgian residents in its deposit portfolio.

To maintain and further enhance its liability structure, the Bank sets targets for deposits and funds received from international financial institution investors in its risk appetite via the respective ratios. The loan to deposit and IFI funding ratio (defined as the total value of net loans divided by the sum of the total value of deposits and funds received from international financial institutions) stood at 87.7%, 101.3% and 100.7%, as at 31 December 2022, 2021 and 2020, respectively.

The management believes that, in spite of a substantial portion of customers' accounts being on demand, the diversification of these deposits by the number and type of depositors, coupled with the Bank's past experience, indicates that these customer accounts provide a long-term and stable source of funding for the Bank. Moreover, the Group's liquidity risk management includes the estimation of maturities for its current deposits. The estimate is based on statistical methods applied to historic information about the fluctuations of customer account balances.

Market risk

The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. These risks are principally: (a) risks pertaining to interest rate-related instruments and equities in the "trading book" (financial instruments or commodities held for trading purposes); and (b) foreign exchange risk and commodities risk throughout the Bank.

The Bank's strategy is not to be involved in trading financial instruments or investments in commodities. Accordingly, the Bank's only exposure to market risk is foreign exchange risk in its "structural book", comprising its regular commercial banking activities which have no trading, arbitrage or speculative intent.

Foreign exchange risk

The NBG requires the Bank to monitor both balance sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain the latter within 20% of the Bank's regulatory capital. For the year ended 31 December 2022, the Bank maintained an aggregate balance open currency position of 1.91%.

In addition, the Supervisory Board sets further limits on open currency positions. The ALCO has set limits on the level of exposure by currency and for total aggregate position that are more conservative than those set by the NBG and the Supervisory Board. The heads of the treasury and financial risk management departments separately monitor the Bank's compliance with these limits daily.

Compliance with these limits is also reported daily to the Executive Management and periodically to the Supervisory Board and its Risk Committee. On a Group-wide level, foreign-exchange risk is monitored and reported monthly. To assess the currency risk, the Bank performs a VAR sensitivity analysis on a quarterly basis. The analysis calculates the effect on the Bank's income determined by the worst possible movements of currency rates against the Georgian Lari, with all other variables held constant. During the years ended 31 December 2022, 2021 and 2020, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	31-Dec- 2022	31-Dec-2021	31-Dec-2020
Maximum loss (VAR, 99% confidence level)	(6,013)	(1,496)	(1,806)
Maximum loss (VAR, 95% confidence level)	**(4,207)**	**(1,030)**	**(1,315)**

Interest rate risk management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the Bank's financial assets and liabilities. This risk can arise from maturity mismatches between assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. The major part of deposits, and part of the loans offered by the Bank, are at fixed interest rates, while a portion of the Group's borrowing is based on a floating interest rate. The Group's floating rate borrowings are, to a certain extent, hedged because the NBG pays a floating interest rate on the minimum reserves that the Bank holds with it. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of a possible adverse interest rate movement. The Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk.

To manage interest rate risk, the Bank employs a framework based on EBA's 2018 guidelines and establishes appropriate Risk Appetite limits, monitors compliance with them and prepares forecasts. Please see details in Interest Rate Risk on pages 235-236 in the Note 35, Financial and Other Risk Management.

The Bank measures four types of interest-rate risk based on the source of the risk: (i) re-pricing risk; (ii) yield curve risk; (iii) basis risk; and (iv) optionality (embedded option) risk.

The Bank considers numerous stress scenarios, including different yield curve shifts and behavioural adjustments to cash flows (such as deposit withdrawals or loan prepayments), to calculate the impact on one year profitability and enterprise value. Appropriate limits are set within the Risk Appetite framework approved by the Supervisory Board.

Capital risk management

Capital risk is the risk that the Bank may not have a sufficient level of capital to maintain its normal business activities, and to meet its regulatory capital requirements under normal or stressed operating conditions. The management's objectives in terms of capital management are to maintain appropriate levels of capital to support the business

strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. The Group undertakes stress testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Capital forecasts, as well as the results of the stress testing and what-if scenarios, are actively monitored with the involvement of the Bank's management to ensure prudent capital management and timely actions when needed. In 2022, the Group and the Bank complied with all regulatory capital requirements.

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements. The changes include amendments to the regulation on capital adequacy requirements for commercial banks, and the introduction of new requirements (i) on additional capital buffer requirements for commercial banks within Pillar 2; (ii) on the determination of the countercyclical buffer rate; and (iii) on the identification of systematically important banks and determining systemic buffer requirements. The purpose of these amendments is to improve the quality of banks' regulatory capital and achieve better compliance with the Basel III framework.

Pillar 1 minimum requirements plus combined buffer requirements. The amendments to the regulation on capital adequacy requirements for commercial banks have made Pillar 1 minimum requirements in Georgia compatible with the framework established by the Basel Committee of Banking Supervision. The amendments included:

- The separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements. The updated minimum regulatory capital requirements are 4.5%, 6.0% and 8.0% for Common Equity Tier 1 capital, Tier 1 capital and Total regulatory capital, respectively; and
- The introduction of a requirement that banks hold an additional combined buffer through Common Equity Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically, based on the prevailing financial and macroeconomic environment. In addition, the NBG designated certain commercial banks in Georgia as domestic systemically important banks (DSIBs) for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2.0% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

Since March 2023, countercyclical capital buffer increased from 0% to 1%. The increased requirement will be in force from March 2024. Also, in 2023, NBG made amendments to the Regulation of the Systemic Risk Buffer (The amendments will enter into force in April 2023). According to the amendments, the systemic risk buffer is set at 2.5% for the Bank, and if the Bank's average market share in consecutive 3 months in non-bank deposits (excluding the secured deposits of state institutions and secured deposits from organizations under state control) exceeds 40%, the buffer amount will increase to 3.0%. If the systemic buffer is increased, the Bank will have to comply with the updated requirement in one year.

Pillar 2 requirements. In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency induced credit risk buffer and a net General Risk Assessment Programme (GRAPE) buffer. The NBG has also introduced a credit portfolio concentration buffer and a net stress test buffer. The credit portfolio concentration buffer became effective from 1 April 2018, and the need for the net stress buffer will be assessed based on the regulatory stress testing results. Although the net stress test buffer has been effective since 1 October 2020, it is currently set at 0%. Under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Common Equity Tier 1 capital, while 75% of the capital should be held through Tier 1 capital, and 100% of the capital should be held through Total regulatory capital.

Temporary Measures

In response to the COVID-19 pandemic, in March 2020, the NBG implemented certain countercyclical measures in relation to capital adequacy requirements, including postponing the phasing-in of Pillar 2 buffers. According to the new schedule communicated by the NBG in October 2020, the phase-in of concentration risk and the Net GRAPE buffers will continue from March 2021 and will be fully introduced by the end of March 2023.

In June 2021, the NBG announced its decision to restore the CICR and conservation buffers. Banks will be required to fully restore the CICR buffer by the end of 2022 and the conservation buffer by the end of 2023.

The following table presents the capital adequacy ratios and minimum requirements set by the NBG:

In thousands of GEL	31-Dec-2022	31-Dec-2021	31-Dec-2020
CET 1 capital	3,333,039	2,759,894	1,911,233
Tier 1 capital	3,873,439	3,379,414	2,385,181
Tier 2 capital	643,086	723,513	752,731
Total regulatory capital	**4,516,525**	**4,102,927**	**3,137,912**
Risk-weighted exposures			
Credit Risk-weighted exposures	18,818,597	18,091,753	16,322,524
Risk-weighted exposures for Market Risk	86,250	21,981	106,379
Risk-weighted exposures for Operational Risk	2,603,225	2,103,895	1,872,574
Total Risk-weighted exposures	**21,508,072**	**20,217,629**	**18,301,477**
Minimum CET 1 ratio	*11.6%*	*11.7%*	*7.4%*
CET 1 capital adequacy ratio	15.5%	13.7%	10.4%
Minimum Tier 1 ratio	*13.8%*	*14.0%*	*9.2%*
Tier 1 capital adequacy ratio	18.0%	16.7%	13.0%
Minimum total capital adequacy ratio	*17.3%*	*18.4%*	*13.7%*
Total capital adequacy ratio	21.0%	20.3%	17.1%

IFRS Transition

In 2020-2022, the NBG developed the concept and changes for the transition to IFRS. In January 2023, in line with the finalisation of the IFRS transition process, the NBG adopted amendments to the regulations relating to capital adequacy requirements. According to the new amendments, commercial banks must comply with supervisory regulations with IFRS-based numbers and approaches. Under the IFRS transition process, the NBG introduced a credit risk adjustment (CRA) buffer. The CRA buffer was implemented as a Pillar 2 requirement and was fully set on CET 1 capital.

Parallel reporting will be maintained along with the transition to IFRS, from January 1 2023, until another decision is made by the NBG. During parallel reporting, commercial banks are obliged to provide supervisory reports in accordance with both the IFRS and the local GAAP.

In thousands of GEL	31-Dec-2022 (IFRS)
CET 1 capital	3,835,846
Tier 1 capital	4,376,246
Tier 2 capital	407,853
Total regulatory capital	**4,784,099**
Risk-weighted exposures	
Credit Risk-weighted exposures	18,488,516
Risk-weighted exposures for Market Risk	93,833
Risk-weighted exposures for Operational Risk	2,636,659
Total Risk-weighted exposures	**21,219,008**
Minimum CET 1 ratio	*14.0%*
CET 1 capital adequacy ratio	18.1%
Minimum Tier 1 ratio	*16.2%*
Tier 1 capital adequacy ratio	20.6%
Minimum total capital adequacy ratio	*19.6%*
Total capital adequacy ratio	22.5%

NON-FINANCIAL RISK MANAGEMENT

Operational risk management

One of the main risks that the Group faces is operational risk, which is the risk of loss resulting from internal and external fraud events, inadequate processes or products, business disruptions and systems failures, human error or damages to assets. Operational risk also implies losses driven by legal, reputational, compliance or cybersecurity risks.

The Group is exposed to many types of operational risk, including: fraudulent and other internal and external criminal activities; breakdowns in processes, controls or procedures; and system failures or cyber-attacks from an external party with the intention of making the Group's services or supporting infrastructure unavailable to its intended users, which in turn may jeopardise sensitive information and the financial transactions of the Group, its clients, counterparties or customers.

Moreover, the Group is subject to risks that cause disruption to systems performing critical functions or business disruption arising from events wholly or partially beyond its control, such as natural disasters, transport or utility failures, etc., which may result in losses or reductions in service to customers and/or economic losses to the Group.

The operational risks discussed above are also applicable where the Group relies on outsourcing services from third parties. Considering the dynamic environment and sophistication of both banking services and possible fraudsters, the importance of constantly improving processes, controls, procedures and systems is heightened to ensure risk prevention and reduce the risk of loss to the Group.

To oversee and mitigate operational risk, the Group maintains an operational risk management framework, which is an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of the various parties involved in the process. Policies and procedures enabling the effective management of operational risks complement the framework. The Executive Management ensures a strong internal control culture within the Group, where control activities are an integral part of operations. The Supervisory Board sets the operational risk appetite and compliance with the established risk appetite limits is monitored regularly by the Risk Committee of the Supervisory Board.

The operational risk management department of the Bank acts as a second line of defence. It is responsible for implementing the framework and appropriate policies and procedures to enable the Group to manage operational risks, as well as monitoring operational risk events, risk exposures against risk appetite and material control issues. The department is also responsible for the day-to-day management of operational risks, using a range of techniques that include, but are not limited to:

- running risk and control self-assessments (RCSA), which are aimed at detecting possible gaps in operations and processes with the purpose of suggesting appropriate corrective actions;
- collecting internal risk events and conducting root-cause analyses for further risk mitigation purposes;
- forming a unified operational loss database for further quantitative and qualitative analysis;
- analysing internal fraud events and monitoring key risk indicators;
- performing new risk assessments and validating the launch of new products, services or procedures;
- providing business advisory services regarding non-standard cases;
- monitoring IT incident occurrence and overseeing activities targeted at solving identified problems; and
- obtaining insurance policies to transfer the risk of losses from operational risk events.

The Bank's operational risk management department has reinforced its risk assessment teams and methodologies to further fine-tune the existing control environment. The same applies to the set of actions aimed at homogenising operational risk management processes throughout the Group's member companies. The Bank's operational risk management department reports to the Chief Risk Officer.

Various policies, processes and procedures are in place to control and mitigate operational risks, including, but not limited to:

- the Bank's new Risk Assessment Policy, which enables thorough risk evaluation prior to the adoption of new products, services, or procedures;
- the Bank's Outsourcing Risk Management Policy, which enables the Bank to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor, and other impacts on the vendor;
- the Risk and Control Self-Assessment (RCSA) Policy, which enables the Group to continuously evaluate existing and potential risks, establish risk mitigation strategies and systematically monitor the progress of risk mitigation plans. The completion of these plans is also part of the respective managers' key performance indicators;
- the Operational Risk Event Identification Policy, which enables the Group to promptly report on operational risk events, perform systematic root-cause analysis of such events and take corrective measures to prevent the reccurrence of significant losses; and
- the Special Operational Risk Awareness Programme, which provides regular training to the Group's employees and strengthens the Group's internal risk culture.

During the reporting period, one of the key operational risk management focus areas was the Risk and Control Self-Assessment (RCSA) exercise, under which the Bank's top priority processes were reviewed and areas of improvement were identified.

The Operational Risk Management Framework and its complementing policies were updated to ensure effective execution of the operational risk management programme. Additionally, the Bank has developed a bank-wide operational risk registry.

Compliance

The first line of defence is responsible for compliance risk, strongly supported by the Bank's compliance department as the second line of defence. The Chief Compliance Officer oversees compliance within the Bank and reports quarterly to the relevant committee of the Supervisory Board, with a managerial reporting line to the CEO. The Bank's compliance programme provides compliance policies, trainings, risk-based oversight and ensures compliance with regulatory requirements.

The Bank's Compliance Department manages regulatory risk by:

- ensuring that applicable changes in laws and regulations are implemented by the process owners in a timely manner;
- participating in the new product/process risk approval process;
- conducting analysis of customer complaints, the operational risk event database, internal audit findings and litigation cases to proactively reveal process weaknesses; and
- conducting an annual compliance risk assessment (RCSA) of internal processes.

The Bank's Compliance Department ensures that all outcomes of the above mentioned analysis and processes are addressed in a timely and appropriate manner. Additionally, as a second line of defence the Compliance Department defines the risk metrics and monitors them at the frequencies defined by the Bank's risk appetite framework. The Compliance Department is responsible for escalating breaches of defined limits to the relevant boards.

Anti-money laundering (AML)

The Group aims to protect its customers, shareholders and society from financial crime and any resulting threat. The Group is fully committed to complying with applicable EU, UK, and domestic laws and regulations related to financial crime as well as relevant legislation in other countries where Group member financial institutions operate. It also seeks to meet the respective industry best standards. The Group has implemented internal policies, procedures and detailed instructions designed to prevent itself from being used or involved in money laundering, financing of terrorism or in other unlawful activities such as bribery, corruption or tax evasion. The Group's AML/CTF compliance programme, as implemented, comprises written policies, procedures, internal controls and systems including, but not limited to: policies and procedures to ensure compliance with AML laws and regulations; KYC and customer due diligence procedures; a customer acceptance policy; customer screening against a global list of terrorists, specially designated nationalities, relevant financial and other sanctions lists; regular staff training and awareness raising; and procedures for monitoring and reporting suspicious activities by the Bank's customers.

As part of the second line of defence, the Bank's AML unit seeks to manage risk in accordance with the risk appetite defined by the Group and promotes a strong risk culture throughout the organisation.

The Group has a sophisticated, artificial intelligence-based AML solution in place to enable the AML unit to monitor clients' transactions and identify suspicious behaviour. Using data analytics and machine learning, the Group developed an anomaly detection tool to bring very complex cases to the surface, using client network analysis to identify organised money laundering cases and enriched pre-defined patterns to create an automated system. This approach has an immense business value as it uncovers cases that would otherwise be prohibitively expensive, since manual analysis of these transactions is an extremely time-consuming process for AML officers. The tool compiles all these incidents into dashboards and presents them to AML officers for further action.

Following the NBG inspection in 2021 and subsequent recommendations from the regulator, the Bank has improved its internal manuals for client identification and verification, client risk assignment, document keeping and KYC renewal processes.

The Bank's AML Unit works on constantly improving the software to increase operational efficiency and decrease false-positive alerts. The Bank performs an enterprise-wide AML Risk Assessment annually, in line with the approved methodology. Overall Group-wide residual risks for the year 2022 were assessed as medium. The Bank's Compliance Department addresses areas of attention in a timely and proper manner.

Financial Sanctions Risk Management

The aggression launched by the Russian Federation against Ukraine on 24 February 2022 resulted in an extremely vigorous international response that led to the imposition of very tough economic sanctions, amongst other measures. Members of legislative and government agencies, businessmen (oligarchs), legal persons, financial institutions, economic sectors and categories of goods/services in Russia and Belarus have been sanctioned.

After analysis of the restrictions and rules set under the sanctions and following the instructions of the NBG, the Group updated its processes and procedures to follow the revised and expanded sanctions regimes of the European Union, USA (OFAC) and United Kingdom (HM Treasury).

The Group does not have any appetite to breach or facilitate the breach or avoidance of UN, UK, US or EU sanctions. The Group is committed to avoiding any such deals or transactions with direct or indirect sanctioned parties or goods or services.

The Group has carried out a number of actions to mitigate sanctions risk with the help of external advisors by performing enterprise-wide sanctions risk assessments; developing a new sanctions policy; tightening clients onboarding procedures, while it continues strengthening its screening tools and intensifying trainings on sanctions.

Information Security

In order to adequately address the challenges posed by cyberattacks, we are continuously analysing the Group's cyber threat landscape and assessing all relevant threat scenarios and actors, considering their intentions and capabilities, as well as the tactics, techniques and procedures they are using or may use during their campaigns. Our focus is to be prepared against Advanced Persistent Threats. Among many different threat vectors we are covering and monitoring, the top five are below:

1. Attacks against internet-facing applications and infrastructure;
2. Software supply chain attacks;
3. Phishing attacks against our customers;
4. Phishing attacks against our employees; and
5. Ransomware attacks.

Information and cyber security is an integral part of the Group's governance practices and strategic development. The Group's cyber security vision and strategy is fully aligned with its business vision and strategy and addresses all the challenges identified during the threat landscape analysis.

Our vision is to strengthen our security in depth approach, enable secure and innovative business and maintain a continuous improvement cycle. Our strategic objectives are:

1. To maintain our defence in depth approach by strengthening the team and implementing cutting-edge technologies, in order to maintain resilience against Advanced Persistent Threats, which may come from state-sponsored actors or organised cybercriminals;
2. To maintain compliance with industry leading information and cyber-security standards, sustain a continuous improvement cycle for our information and business continuity management systems, and be one step ahead of regulatory requirements; and
3. To optimise and automate security processes, and provide security services seamlessly to the business (where possible).

Our security in depth approach and cyber-resilience programme

In order to follow our vision and achieve our strategic objectives, we run effective information and cyber-security programmes, functions and systems, as follows:

1. Layered preventive controls are in place, covering all relevant logical and physical segments and layers of the organisation and infrastructure in order to minimise the likelihood of successful initial access:
   - Data security controls;
   - Identity and access controls;
   - Endpoint security controls;
   - Infrastructure security controls;
   - Application security controls;
   - Internal and perimeter network security controls;
   - Physical security controls.
2. A professional team is in charge of effectively implementing, assuring the effectiveness of, maintaining and fine-tuning the preventive controls mentioned above. The number and level of expertise of the team members is significant. Our team members hold industry-leading certificates and work on a daily basis to strengthen and extend their professional skill sets.
3. Layers of preventive controls in conjunction with a comprehensive awareness programme is the best combination in order to minimise likelihood of successful attacks. Our robust awareness programme helps employees and customers to improve cyber hygiene, understand the risks associated with their actions, identify cyberattacks they might face during day-to-day operations and improve the overall risk culture. Our awareness programme provides relevant materials to all key roles, from the Executive Management to IT engineers and developers. It covers annual trainings and attestations for all employees, newcomer trainings and attestations, social engineering simulations, security tips and notifications for all employees, security awareness raising campaigns for customers, and more.
4. Since we believe that 100% prevention is not achievable, the Group has threat-hunting capabilities and a security operations centre in place to monitor every possible anomaly in near real-time that is identified across the organisation's network in order to detect potential incidents and respond in a timely and effective manner to minimise the negative impact of possible attacks. To be up-to-date and track the techniques and tactics of our adversaries, we are elaborating cyber threat intelligence procedures according to industry best practices and following the MITRE ATTACK framework.
5. Information security governance and effective risk management processes ensure that the Bank has the correct guidance, makes risk-informed decisions in compliance with its risk appetite, complies with regulatory requirements and achieves a continuous improvement cycle. The Information Security Committee, which is chaired by the CEO, has the ultimate responsibility to assure that an appropriate level of security is maintained and a continuous improvement cycle of management processes is achieved. The Bank is in compliance with the NIST cyber security management framework and its Information Security Management System is ISO 27001 certified.
6. On top of all of the above, the Bank further strengthens its cyber resilience through an effective Business Continuity Management System and cyber insurance policy, in order to manage contingencies and recover from serious disruptions with minimum possible impact.

To assess and assure an acceptable level of information and cyber security, we rely on external/internal audit reports, red teaming exercise reports and penetration testing results which are conducted by our high professional internal team and reputable external third-party partners.

- On an annual basis we conduct:
  1. An external audit of the SWIFT customer protection framework;
  2. An external audit of the NBG's cyber security framework, which is based on the NIST cyber security management framework;
  3. External surveillance audits of ISO 27001; and
  4. Penetration tests against internet-facing applications and critical infrastructure with help of our partners.
- Our internal team is in charge of continuous penetration tests of internal and external applications and infrastructure.
- We conduct regular red-teaming exercises and assess our security capabilities against real world advanced threat actors.

Model Risk Management

In line with the NBG's requirements, international regulatory guidance and best practices, the Bank defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A model has three components: an information input component, an information-processing component and a reporting component. Model risk is

defined as the risk of adverse consequences (e.g., financial loss, reputational damage, etc.) arising from decisions based on incorrect or misused model outputs.

The Bank's Model Risk Management (MRM) function reports directly to the Chief Risk Officer, and its policy, approved by both Executive Management and Supervisory Board, defines the framework within which it operates. Two main components of the framework are governance and validation. The MRM acts as a second line of defence and aims to consistently identify, quantify, minimise and mitigate model related risks across the Bank.

The governance component of the MRM defines the roles and responsibilities for the entirety of the model lifecycle. It sets standards and procedures that encompass all phases of the lifecycle, from planning and development to initial validation, model use, monitoring, ongoing validation and model retirement. It is also responsible for managing the model inventory and keeping model risk within the risk appetite.

The validation component of the MRM is responsible for technical as well as conceptual evaluation of the model in question, in accordance with the standards and procedures set by governance. The MRM uses a risk-based approach during the initial and ongoing model validation process.

Legal Risk

The Legal Department of the Bank is responsible for managing all legal liability and compliance issues that arise within the Bank as a result of legal risks. Its objectives are as follows:

- Identify the legal risks. Analyse the legal risks associated with business plans and initiatives, including compliance and liability risks, as well as risks associated with business actions.
- Calibrate the legal risks. Assess and calibrate the legal risks the company is facing, together with the Compliance Department, to ensure regulatory compliance and set up the organisation's tolerance and level of risk.
- Manage the legal risks. Develop strategies, plans, processes and policies, and provide the legal and other resources required to deliver them.

The Legal Department strives to accomplish these objectives by providing a wide range of professional legal services, including: (i) interacting with internal and external clients as well as outside counsel, government agencies and regulatory agencies; (ii) issuing memos and opinions; (iii) drafting standard and customised contracts; (iv) being responsible for corporate governance matters; (v) providing regulatory updates; and (vi) representing the Bank in court, other dispute resolution venues, and before third parties.

The Legal Department's role in compliance is to assist the Compliance Department in ensuring the effective execution of the compliance programme by: (i) helping the Bank understand the legislative and regulatory change that may impact its business model and operations; (ii) assisting the company in understanding the legal and regulatory implications of its new projects, products, services and expansion plans.

It is the General Counsel's responsibility to oversee the Bank's legal department. The General Counsel determines the Bank's key business objectives for all legal teams, introduces the Bank's vision and policies, and ensures that all legal teams perform effectively. It is part of the General Counsel's responsibilities to report to the Executive Management, Supervisory Board, and committees on any existing legal risks and mitigation strategies and to establish a vision for a future that will enable these risks to be effectively managed.

Conduct risk

Conduct risk is defined as the risk of achieving fair outcomes for customers and other stakeholders. The Bank's Code of Ethics serves as a moral compass for all staff and sets high ethical standards that each employee is required to uphold. The Bank's employees undertake and perform their responsibilities with honesty and integrity. They are critical to maintaining trust and confidence in its operations and upholding important values of trust, loyalty, prudence and care.

Additionally, the Bank's management understands that it bears responsibility for a diversified group of domestic and international investors, and needs to embrace the rules and mechanisms to protect customers and maintain the confidence of investors and financial markets. The Group's Directors strive to establish the "tone from the top", which sets out the messages describing and illustrating the core components of good conduct.

In managing conduct risk, the Bank entrusts different departments and divisions with carrying out the task of managing, mitigating and eliminating conduct risk across all of the Bank's operations with clients and other stakeholders. The Compliance, Human Capital and Operational Risk departments cooperate to create a unified conduct risk management framework and assist business lines and departments, in the following ways:

1. Developing and maintaining policies and procedures to ensure that individual employees and departments comply with regulatory provisions, best practices, the Code of Conduct, and the Code of Ethics;
2. Maintaining liaison with the Compliance Department, administering policies and procedures in conjunction with the compliance department and investigating complaints about the conduct of the department, its manager, or its employees;
3. The front-line employees of the organisation should ensure that product information is accurate and complete, and is conveyed both in writing and orally in a simple, understandable manner, regardless of the level of sophistication of the client;
4. Keeping records of client interactions and emails containing sensitive and sales-related information, such as information in relation to the acquisition of new clients and the formulation of complex product offers;
5. By providing periodic training to all employees regarding evolving compliance standards within the Group, we ensure that new employees are educated regarding proper conduct;
6. By creating a culture of openness that encourages employees to speak out without fear of punishment, we are preventing and detecting conflicts of interest, creating moral incentive programmes, and creating bonuses, and achieving a risk-adequate incentive and disciplinary policy for the Group;
7. Investing considerable time and effort in investigating, analysing, implementing, and monitoring sales and after-sales activities, and putting proper conduct into the required job skills, which ensures that conduct risk is not just managed by risk management units, including compliance departments.

Material existing and emerging risks

Risk Management is a critical pillar of the Group's strategy. It is essential to identify emerging risks and uncertainties that could adversely impact the Group's performance, financial condition, and prospects. This section analyses the material principal and emerging risks and uncertainties that the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by risks and uncertainties other than those listed below. Since there remains some uncertainty regarding the war in Ukraine, its potential impact is summarised as a separate risk in the emerging risks section.

The Supervisory Board has undertaken a robust assessment of both the principal and emerging risks facing the Group and the long-term viability of the Group's operations, in order to determine whether to adopt the going concern basis of accounting.

PRINCIPAL RISKS AND UNCERTAINTIES

1. Credit risk is an integral part of the Group's business activities.

Risk description

Credit risk is the greatest material risk faced by the Group, given that the Group is principally engaged in traditional lending activities. The Group's customers include legal entities as well as individual borrowers. Due to the high level of dollarisation in Georgia's financial sector, currency-induced credit risk is a component of credit risk, which relates to risks arising from foreign currency-denominated loans to unhedged borrowers in the Group's portfolio. Credit risk also includes concentration risk, which is the risk related to credit portfolio quality deterioration as a result of large exposures to single borrowers or groups of connected borrowers, or loan concentration in certain economic industries. Losses may be further aggravated by unfavourable macroeconomic conditions. These risks are described in more detail as separate principal risks. In addition, credit risk also includes counterparty credit risk, as the Group engages in various financial transactions with both banking and non-banking financial institutions.

Risk mitigation

A comprehensive credit risk assessment framework is in place with a clear division of duties among the parties involved in the credit analysis and approval process. The credit assessment process differs by segment and product type to reflect the diverse nature of these asset classes.

The rules for manual and automated underwriting are developed and validated by units within the risk function, which are independent of the origination and business development units.

The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio, and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, encompassing individual credit exposures, overall portfolio performance, and external trends that may impact the portfolio's risk profile. Additionally, the Group uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions, when necessary.

The Group's credit portfolio is highly diversified across customer types, product types and industry segments, which minimises credit risk at the Group level. As of 31 December 2022, the retail segment represented 37.9% of the total portfolio, which was comprised of 62.9% mortgage and 37.1% non-mortgage exposures. No single business sector represented more than 9% of the total portfolio in FY 2022.

Collateral represents the most significant credit risk mitigation tool for the Group, making effective collateral management one of the key risk management components. The Group has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. As of 31 December 2022, 77.6% of the Group's portfolio was secured by cash, real estate or gold.

To manage counterparty risk, the Bank internally defines limits on an individual basis for each counterparty, by limiting the expected loss from both treasury and trade finance exposures. As of 31 December 2022, the Bank's interbank exposure was concentrated among high A-grade credit rating' banks, assigned by external agencies, such as Fitch, Moody's and Standard and Poor's.

Additionally, the Bank actively performs stress testing and scenario analysis in order to check the resilience of borrowers under various stress conditions.

For more information on mitigating measures, please refer to Credit Risk Management on page 76.

2. The Bank faces currency-induced credit risk due to the high share of loans denominated in foreign currencies in the Bank's portfolio.

Risk description

Tha Bank has a significant portfolio in foreign currencies. A potential material GEL depreciation is one of the most significant risks that could negatively impact portfolio quality. As of 31 December 2022, 47.1% of the Group's total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies. The income of many customers is directly linked to foreign currencies via remittances, tourism or exports. Nevertheless, customers may not be protected against significant fluctuations in the GEL exchange rate against the currency of the loan. The US$/GEL rate remained volatile throughout FY 2022, with the average currency exchange rate of GEL strengthening by 14.6% year-on-year. The GEL remains in free float and is exposed to a range of internal and external factors that, in some circumstances, could lead to its depreciation.

Risk mitigation

Particular attention is paid to currency-induced credit risk, due to the high share of loans denominated in foreign currencies in the Bank's portfolio. The vulnerability to exchange rate depreciation is monitored in order to promptly implement an action plan, as and when needed. The ability to withstand a certain amount of exchange rate depreciation is incorporated in the credit underwriting standards, which also include significant currency depreciation buffers for unhedged borrowers. In addition, the Bank holds significant capital against currency-induced credit risk. Given the experience and knowledge built through recent currency volatility, the Bank is in a good position to promptly mitigate exchange rate depreciation risks. In January 2019, Georgian government authorities continued their efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000, under which loans must be disbursed in the local currency. In addition, under the NBG's responsible lending regulations, unhedged retail borrowers are required to have highly conservative Payment-to-Income (PTI) and Loan-to-Value (LTV) thresholds. The Bank has set a strategy to decrease the share of foreign currency loans in its total portfolio. Annual targets have been defined in the medium-term strategy, gradually decreasing the share of foreign currency. The Assets and Liabilities Committee (ALCO) is closely monitoring the achievement of these targets.

For more information on mitigating measures, please refer to Currency-induced Credit Risk under the Risk Management section on page 76.

3. The Bank is exposed to concentration risk.

Risk description

The Bank has large individual exposures to single-name borrowers whose potential default would entail increased credit losses and higher impairment charges. The Bank's portfolio is well diversified across sectors, resulting in only a moderate vulnerability to sector concentration risks. However, should exposure to common risk drivers increase, the risks are expected to amplify correspondingly. At a consolidated level, the Group's maximum exposure to the single largest industry (Real Estate) stood at 9% of the loan portfolio as of 31 December 2022. At the same time, exposure to the 20 largest borrowers stood at 8.5% of the loan portfolio.

Risk mitigation

The Bank constantly monitors the concentrations of its exposure to single counterparties, as well as sectors and common risk drivers, and introduces limits for risk mitigation. As part of its risk appetite framework, the Bank limits both single-name and sector concentrations. Stringent monitoring tools are in place to ensure compliance with the established limits.

In addition, the Bank has dedicated restructuring teams to manage borrowers who face financial difficulties. Also, the concentration buffer under Pillar 2 helps to ensure that the Bank remains adequately capitalised to mitigate concentration risks.

For more information on mitigating measures, please refer to Credit Concentration Risk under the Risk Management section on page 77.

4. The Group's performance may be compromised by adverse developments in the economic environment.

Risk description

A potential slowdown in economic growth in Georgia will likely have an adverse impact on the repayment capacity of borrowers, restraining their future investment and expansion plans. Negative macroeconomic developments could compromise the Group's performance in various ways, such as exchange rate depreciation, a spike in interest rates, rising unemployment, a decrease in household disposable income, falling property prices, worsening loan collateralisation, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in Georgia's neighboring countries and main trading/economic partners could negatively affect its economic outlook through worsening current and financial accounts in the balance of payments (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

The Georgian economy recorded very strong growth of 10.1% in 2022, notwithstanding the negative impact of Russia's invasion of Ukraine. The adverse spillover appears to be more than balanced by the positive migration impact. Moreover, exports, remittance inflows and to a large extent FDIs performed strongly. In addition, the GEL also showed a significant improvement, with the US$/GEL exchange rate standing at around 2.70 at the end of December, compared to 3.2 in early March. Meanwhile, similar to many other countries worldwide, inflation remains a challenge, with the CPI growing by 9.8% YoY in December 2022. Therefore, in line with the tightening internationally, the domestic monetary policy stance has been hawkish, leading to a moderate demand for credit when adjusted for inflation, taking into account the second year of continuous double-digit economic growth in a row.

Risk mitigation

To decrease its vulnerability to economic cycles, the Group identifies cyclical industries and proactively manages its underwriting approach and clients within its risk appetite framework. The Group has in place a macroeconomic monitoring process that relies on close, recurrent observation of the economic developments in Georgia and neighbouring countries to identify early warning signals indicating imminent economic risks. This system allows the Group to promptly assess significant economic and political events and analyse their implications for the Group's performance. These implications are duly translated into specific action plans with regards to reviewing underwriting standards, risk appetite metrics or limits, including the limits for each of the most vulnerable industries. Additionally, the stress testing and scenario analysis conducted during the credit review and portfolio-monitoring processes enable the Group to evaluate the impact of macroeconomic shocks on its business in advance. Resilience towards a changing macroeconomic environment is incorporated into the Group's credit underwriting standards. As such, borrowers are expected to withstand certain adverse economic developments through prudent financials, debt-servicing capabilities and conservative collateral coverage.

Taking into account the regional crisis, the Group adjusted its risk management framework, leveraging its pre-existing stress testing practices. This included more thorough and frequent monitoring of the portfolio as well as stress testing, to ensure close control of changes in capital, liquidity, and portfolio quality in times of increased uncertainty.

For more details on the developments in the economies of the Group's operations in 2022, please refer to the Our Operating Environment section on pages 14-17.

5. The Bank faces the risk of not meeting the minimum regulatory requirements, which may compromise growth and strategic targets. Additionally, adverse changes in FX rates may impact capital adequacy ratios.

Risk description

NBG sets a capital adequacy framework, with capital requirements consisting of a Pillar 1 minimum requirement, a Pillar 2 requirement, and combined (systemic, countercyclical and conservation) buffers. The buffers were introduced gradually, with the phase-in of concentration risk and Net GRAPE buffers to be completed by March 2023.

The Bank's capitalisation as of December 2022 stood at:

- 15.5% for CET 1, with an updated regulatory minimum requirement of 11.6%;
- 18.0% for Tier 1, with an updated regulatory minimum requirement of 13.8%; and
- 21.0% for Total capital, with an updated regulatory minimum requirement of 17.3%.

These ratios were above the respective regulatory minimums.

In January 2023, in line with the IFRS transition process, the NBG adopted amendments to the regulations relating to capital adequacy requirements (this is covered in further detail under Capital Risk Management on page 81). GEL volatility remains a significant risk to the Bank's capital adequacy. A 10% GEL depreciation would translate into drops of 0.8 pp, 0.7 pp and 0.6 pp in the Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

Risk mitigation

The Bank undertakes stress testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Such analyses indicate that the Bank holds sufficient capital to meet the current minimum regulatory requirements. These analyses are used to set appropriate risk appetite buffers internally, on top of the regulatory requirements. Capital forecasts, as well as the results of stress testing and what-if scenarios, are actively monitored with the involvement of the Bank's Executive Management and the Risk Committee of the Supervisory Board to help ensure prudent management and timely action, when needed.

For more information on capital risk and respective mitigating measures, please refer to Capital Risk Management on page 81.

6. The Group is exposed to regulatory and enforcement action risk.

Risk description

The Group's activities are highly regulated and thus face regulatory risk. In Georgia, the NBG sets lending limits and other economic ratios (including, but not limited to lending, liquidity, and investment ratios) along with the mandatory capital adequacy ratio. In addition to complying with minimum reserves and financial ratios, the Bank is required to submit periodic reports. It is also subject to the Georgian tax code and other relevant laws.

Following the Company's listing on the London Stock Exchange's premium segment, the Group became subject to increased regulations from the UK Financial Conduct Authority. In addition to its banking operations, the Group also offers other regulated financial services products, including leasing, insurance and brokerage services.

The Group is also subject to financial covenants in its debt agreements. For more information, see the Group's Audited Financial Statements.

Risk mitigation

The Group has established systems and processes to ensure full regulatory compliance, which are embedded in all levels of the Group's operations. The Group's "three lines of defence" model defines the roles and responsibilities for risk management. The Bank has dedicated compliance departments, acting as second lines of defence, reporting directly to the Chief Executive Officers of the respective bank and have primary roles in the management of regulatory compliance risk. The Group's Audit Committee is responsible for ensuring regulatory compliance at the Supervisory Board level. The Group has processes and tools in place to identify, assess, monitor, report and manage the risks in order to remain within the risk appetite limits.

For more information please refer to Compliance under the Risk Management section on page 85.

7. The Group is exposed to financial sanctions risk.

Risk description

Historically, Georgia has enjoyed close business relations with Russia and Ukraine. The aggression launched by the Russian Federation against Ukraine on the 24th of February 2022 resulted in a vigorous international response which translated among others into the imposition of the tough economic sanctions by US, EU, UK and other countries. As a consequence, Russian and Belarusian members of legislative and government agencies, oligarchs, businessmen, state-owned companies, financial institutions and other legal entities have been directly sanctioned, while numerous economic restrictions and trade prohibitions have been enforced on some sectors of activity and specific categories of goods and services in Russia, Belarus, Crimea and other occupied territories. Also as a consequence of the conflict, many Russian citizens have relocated to Georgia. Considering the level of interactions of the Bank with Russia and Russian citizens, and the amplitude of the sanctions prohibitions and restrictions, the risk of being involved in attempts of sanctions circumvention has substantially increased.

In addition to the sanctions risk related to Russia, and due to the significant increase in international shipping costs, Georgia is exposed to the risk of transshipment via Iran for its import and export activities with Asian countries.

Breaches of the US, EU and UK sanctions regime would expose the Group to fines and regulatory actions by the local regulator, the National Bank of Georgia, and by US, EU or UK authorities and enforcement agencies. Beside the regulatory risk, the Group would have to face a reputational risk, mainly with its correspondent banks and other financial third party relationships.

Risk mitigation

In line with the risk appetite of the Group and the instructions of the National Bank of Georgia, the Group implemented processes and procedures designed to ensure compliance with local, UN, US, EU and UK sanctions regimes. The Group seeks to avoid any transactions of any nature with direct or indirect sanctioned parties, goods or services, and to not facilitate in any manner the circumvention of UN, US, EU and UK sanctions programmes.

To this effect, the Group has recently strengthened its sanctions programme via a number of actions with the support of external advisors: performance of an enterprise-wide sanctions risk assessment, issuance of a new Sanctions Policy and Procedure, and reinforcement of client on-boarding and relationship management, while it continues to strengthen its close transactions monitoring and additional due diligence in case of Russian related transactions or potential transshipment via Iran, to review and fine-tune its screening tools and conduct enhanced sanctions training.

For more information please refer to Financial Sanctions Risk Management on page 86.

8. Liquidity risk is inherent in the Group's operations.

Risk description

While the Group currently has sufficient financial resources available to meet its obligations as they fall due, liquidity risk is inherent in banking operations and can be heightened by numerous factors. These include an overreliance on, or an inability to access, a particular source of funding, as well as changes in credit ratings or market-wide phenomena. Access to credit for companies in emerging markets is significantly influenced by the level of investor confidence and, as such, any factors affecting investor confidence (e.g. a downgrade in credit ratings, central bank or state interventions, or debt restructurings in a relevant industry) could influence the price or availability of funding for companies operating in any of these markets. The Bank is in compliance with the minimum liquidity requirements set by the NBG, which include the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). As of 31 December, 2022, the net loan to deposits plus international financial institution funding ratio stood at 88.5%, the liquidity coverage ratio at 146.6%, and the net stable funding ratio at 135.3%. These figures are all well above the NBG's minimum requirements or guidance for such ratios.

Risk mitigation

To mitigate this risk, the Bank holds a solid liquidity position and performs outflow scenario analyses for both normal and stress circumstances to make sure that it has adequate liquid assets and cash inflows. The Group maintains a diversified funding structure to manage the respective liquidity risks. There is adequate liquidity to withstand significant withdrawals of customer deposits, but the unexpected and rapid withdrawal of a substantial amount of deposits could have a material adverse impact on the Group's business, financial condition, and results of operations and/or prospects.

Stress testing is a major tool for managing liquidity risk. Stress testing is performed within the ILAAP and Recovery Plan frameworks. The former assesses the adequacy of the liquidity position and relevant buffers and whether they can sustain plausible severe shocks, while the latter provides a set of possible actions that could be taken in the unlikely event of regulatory requirement breaches to support a fast recovery in the liquidity position. The liquidity risk position and compliance with internal limits are closely monitored by the Assets and Liabilities Management Committee (ALCO) of the Bank.

For more information on liquidity risk and respective mitigating measures, please refer to Liquidity Risk Management on page 79.

9. Any decline in the Group's net interest income or net interest margin (NIM) could lead to a reduction in profitability and accumulation of organic capital.

Risk description

Net interest income accounts for most of the Group's total income. Consequently, fluctuations in its NIM affect the results of its operations. New regulations and the high level of competition could drive interest rates down, compromising the Group's profitability. At the same time, the cost of funding is largely exogenous to the Group and is derived from both local and international markets.

In 2022, the NIM increased by 0.9 pp to 5.9%, driven by an increase in loan yields, a decrease in the foreign currency (FC) cost of fund, and optimisations in wholesale funding, further accompanied by increased loan larisation. As of 31 December 2022, GEL 5,190 million in assets (19%) and GEL 3,380 million in liabilities (14%) were floating in GEL, compared to GEL 4,867 million in assets[1] (18%) and GEL 850 million in liabilities (4%) that were floating in relation to the LIBOR/SOFR/Euribor rates. The Bank was in compliance with the Economic Value of Equity (EVE) sensitivity limit set by the NBG of 15% of Tier 1 capital, with the ratio standing at 7.1% as of 31 December 2022.

Risk mitigation

The Bank continues to focus on fee and commission income growth to safeguard itself from possible margin compressions on lending and deposit products in the future. To meet its asset-liability objectives and manage the interest rate risk, the Bank uses a high-quality investment securities portfolio, long-term funding and derivative contracts. In 2022, the Bank seized the opportunity to improve funding structure and redeemed US$ 54.68 mln from outstanding 2024 senior bonds.

10. The Group faces a growing and evolving threat of cyber-attacks.

Risk description

No material cyber-security breaches have happened at the Bank in recent years. Nonetheless, the Group's rising dependency on IT systems increases its exposure to potential cyber-attacks. Given their increasing sophistication, potential cyber-attacks may lead to significant security breaches. Such risks change rapidly and require continued focus and investment.

Risk mitigation

In order to mitigate the risks associated with cyber-attacks and ensure clients' security, the Group continuously updates and enhances its in-depth security strategy. It strives to evolve its mitigation mechanisms, covering multiple preventive and detective controls ranging from the data and end-point computers to edge firewalls.

A Security Operations Centre has been built, which monitors every possible anomaly identified across the organisation's network in order to detect potential incidents and respond to them effectively.

At least once a year, a full information security and cyber security threat analysis is performed, taking into consideration the relevant regional and sector specific perspectives. Moreover, at least once a year a detailed examination of information security matters is presented to the Technology and Data Committee of the Supervisory Board. At least once every two years, as part of this analysis, an external consultant is contracted to assess the efficiency of our capabilities against industry best practices and real-world cyber-attack scenarios. This analysis gives the Group a broad overview as well as detailed insight, which help to further enhance its information and cyber security systems. In addition, cyber-attack readiness exercises are performed on a regular basis. These exercises evaluate the actual position of the Group in this area and provide a benchmark against international best practices.

1 Excluding US$ Mandatory reserves, where no interest is accrued from May, 2022 per NBG regulation.

Employees play a crucial role in information security. As a result, annual mandatory training sessions are conducted for all employees, comprised of remote learning courses on security issues, fraud and phishing simulations, and informative emails to further assist our employees with information security matters. New employees are also given training as part of the onboarding process. These measures ensure that employees are fully aware of their responsibilities and are prepared for various security threats.

The Information Security Steering Committee governs information and cyber security to ensure that relevant risks are at an acceptable level and that management processes are continuously improved. Moreover, disaster recovery plans are in place to ensure business continuity in case of need.

In 2022, a Red Team exercise was carried out, results are assuring high effectiveness of the Bank's security in-depth capabilities.

In 2021, the Bank achieved ISO 27001 certification for its information security management system, which demonstrates that the Bank is following robust information security practices effectively, in order to protect its information and information systems from different types of threats. In 2022, an ISO 27001 surveillance audit was completed, and the Bank maintained the certification.

Also in 2022, two more audits were conducted to assess the Bank against the Cyber Security Management Framework and the SWIFT Customer Security Controls Framework (CSCF). No critical findings and major non-compliances were identified during these exercises. Cyber Security Management Framework is defined by National Bank of Georgia, based on the National Institute of Standards and Technology (NIST) Cyber Security Management Framework.

The Group has not experienced any material information security breaches in the last three years. For more information on cyber security, please refer to the Information Security under the risk management section on page 86.

11. External and internal fraud risks are part of the operational risk inherent in the Group's business, and, unless proactively managed, could materially impact the Group's profitability and reputation.

Risk description

The increased complexity and diversification of operations, coupled with the digitalisation of the banking sector, mean that fraud risks are evolving. External fraud events may arise from the actions of third parties against the Group, most frequently involving events related to banking cards, loans and client phishing. Internal fraud events arise from actions committed by the Group's employees, although such events happen less frequently. During the reporting period, the Group faced several instances of fraud, none of which had a material impact on the Group's profit and loss statement. The rapid growth in digital crime has exacerbated the threat of fraud, with fraudsters adopting new techniques and approaches to obtain funds illegally. Therefore, unless properly monitored and managed, the potential impact could become substantial.

Risk mitigation

The Group actively monitors, detects and prevents risks arising from fraud events and has permanent monitoring processes in place to detect unusual activities in a timely manner. The risk and control self-assessment exercise focuses on identifying residual risks in key processes, subject to the respective corrective actions. Through our continuous efforts to monitor and mitigate fraud risks, coupled with the high level of sophistication of our internal processes, the Group ensures the timely identification and control of fraud-related activities. The Bank is currently working on a strategic initiative to further enhance fraud prevention systems and plans to utilise client behavioural analytics to further minimise external fraud threats.

12. The Group remains exposed to some reputational risk.

Risk Description

There are reputational risks to which the Group may be exposed, such as risks related to international sanctions imposed on Russia in response to the war in Ukraine, isolated cases of anti-banking media narratives, cases of phishing and other cybercrimes, as well as risks associated with the process of digitalisation. However, none of these risks is unique to the Group.

Risk Mitigation

To mitigate the possibility of reputational risks, the Group works continuously to maintain strong brand recognition among its stakeholders. The Group follows all relevant external and internal policies and procedures to minimise the impact of direct and indirect reputational risks. The Group monitors its brand value through public opinion studies and surveys and by receiving feedback from stakeholders on an ongoing basis. Dedicated internal and external marketing and communications teams actively monitor mainstream media and social media coverage on a daily basis. These teams monitor risks, develop scenarios and create respective contingency plans. The Group tries to identify early warning signs of potential reputational or brand damage in order to mitigate it and elevate it to the attention of the Supervisory Board before it escalates. A special Task Force is in place at the top management level, comprised of strategic communications, marketing and legal teams, to manage reputational risks when they occur. Communications and cyber security teams conduct extensive awareness-raising campaigns on cyber security and financial literacy, involving the media, the Banking Association of Georgia and Edufin (TBC's inhouse financial education platform), aimed at mitigating and preventing cyber threats and phishing cases.

13. The Group faces the risk that its strategic initiatives do not translate into long-term sustainable value for its stakeholders.

Risk Description

The Group may face the risk of developing a business strategy that does not safeguard long-term value creation in an environment of changing customer needs, competition and regulatory restrictions. In addition, increased uncertainty stemming from the major economic and social disruptions caused by the COVID-19 pandemic and the war in Ukraine, may hamper the Group's ability to effectively develop and execute its strategic initiatives in a timely manner and thereby compromise its capacity for long-term value creation. Please see the Group's main strategic priorities in Our Strategic Priorities and Our Key Performance Indicators section on pages 22-25.

Risk Mitigation

The principal driver for the formation of the portfolio of strategic initiatives is the diversification of the Group's revenue and value pockets and the optimization of enterprise value evolution over the strategy time horizon. Notwithstanding the aforementioned, the Group conducts annual strategic review sessions involving the Supervisory Board, the Executive Management and the middle management in order to ensure that it remains on the right track and assesses business performance from different perspectives, concentrating its analysis on key trends and market practices, both in regional and global markets. In addition, the Bank continuously works with the world's leading consultants in order to enhance its strategy. Furthermore, the Group conducts quarterly analyses and monitors the metrics used to measure strategy execution, and in case of any significant deviations, it takes corrective or mitigation actions.

14. The Group is exposed to risks related to its ability to attract and retain highly qualified employees.

Risk Description

The Group faces the risk of losing key personnel or failing to attract, develop and retain skilled or qualified employees based on its objectives. The transformation into a digital company leads to increased demand for IT professionals across the Group.

To adapt to the rapidly changing business environment, the Group needs to develop an "agile" culture and increase leadership capabilities, achieve a high level of engagement among employees, and equip them with the necessary skills.

Risk Mitigation

The Group actively monitors the labour market both in Georgia and abroad, proactively recruiting the best candidates and expanding the networks of key personnel. The Group treats all employees equally and fairly, supporting and coaching them to succeed. Ensuring equal opportunity in all areas of human resource management such as selection, promotion, training and development, is critical to retaining employee engagement and satisfaction across our workforce. We are also actively working on developing a succession planning framework for senior positions in order to ensure a smooth transition, as well as offer promotion opportunities to employees.

The Bank established an IT academy which offers courses in front-end and back-end development, Android and iOS mobile development, as well as user experience research and strategy, DevOps, Java, Test Automation, Outsystems and Data Engineering. This programme is free of charge for selected candidates and is run by experienced staff members and leading professionals from relevant fields.

Top management regularly conducts online meetings with employees to share the Group's strategy and information on recent achievements with employees. The Bank was one of the first companies in Georgia to allow its back-office

employees to work remotely. Importantly, this initiative not only resulted in improved employee satisfaction levels, but also opened up the possibility of attracting new talent from beyond Georgia.

EMERGING RISKS

Emerging risks have significant unknown components and may affect the performance of the Group over a long-term horizon. We believe the following risks have the potential to increase in significance over time and could have a similar impact on the Group as the principal risks.

1. The Group's performance may be compromised by adverse developments in the region, in particular the war in Ukraine and possible spread of the geopolitical crisis and/or the potential outflow of migrants from Georgia.

Risk description

While inflows to the Georgian economy are quite diversified, the country is still vulnerable to geopolitical and economic developments in its region. In particular, the Russian invasion of Ukraine, the consequent sanctions imposed on Russia and the resulting elevated uncertainties have an adverse impact on the Georgian economy.

At the same time, just as the migration effect made an important contribution to economic growth in 2022, any sizeable outflow could lead to a deterioration in the business environment. The reverse would probably be the case in any rapid conflict resolution scenario, which would create positive spill overs, such as the likely faster recovery of growth in Russia and Ukraine, that should also be taken into account.

Risk mitigation

The Group actively employs stress testing and other risk measurement and monitoring tools to ensure that early triggers are identified and translated into specific action plans to minimise the negative impact on the Bank's capital adequacy, liquidity, and portfolio quality in times of increased uncertainty.

2. The Group is exposed to the risks arising from climate change.

Risk description

The risks associated with climate change have both a physical impact, arising from more frequent and severe weather changes, and a transitional impact that may entail extensive policy, legal and technological changes to reduce the ecological footprint of households and businesses. For the Group, both risks could materialise through impaired asset values and the deteriorating creditworthiness of our customers, which could result in a reduction of the Group's profitability. The Group may also become exposed to reputational risks because of its lending to, or other business operations with, customers deemed to be contributing to climate change.

Risk mitigation

The Group's objective is to act responsibly and manage the environmental and social risks associated with its operations in order to minimise negative impacts on the environment. This approach enables us to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate climate change.

The Group has in place an Environmental Policy, which governs its Environmental Management System ("EMS") and ensures that the Group's operations adhere to the applicable environmental, health, safety and labour regulations and practices. We take all reasonable steps to support our customers in fulfilling their environmental and social responsibilities. The management of environmental and social risks is embedded in the Group's lending process through the application of the EMS. The Group has developed risk management procedures to identify, assess, manage and monitor environmental and social risks. These procedures are fully integrated in the Group's credit risk management process. Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com). For more detailed information on the EMS, please refer to pages 114-121.

In order to increase our understanding of climate-related risks to the Bank's loan portfolio, in 2021 the Bank performed a high-level sectoral risk assessment, since different sectors might be vulnerable to different climate-related risks over different time horizons. The risk assessment focused on economic sectors such as energy, oil and gas, metals and mining, tourism, agriculture, food industry, healthcare, construction and real estate. In 2022, we advanced our TCFD framework further, especially in strategic planning and risk management. These developments are described in our TCFD section on pages 100-113.

The Bank aims to increase its understanding of climate-related risks and their longer-term impacts over the coming years, which will enable it to further develop its approach to mitigation. Furthermore, the Group's portfolio has strong collateral coverage, with around 75% of the loan book collateralised with cash, real estate or gold. Since the collateral evaluation procedure includes monitoring, any need to change collateral values arises from our regular collateral monitoring process.

In June 2022, the Group released its full-scale sustainability report for the year 2021 in reference to Global Reporting Initiative (GRI) standards. The Global Reporting Initiative (GRI) helps the private sector to understand and realise its role and influence on sustainable development issues such as climate change, human rights and governance. The report is designed for all interested parties and groups in Georgia and abroad and aims to give them clear, fact-based information about the social, economic and environmental impact of our activities in 2021. It presents our endeavours to create value for our employees, clients, suppliers, partners and society as a whole. The Sustainability Report 2021 is available at www.tbcbankgroup.com.

3. The Group's performance may be affected by the LIBOR discontinuation and transition.

Risk description

The majority of the Bank's US$ floating portfolio is still linked to the 6-month US$ LIBOR, while the EUR floating portfolio is linked to the Euro Interbank Offered Rate (Euribor), the discontinuation of which was not declared. The discontinuation of LIBOR and the transition process exposes the Group to execution, conduct, financial and operational risks, and may result in earnings volatility, customer complaints and legal proceedings, or have other adverse impacts on the Group's business and operations.

Risk mitigation

The Group actively monitors international and local transition-related developments to regulate and align the Group's transition process with market practice. On 29 July 2021, the Alternative Reference Rates Committee (ARRC) announced its recommendation to use Term Secured Overnight Financing Rate (SOFR) published by CME Group, Inc. (CME). The ARRC recommendation allows loan agreements to use Term SOFR in place of LIBOR, either as a replacement for LIBOR (whether pursuant to the operation of a fallback provision or otherwise) or in new deals.

In 2021, the Group formed a steering committee to ensure a smooth transition away from LIBOR, including efforts to introduce Term SOFR rates in the Group's loan agreements. The steering committee raises awareness of the transition, both internally and externally, to ensure the availability of the necessary tools to facilitate the transition and the fair treatment of all the Group's customers during the process. Since April 2022, the Bank has applied Term SOFR rates to newly disbursed US$ floating-rate loans. The transition from LIBOR to the Term SOFR benchmark is expected to be finalised by the end of June, 2023.

Climate-related financial disclosures 2022

This report sets out the Bank's disclosures in relation to the implementation of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations in line with the UK Government's initiative to enshrine in regulations mandatory TCFD-aligned requirements for premium and standard-listed companies in the UK. The report includes climate-related disclosures to align with the TCFD recommendations, TCFD published guidance and the Financial Conduct Authority Listing Rules.

In 2021, we published our first disclosure to demonstrate our commitment towards taking active measures to mitigate climate change, to assess and mitigate climate risks and to identify climate opportunities. In 2022, we advanced our TCFD framework further, especially in strategic planning and risk management. These developments are described in this report. As the sustainability landscape evolves with new information and greater standardisation, the Bank will continue to refine and expand its disclosures to provide meaningful information for stakeholders.

It should be noted that the data we have used provide the best available approach to reporting progress made, notwithstanding the challenges that exist given the incompleteness and novelty of the data sets and methodologies required for the Georgian environment, which bears the largest part of our activities. We expect the availability and reliability of required data to improve over time, and we intend to integrate applicable improved data into our reporting as it becomes available.

Below is the disclosure prepared by the Group considering the implementation of TCFD recommendations[1].

Recommended disclosure	Status	Reference	Short summary	Where to find
Describe the organisation's governance around climate-related risks and opportunities	Disclosed	1.1	– ESG and Ethics Committee at the Board level established. – ESG and Ethics Committee at the Board level established.	Page 102
Describe management's role in assessing and managing climate-related risks and opportunities	Disclosed	1.2	– Since March 2021, responsibility for climate change-related risks and opportunities is assigned to the executive level ESG Committee. – During 2022, the ESG Committee met four times and covered various climate-related topics: TCFD reporting, TCFD implementation action plan, Policy on Climate Change.	Page 102
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	Disclosed	2.1, 2.2	– TBC Group's ambition is to be a leading supporter of ESG principles in Georgia and the wider region. We aspire to make our direct environmental impact net zero by 2025, and continue to develop our plan to enable our indirect environmental impact to also reach net zero as soon as practicable thereafter.	Page 104 Page 107
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Disclosed	2.2	– In 2022, we continued to incorporate climate and broader ESG considerations into our financial planning processes. The Group aligned loan portfolio growth planning with risks and opportunities in different sectors and defined relevant products on sectoral level, thus supporting sustainable portfolio growth and the transition to a lower-emission economy in Georgia.	Page 107
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Disclosed	2.3	– Multiple scenarios were used to explore different plausible scenarios and trade-offs and to gain a more holistic view of the risks: Below 2 °C, Net Zero 2050, Delayed Transition.	Page 108
Describe the organisation's processes for identifying and assessing climate-related risks	Disclosed	3	– Since 2012, TBC Bank has E&S risk management procedures to identify, assess, manage and monitor environmental and social risks which are fully compliant with Georgian environmental legislation, follow international best practices.	Page 109
Describe the organisation's processes for managing climate-related risks	Disclosed	3	– In 2022, TBC Bank developed the ESG Profile Methodology for corporate customers. The aim is to incorporate the ESG Profile scorecard in the overall risk management process. ESG factors such as climate adaptation, transition to low-carbon activities, implementation of green technologies, diversity and inclusion, good corporate governance are considered during the assessment and respective scores are assigned based on expert judgment.	Page 109
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Disclosed	3	– In 2022, TBC continued to embed climate-related risks and opportunities within its business further. TBC was supported by the Technical Assistance Trust Fund (EPTATF) through its Climate Action Support Facility (CASF) for Promoting Climate Action for SMEs in Georgia. The EPTATF comprises one year of consultancy support for the implementation of TBC's climate action strategy, provided by the Frankfurt School of Finance and Management,	Page 109
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Disclosed	4	– Scope 1, Scope 2 and Scope 3 GHG emissions (flights). – Total sustainable loan portfolio volume. – Portfolio breakdown by sectors.	Page 112
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks	Disclosed	4. EMS chapter page 114	– The summary of Scope 1, Scope 2 and Scope 3 GHG emissions (flights), 2022 targets versus actual results, as well as targets for 2023 are disclosed.	Page 112
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Disclosed	4	– Total sustainable loan portfolio volume of GEL 782 million achieved (the target volume was GEL 750 million). – Total sustainable loan portfolio target volume for 2023 is set at GEL 1 billion.	Page 112

1 While this report is focused on climate-related risks and opportunities, TBC has also published corporate sustainability disclosure on other environmental, social, and governance ("ESG") topics in its 2021 Sustainability Report available at www.tbcbankgroup.com.

1. GOVERNANCE

1.1. Supervisory Board's oversight of climate-related risks and opportunities

The Supervisory Board (Supervisory Board of JSC TBC Bank) approves and oversees the Group ESG Strategy in order to address specifically the Bank's targets and initiatives that relate to climate change, its direct and indirect environmental impact and sustainable development in the Bank. The ESG Strategy also covers customers, employees, suppliers, wider society, financial inclusion, employee relations and talent management, workplace diversity and inclusion. The Supervisort Board retains the primary responsibility for overseeing the implementation of the strategy, as part of its commitment to having direct oversight over the Bank's climate-related issues.

In January 2022, the Supervisory Board established an Environmental, Social and Governance (ESG) and Ethics Committee at the Board level. This reflects the importance of sustainability in TBC's corporate governance and allows the Board members to dedicate more time and focus to ESG topics.

The role of the Committee is formalised to support and advise the Supervisory Board in its oversight of the implementation of (i) strategy (ii) policies and (iii) programmes of the Company and its subsidiaries in relation to ESG matters and ensuring that the ESG strategy is implemented across all of the Bank's relevant businesses. Furthermore, the ESG and Ethics Committee supports the Supervisory Board in promoting its collective vision of values, conduct and culture and overseeing executive management's (Executive Management of Joint Stock Company TBC Bank) efforts (i) to foster a culture of ethics (ii) appropriate conduct, and (iii) employee ethical engagement within the Bank. The Committee provides strategic guidance on climate-related matters and reports to the Supervisory Board, which has overall oversight.

The ESG and Ethics Committee met four times during 2022 and covered the following topics: a) regular review of and status update on the Bank's ESG strategy, including climate strategy, as well as implementation plans; b) monitoring of their execution; c) oversight and recommendation to the Supervisory Board for approval of the Bank's disclosures on ESG matters, including reporting in line with the TCFD principles, in the Annual Report and Accounts. Key topics covered in 2022 by the ESG and Ethics Committee are as follows: review of the newly developed Policy on Climate Change, Human Rights Policy and Diversity, Equality and Inclusion Policy, review of the TCFD reporting for the Annual Report 2021 and the Sustainability Report 2021, the ESG and climate-related training agenda for TBC staff and the ESG Strategy 2023.

The Supervisory Board is supported by the Risk Committee. For example, progress against the reporting metrics, such as the volume of the sustainable loan portfolio, is reported to the Risk Committee, which also received updates three times a year through the Chief Risk Officers (CRO) report. In 2022, we elaborated on our ESG Risk Appetite and intend to integrate this into our Risk Appetite Framework (RAF). Furthermore, the responsibilities of the Audit Committee cover the review of annual reports, including the TCFD reporting, as well as follow up on compliance with policies, procedures and regulations.

The Supervisory Board has established a diverse and comprehensive training agenda, which is reviewed annually. The Bank's Company Secretarial team creates a general training catalogue at the beginning of each year, which covers all relevant areas of Risk, Audit, Remuneration and Governance. The catalogue includes an effective mix of publicly available and client-tailored webinars, analytical materials, and opportunities for live discussion with industry participants. The providers of these training opportunities include the Big Four accounting firms, external legal advisors, chartered institutes (such as the Institute of Directors and the Governance Institute), and, where relevant, senior professionals with specific subject matter expertise. Directors use the training catalogue in order to create their bespoke training calendars and exchange knowledge during Supervisory Board meetings or via the dedicated Supervisory Board platform. In February 2023, as part of a larger, one-year climate-related project, further topic-specific training sessions on climate-related issues were delivered by the Frankfurt School of Finance and Management to equip members of the Supervisory Board as well as the executive management of Bank with detailed knowledge about the TCFD and climate change-related risks and opportunities and the operative tools available to implement the climate action strategy.

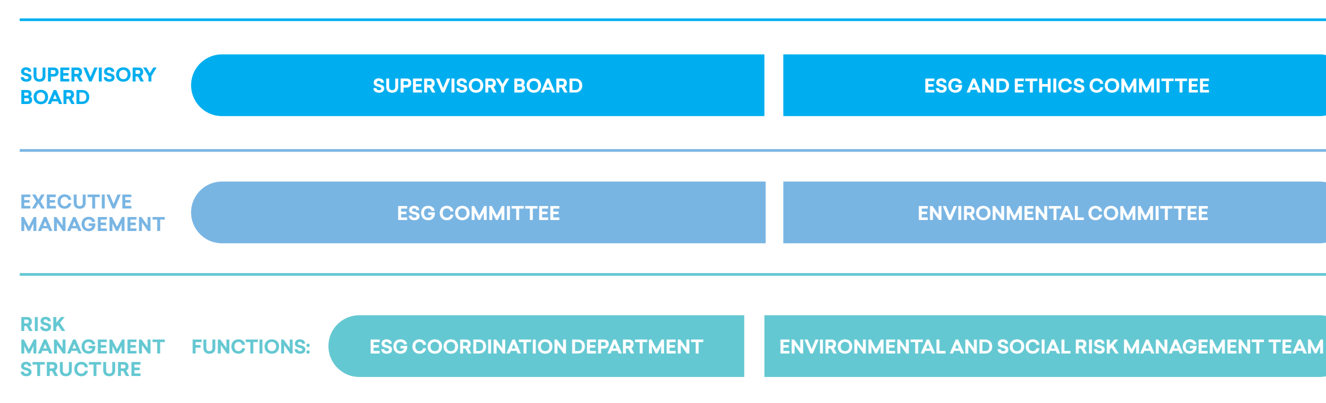
1.2. Executive management's role

At the executive level, responsibility for climate change-related risks and opportunities is assigned to the ESG Committee, which was established by the executive management in March 2021 and is responsible for implementing the ESG strategy and approving the annual as well as separate, detailed action plans for key projects. The progress and implementation status of action plans are monitored at the ESG Committee's meetings. During 2022, the ESG Committee met four times and covered various climate-related topics: TCFD reporting, TCFD implementation action plan, Policy on Climate Change. The ESG Committee's responsibilities also include the review and monitoring of climate-related risks and opportunities as well as the establishment of an effective mitigation and control system to manage identified (material) climate-related risks. The ESG Committee meets on a quarterly basis.

The implementation of the ESG strategy is supported by the various organisational functions responsible for ESG matters: Environmental and Social Risk Management Team, the ESG Department and the ESG competences centre – a working group initiated in order to support the enhancement of the TCFD framework.

Furthermore, the Environmental Committee meets on a quarterly basis and oversees the implementation and operation of the Environmental Management System, which includes addressing the resource consumption and other environmental impacts of TBC Bank's daily operations. The Environmental and Social Risk Management Team regularly reports on the environmental management plans and results to the Environmental Committee. The Environmental Committee reports directly to the Chief Risk Officer.

THE ESG GOVERNANCE STRUCTURE[1]



2. STRATEGY

The Bank's objective is to act responsibly and manage the environmental and social risks associated with its operations in order to minimise negative impacts on the environment. In order to achieve this, the Bank has clearly defined processes in place to identify and assess climate-related risks to our business. This approach enables the Bank to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate climate change.

TBC Bank has reviewed all of the operational activities, procured items and outsourced services that it can control (present and planned), and has identified all of the material environmental aspects relevant to the business. The direct environmental impact of our business activity arises from energy, water, fuel and other resource usage, waste and emissions. The Bank has established a comprehensive internal environmental system to manage its GHG emissions and is committed to reducing them by closely monitoring its consumption of resources. In order to evaluate the significance of the impact for each of the categories, we have developed a comprehensive evaluation methodology and applied it to the whole Bank. Based on this, annual goals are defined and specific initiatives and programmes are developed to attain them.

In 2020, the Bank obtained an ISO 14001:2015 certificate for its Environmental Management System. In 2021 and 2022, TBC Bank completed the re-certification process successfully. More information about the Environmental Management System can be found in the Environmental Management System section on pages 114-121.

In 2021, the Bank developed and approved the ESG Strategy. In 2022, we updated our ESG Strategy in order to reflect the progress made during 2022 and adjust targets and initiatives for future years.

1 These terms are defined in the glossary on pages 262-263.

Summary table on ESG Strategy progress during 2022:

2021 ESG Strategy target / initiative	2022 status	2023 target
Establish ESG governance framework until the end of 2021	ESG governance framework established at both Supervisory Board and executive management levels	Enhance ESG governance and achieve a higher maturity level
Set up a system for measuring impacts on sustainability across the Bank, customers, employees and society	Regular reports on key parameters to the ESG-related Committees at Supervisory Board and executive management level established	Increased granularity and automation of reporting, regular reporting on climate-related risks, scenario analysis, stress testing, ESG risk appetite
Increase sustainable loan portfolio	GEL 750 million	GEL 1 billion
Increase customer loyalty and employee motivation	Establishment of ESG training framework for all TBC Bank employees	Measure ESG awareness among employees and customers
Implementation of the green loan framework	Green loan procedure implemented	Harmonisation of the green loan procedure and the green taxonomy of the National Bank of Georgia
Green Taxonomy of the National Bank of Georgia	The National Bank of Georgia introduced the Green Taxonomy, developed in line with the best international taxonomies. The implementation process has been finalised	The Green taxonomy is in force starting from 1st January 2023
Bank's Policy on Climate Change	Climate Change Policy developed and approved[1]	Development of sectoral guidelines
ESG profiles for corporate customers	The framework on ESG profiles for corporate customers developed	Starting implementation with existing Top 20 corporate customers
Incorporation of ESG matters in risk appetite	Development of ESG risk appetite	Establishment of regular monitoring and review
ESG strategies in material subsidiaries	Separate ESG Strategies developed	Implementation of ESG Strategies

TBC Bank's ambition is to be the leading supporter of ESG principles in Georgia and the wider region. We aspire to make our direct environmental impact net zero by 2025, and continue to develop our plan to enable our indirect environmental impact to also reach net zero as soon as practicable thereafter.

The long-term aspirations are supported by different measures outlined in the ESG Strategy. The key components for 2023 and 2024 are listed below:

- Development of a methodology to calculate financed emissions;
- Measure the Bank's direct performance towards the Paris Agreement targets for the reduction of GHG emissions;
- Excluding/limiting high-carbon activities (please see our Exclusion List at www.tbcbankgroup.com);
- Increase ESG awareness and knowledge about the risks and opportunities of climate change among employees, customers and the wider public;
- ESG Academy - green financing training courses for employees and customers;
- Forecasting methodology and tools for supporting medium and long-term targets for GHG emissions reduction;
- Develop a methodology for the calculation of the GHG emissions of the total loan portfolio and define the action plan for implementation.

2.1. Climate-related risks and opportunities

Climate-related risks

The table below shows a summary of potential transitional and physical risks identified by the Bank for the Georgian environment. The time horizons considered in the assessment are short – up to three years, medium – up to eight years, long - above eight years with the levels of a possible impact – low, medium or high. While assessing the impact of climate change risks on a sector, a category – low, medium and high - was assigned relative to other sectors, as well as in comparison with other risk categories. Furthermore, it is to consider, that the assessment - low, medium and high – within a subcategory of transitional or physical risk was assigned relative to other subcategories within the same climate risk category. Thus, the assessment results are not comparable with the same impact categories in other countries or regions.

The overall assessment of transitional and physical risks is given below.

	Transition risks				Physical risks	
Risk sources	**Policy and Legal**	**Technology**	**Market**	**Reputation**	**Acute**	**Chronic**
Types of risks	– Enhanced regulatory environmental and mandated requirements: may introduce minimum standard or expectations on green credentials of product outputs or business operations, enhanced emissions-reporting obligations	– Substitution of existing products and services with lower emissions options, including requirements to replace manufacturing technology to cleaner alternatives – Investment in technology to reduce emissions or improve energy efficiency of operations and households.	– Changing customer behaviour including deliberate move to lower carbon footprint products – Increased cost of raw materials, increased volatility and costs, sourcing restrictions for carbon heavy raw materials	– Shifts in consumer preferences to green products – Stigmatisation of sector, resulting in reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention) – Increased stakeholder concern or negative stakeholder feedback	– Increased severity of extreme weather events such as floods	– Changes in precipitation patterns and extreme variability in weather patterns affecting food production and living environment – Rising mean temperatures affecting working conditions, living conditions and local infrastructure – Rising sea levels affecting local ecosystems, increasing subsidence and flood risks
Time horizon	Medium	Long	Medium	Long	Medium	Long
Level of potential impacts affecting customers and TBC	Low	Medium	Low	Low	Medium	Medium

The overall assessment of the impact of transitional policy measures

Georgia's 2030 Climate Change Strategy[2] and Climate Action Plan lays out different policy measures on which TBC Bank based its identification of the potential impact of the policy measures on different economic sectors, which are financed by TBC Bank. As a summary of the potential impact of the various transition risks and physical risks identified, the transitional risks in Georgia and on the TBC Bank's activities are low. The assessment considers that trade and services dominate the Georgian economy, and the policy measures outlined in Georgia's 2030 Climate Change Strategy will have an overall low impact on the economic sectors, especially in the short and medium term. Georgia's 2030 Climate Change Strategy takes into consideration that Georgia is a transitional and growing economy, and therefore government strategy is not to impede GDP growth with policy measures but rather to support a smooth

1 Policy available at www.tbcbankgroup.com.
2 Georgia's 2030 Climate Change Strategy.

transition where necessary. It is worth noting, that the economic sectors most affected by transitional risks worldwide such as mining, crude petroleum, natural gas and metal ores, manufacturing coke and refined petroleum products[1] are present only to an extremely limited extent in Georgia, resulting in a low overall impact of transitional measures on economic growth, if any.

The technology risk is a subcategory of transition risk. The technology risk related to climate change, unnecessary investments in the technological development or missing investments in the technological improvements are assessed to be low in Georgia, as Georgian companies hardly invest in the development of new green technologies; they benefit from technologies developed in other (technologically advanced) countries and deploy technologies which are already tested and established. Therefore, failed investments are unlikely to occur.

Market risk is low, as the consumer behaviour in Georgia show a very slow trend towards lower carbon footprint products. For reputational risk, no material impact expected, as TBC Bank has developed E&S risk management procedures to identify, assess, manage and monitor environmental and social risks which are fully compliant with Georgian environmental legislation, follow international best practices. Please see more information about the environmental management system in the chapter Environmental Management System on the pages 114-121.

The overall assessment of the impact of the physical risks

Georgia's geographical location and natural conditions – a small country with a mountainous landscape, a Black Sea coastal zone, and semi-arid areas in the Southeast – all contribute to the country's vulnerability to the physical risks of climate change. The sectors that are thought to be most vulnerable to climate change in Georgia include agriculture, forestry, tourism, and healthcare[2].

The impact of physical risks on economic sectors which are financed by TBC Bank will materialize over time. For the Bank, the risks can materialise through the impairment of asset values and the deterioration in the creditworthiness of customers operating in Georgia. Certain geographic areas and economic sectors such as winter resorts and agricultural land are already partially affected and might deteriorate further in the medium time horizon. The overall assessment of the potential impact on Georgia and on TBC Bank's activities is medium on a long-term perspective. It is understood that climate change risks are largely associated with longer-term impacts; however, those longer-term impacts are unclear, especially considering the shorter-term maturity structure of the Bank's loan portfolio.

Climate-related opportunities

The table below provides a summary of climate-related opportunities.

Opportunity	Description	Anticipated financial impact
Products and services	Energy-efficiency loans	Revenue increase
Products and services	Renewable energy financing	Revenue increase
Products and services	Green lending procedure - a standardised approach to sustainable finance, including energy efficiency, renewable energy and resource efficiency financing	Revenue increase
Green / climate-related funding	Global Climate Fund (GCF) accreditation, enabling the Bank to have direct access to GCF funding	Revenue increase / cost optimisation
Resource efficiency	TBCs sustainability strategy seeks to decouple the Company's growth from its impact on the environment, while increasing the efficiency and resiliency of its operations. Finding innovative ways to run its operations with renewable energy, lower emissions, and reduce waste, among other efforts, reduces TBC's environmental impact	Cost reduction or optimisation

The list depicts products and loan purposes which are relevant for sustainable loan portfolio growth in TBC Bank.

TBC has a number of different initiatives underway that support the management of climate-related risks and the realisation of opportunities:

- Advisory and product services for customers;
- Sectoral approach towards climate-related risks and opportunities;
- Climate-related training for TBC staff;
- Green taxonomy training and capacity building of TBC employees;
- Green mindset training for customers.

2.2. Climate-related risks and opportunities on the business and financial planning

In 2022, we continued to incorporate climate and broader ESG considerations into our financial planning processes. Some qualitative considerations that related to climate and ESG matters were incorporated in the financial planning cycle for 2022. In 2022, the Group aligned loan portfolio growth planning with risks and opportunities in different sectors and defined relevant products on a sectoral level, thus supporting sustainable portfolio growth and the transition to a lower-emission economy in Georgia.

The table below depicts the sectors which were assessed to have a climate-related risk scoring of three and above according to the recommended guidelines of the National Bank of Georgia[3]. The scoring system uses range from 0 to 10. As no sector is completely risk free and – for the time being – no sector is at absolute risk, the extremes can be neglected. In practice, the results range from 2 to 7. In order to identify products relevant for a sector, separate meetings were conducted with representatives of the various business lines and the potential for greening a sector was assessed. As of end of 2022, the sustainable loan portfolio of TBC Bank (which equals to GEL 782 mln) includes exposures with different purposes, such as: energy-efficiency loans, electric car loans, renewable energy financing for solar panels and hydro power plants. Overall sustainable loan portfolio growth volume was distributed by sectors in line with existing product catalogue and opportunities identified. Some products and services listed below are in process of development and will be available throughout 2023.

Sector	% in standalone Bank's loan book	Climate Risk Radar Score	Product Catalogue
Agriculture	4.6%	4	Energy-efficiency loans Climate-smart technologies New irrigation systems
Automotive	1.7%	4	Hybrid and electric cars, Euro 5, Euro 6 and Euro 7 cars Energy-efficiency loans Industry autos
Construction	6.0%	3	Energy-efficiency loans for construction projects, Production of energy-efficient building materials. Energy-efficiency loans for machinery / appliances Charging stations for electric cars
Energy & Utilities	5.3%	4	Renewable energy financing Charging stations for electric cars
Food Industry	5.9%	4	Energy-efficiency loans (warehouses, storage, appliances, cars)
Individuals	38.3%	3	Energy-efficiency mortgages Hybrid and electric car loans
Manufacturing	0.9%	3.5	Energy-efficiency loans (machinery, appliances, buildings) Carbon filtering
Metals and Mining	1.0%	4	Energy-efficiency loans (machinery, appliances, buildings)
Oil and Gas	1.1%	4	Energy-efficiency loans for building charging stations for electric cars
Real Estate	8.8%	3	Energy-efficiency loans Renewable energy financing (solar panels)
Transportation	1.3%	3.5	Hybrid and electric cars, Euro 5, Euro 6 and Euro 7 cars, buses, trucks

1 Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change | Bank of England.
2 Georgia's Third National Communication to the UNFCCC.
3 Information about the Climate Risk Radar.

2.3. Climate-related scenarios

TBC Bank is taking significant steps to develop scenario analysis capabilities to better understand and act on the implications of climate-related risks and opportunities for our business and customers. The development of climate-related scenario analysis is a big challenge, as the availability, accessibility and suitability of climate data and sub-sector information for financial risk analysis, as well as climate-related risk modelling capabilities, in Georgia are very limited and still evolving. Despite these limitations, the scenario analysis allows us to test a range of possible future climate pathways and understand the nature and magnitude of the risks they present. The purpose of scenario analysis is not to forecast the future but to understand and prepare to manage risks that could arise. In 2022, we continued working with the external consultant and developed a stress testing model covering different economic sectors in Georgia in order to capture the stress testing impact on the whole credit portfolio of TBC Bank.

Scenario Selection

Multiple scenarios were used to explore different plausible scenarios and trade-offs and to gain a more holistic view of the risks: Below 2 °C (B2C)[1], Net Zero 2050 (NZ2050)[2], Delayed Transition (DT)[3]. The selected set of scenarios span across the timeframe from 2020 to 2050. The scenarios reflect different assumptions about the likelihood and timing of government actions, technological developments, and their spillover effects on productivity. Each scenario combines assumptions related to i) the introduction of a public policy measure (a higher carbon tax); (ii) productivity shocks resulting from the insufficient maturity of technological innovations (higher energy prices), and the effects on investments in non-energy sectors. The input for scenario analysis comes from the GCAM model used to derive the NGFS scenarios. The data was sourced from the NGFS Phase II database and the GCAM5.3 (GCAM-USA) model – an Integrated Assessment Model for the evolution of energy and socio-economic systems.

Macroeconomic impacts from transition risks arise from a fundamental shift in energy and land use and affects every sector of the economy. The GCAM model describes how supply, demand, and prices of energy evolve across the different transition scenarios. The model also provides GDP trajectories, carbon prices and GHG emissions for Georgia.

Scenario Implementation

To complement the output from the GCAM model three additional transition channels have been included: i) Increased Capex - Transitioning towards a decarbonised economy requires the replacement of "traditional" or carbon-intensive technology by sustainable technology[4]. These new technologies are more expensive implying higher Capital Expenditure / Leverage/ debt-servicing burden for TBC's borrowers; ii) Direct Emissions - Energy prices are the main transition channel for Carbon tax, but direct emissions (own heating, own fuel use, livestock emissions, etc.) might also be taxed. That's not captured by the energy biased IAMs; iii) Transition Winners - certain sectors can be considered sector winners because they are likely to benefit from higher and accelerated investment cycles. Some of these include Construction, Automotive, Trade, Manufacturing due to the move to carbon-light activities.

For physical risk, firstly, models and scenarios provided by NGFS for physical risks were examined. It was also preferred to be compatible with scenarios in transition risks. In this context, available data sources made it appropriate to use physical risk indicators only for the REMIND-MAgPIE[5] model under three scenarios (i.e., Current Policies, Net Zero 2050, and Delayed Transition). Secondly, among various indicators, the indicators that could affect Georgia and the sectors were selected. Physical risks, which are divided into two as acute and chronic, are examined through two indicators. Considering Georgia's natural disaster history, it was observed that the most harmful physical event with high risk within the scope of acute risk was flooding, and therefore "Annual Expected Damage from River Floods" was used as an acute risk indicator. In the context of chronic risk, the "Mean Air Temperature" was used as a fundamental indicator.

The model output shows the change in revenue due to transition and physical risk over a long-time horizon 2020 to 2050. The shocks to the revenue per sector are integrated into TBC's baseline scenario parameters and applied to the different portfolio segments: micro, SME, corporate and retail.

Conclusions

Scenarios Below 2 °C and Net Zero 2050: The results by segments show that the impact of climate shocks on the payment capacity of customers in retail, Micro, SME and corporate segments is negligible.

For the scenario Delayed Transition, the results differ slightly: climate shocks impact the payment capacity of customers in retail, Micro and SME segments insignificantly; few corporate customers show negative trends (as the collateral value is not considered initially), however, after considering collateral value, the result becomes negligible.

Even if the climate stress tests are not forecasting tools, they indicate the level of resilience towards climate shocks, especially in the short and medium term; furthermore, climate stress test show that the most vulnerable sectors are energy (non-renewable) & utilities, and oil and gas, if the transition risks materialise. However, as mentioned above, transition risk is rather low in Georgia.

3. RISK MANAGEMENT

Processes for identifying and assessing climate-related risks

The risks associated with climate change have both a physical impact arising from more frequent and severe weather changes, and a transitional impact that may entail extensive policy, legal and technological changes to reduce the ecological footprint of households and businesses. For the Bank, both of these risks can materialise through the impairment of asset values and a deterioration in the creditworthiness of customers, which could result in a reduction in the Bank's profitability. The Bank may also become exposed to reputational risks as a result of lending to or other business operations with customers deemed to be contributing to climate change.

As mentioned above, climate risks can materialise, first of all, through the impairment of asset values and deteriorating creditworthiness of customers. Therefore, as a first step, we looked at the largest subsidiary of the TBC JSC by assets, constituting 98% of the Group's assets – TBC Bank standalone, the largest financial institution in Georgia. In order to increase the understanding of climate-related risks on its loan portfolio, the Bank performed a high-level sectoral risk assessment, as different sectors might be vulnerable to different climate-related risks over different time horizons. The risk assessment process and content is based on TCFD recommendations, climate-related documents published by the Bank of England, the climate change assessments of Georgia performed as part of the IPCC reports, and the targets and strategy 2030 defined by the Georgian Government to achieve the National Determined Contribution of Georgia[6] . The risk assessment focuses on economic sectors such as: energy, oil and gas, metals and mining, tourism, agriculture, food industry, healthcare, construction and real estate. The assessment of levels and impacts might change in the future, based on further reviews of the methodology, deep-dive analysis and increased understanding of the impact of climate change risks.

The sectoral assessment was performed with the involvement of the business and credit risk specialists responsible for the respective economic sectors in the Bank.

1 This scenario "Below 2 °C" gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2 °C. This scenario assumes that climate policies are introduced immediately and become gradually more stringent though not as high as in Net Zero 2050. CDR (Carbon Dioxide Removal) deployment is relatively low. Net-zero CO_2 emissions are achieved after 2070. Physical and transition risks are both relatively low.
2 Net Zero 2050 is an ambitious scenario that limits global warming to 1.5 °C through stringent climate policies and innovation, reaching net zero CO_2 emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all greenhouse gases by this point. This scenario assumes that ambitious climate policies are introduced immediately. CDR is used to accelerate the decarbonisation but kept to the minimum possible and broadly in line with sustainable levels of bioenergy production. Net CO_2 emissions reach zero around 2050, giving at least a 50 % chance of limiting global warming to below 1.5 °C by the end of the century, with no or low overshoot (< 0.1 °C) of 1.5 °C in earlier years. Physical risks are relatively low, but transition risks are high.
3 Delayed Transition assumes global annual emissions do not decrease until 2030. Strong policies are then needed to limit warming to below 2 °C. Negative emissions are limited. This scenario assumes new climate policies are not introduced until 2030 and the level of action differs across countries and regions based on currently implemented policies. The availability of CDR technologies is assumed to be low pushing carbon prices higher than in Net Zero 2050. As a result, emissions exceed the carbon budget temporarily and decline more rapidly than in Well-below 2 °C after 2030 to ensure a 67 % chance of limiting global warming to below 2 °C. This leads to both higher transition and physical risks than the Net Zero 2050 and Below 2 °C scenarios.
4 According to Sustainable Finance Taxonomy for Georgia.
5 The REMIND-MAgPIE framework couples the energy-economy model REMIND and the agricultural production model MAgPIE. The Integrated Assessment Model REMIND (REgional Model of Investment and Development) represents the future evolution of the world economies with a special focus on the development of the energy sector and the implications for our world climate. The Model of Agricultural Production and its Impact on the Environment (MAgPIE) is a global land use allocation model. It takes regional economic conditions such as demand for agricultural commodities, technological development and production costs as well as spatially explicit data on potential crop yields, land and water constraints into account.
6 A nationally-determined contribution (NDC) is a national plan highlighting climate change mitigation, including climate-related targets for greenhouse gas emission reductions, policies and measures governments aim to implement in response to climate change and as a contribution to achieve the global targets set out in the Paris Agreement.

The sectoral distribution of the loan portfolio as of 31 December 2022 is given in the table below.

Gross loans by sectors for standalone Bank	Total exposure (GEL mln)	% of Gross Portoflio
Individuals	6,839.5	38.3%
Real Estate	1,564.3	8.8%
Hospitality & Leisure	1,147.1	6.4%
Construction	1,073.8	6.0%
Food Industry	1,060.0	5.9%
Trade	1,050.0	5.9%
Energy & Utilities	947.4	5.3%
Agriculture	822.8	4.6%
Healthcare	451.3	2.5%
Services	383.6	2.1%
Automotive	297.6	1.7%
Transportation	240.5	1.3%
Pawn Shops	196.5	1.1%
Oil and Gas	191.9	1.1%
Metals and Mining	179.4	1.0%
Manufacturing	151.8	0.8%
Financial Services	150.8	0.8%
Media & Publishing	84.6	0.5%
Communication	30.8	0.2%
NGOs and Public sector	1.1	0.0%
Government sector	0.2	0.0%
Other	994.2	5.7%
Total Loans to Customers (Gross)	**17,859.2**	**100.0%**

The maturity of assets is essential when defining the different time horizons for the analysis and when assessing the materiality of climate-related risks for different sectors. The maturity structure of the loan portfolio shows that the majority of assets is distributed in much shorter time horizons than the timeframe in which the impacts of climate change, especially of physical risks, may arise in Georgia.

Processes for managing climate-related risks

Since 2012, TBC Bank has had in place a process to consider environmental and social risk, which was established in line with industry guidelines, that aims to mitigate climate change. TBC Bank has developed E&S risk management procedures to identify, assess, manage and monitor environmental and social risks which are fully compliant with Georgian environmental legislation, follow international best practices and incorporate appropriate consideration of IFC Performance Standards, EBRD Performance Requirements (PRs) and ADB's Safeguard Requirements (SRs). These procedures are fully integrated into the credit risk management process and are routinely applied to SMEs and corporate customers. In collaboration with partner IFIs, a clear Environmental and Social (E&S) risk categorisation matrix was developed. Projects that are to be financed are classified according to E&S categories (low, medium, high and A category) based on analysis; where necessary, deep-dive analysis and due diligence are performed. When categorising the transaction according to E&S risk category, priority is given to the higher risk. Additionally, external specialised companies are involved in the detailed assessment of E&S risks for A category projects, such as hydroelectric plants. The Environmental Management Policy and Procedure provides TBC with a good description of assessing environmental risks related to clients. More information about the Environmental Management System can be found in the Environmental Management System section on pages 114-121.

It is worth noting that processes related to climate risks will continue to evolve as TBC develops its approaches further. Work is continuing to embed climate-related risks and opportunities within our business further. TBC is supported by the Technical Assistance Trust Fund (EPTATF)[1] through its Climate Action Support Facility (CASF) for Promoting Climate Action for SMEs in Georgia. The EPTATF comprises one year of consultancy support for the implementation of TBC's climate action strategy, provided by the Frankfurt School of Finance and Management, covering:

- The climate action strategy, monitoring and reporting;
- Stress testing and sensitivity analysis; and
- Climate-related training.

This process is supported by the climate-related training to strengthen the Bank's capacity, knowledge and capabilities for managing climate-related risks across the business. During 2022, eight different training sessions and workshops were conducted, covering topics such as climate-related risk management, financial planning and climate stress testing.

ESG profiles for corporate customers

In 2022, the Bank developed the ESG Profile Methodology for corporate customers. The aim is to incorporate the ESG Profile scorecard in the overall risk management process. ESG factors such as climate adaptation, transition to low-carbon activities, implementation of green technologies, diversity and inclusion, good corporate governance are considered during the assessment and respective scores are assigned based on expert judgment.

The ESG profile consists of three main components:

1. Environmental – covering a) environmental and social risks and b) vulnerability towards transitional and physical risks;
2. Social – covering diversity, employee benefits and equal/fair pay;
3. Governance – covering ESG governance, the Company's disclosures and diversity at Board and executive management levels.

In the first stage, the Bank will test the approach of the ESG Scorecards on its Top corporate customers. Following this, the plan and timeline will be defined in order to deploy ESG profiles for all corporate customers. The ESG Profile Methodology is at the initial stage and will evolve in the future as far as knowledge, expertise within TBC and local regulatory framework for climate-related topics advances.

Policy on Climate Change

In 2022, the Bank developed the Policy on Climate Change, which was approved by the Supervisory Board. This Policy is largely an internal guidance document, supporting the implementation of the Bank's ESG Strategy. The Policy applies to TBC Bank's staff and provides broad strategic orientation for implementation, including institutionalising climate-related matters in the organisational culture, and advancing climate actions in all areas of operations. The Policy on Climate Change has to be implemented with strong commitment, high-level leadership and an institutional mandate, supported by the enhanced capacity to implement the climate action strategy, allocate sufficient resources and achieve greater accountability.

1 The Services are financed through financial support from the EPTATF Trust Fund. Information given to the press or to any third parties, all related publicity material, official notices, reports and publications, shall acknowledge that the Services are delivered "with funding by the Eastern Partnership Technical Assistance Trust Fund (EPTATF)." The Fund was established in 2010 with a view to enhancing the quality and development impact of the Bank's Eastern Partnership operations through the financing of pre-feasibility and feasibility studies, institutional and legal appraisals, Environmental and Social Impact Assessments for potential investments, of project management support and capacity building for the beneficiaries during the implementation of investment projects, as well as of other upstream studies and horizontal activities. It focuses on four priority sectors: energy, environment, transport and telecommunications with climate change and urban development as cross-cutting issues.

Other risk categories

Climate risk might impact other, more traditional risk categories for banking such as: market risk, operational risk, liquidity risk and reputational risk. A summary of the assessment is given in the table below. Certain risk factors, which were identified for operational and reputational risks, are already covered under the existing risk management framework.

Banking risk types	Impact from Physical Risk	Impact from Transition Risk
Market risk	No material impact expected	No material impact expected
Liquidity risk	No material impact expected	No material impact expected
Operational risk	Extreme events that would cause damage to the Group's own sites could affect the ability to provide services to its clients (e.g., lack of electricity supply, inability for employees to work in premises)	No material impact expected
Reputational risk	No material impact expected	Financing to high-emitting borrowers could affect brand image, as perceived by stakeholders

4. METRICS AND TARGETS

The metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

The metrics related to the Bank's own operations are given in more detail in the section Environmental Management System, on pages 114-121. Please see below the summary of Scope 1, Scope 2 and Scope 3 GHG emissions, 2022 targets versus actual results, as well as targets for 2023.

Total GHG emissions (CO_2) (tonnes) and KPIs	Actual 2020	Actual 2021	Actual 2022	2022 target increase	2023 target increase
Scope 1* Fuel Combustion (heating, vehicles, generators)	2,970	3,102	**3,175**	Below 4%	Below 6%
Scope 2 (Electricity consumption)	1,524	1,499	**1,489**	Below 2%	Below 7%
Scope 3 (International flights)	106	18	**506**	-	-
Total emissions (tCO_2)	**4,600**	**4,619**	**5,170**	**Below 3%**	**Below 6%**
Total emissions per full time employee (tCO_2/pp)	**0.65**	**0.60**	**0.62**	**Below 3%**	**Below 6%**
Water consumption per employee (m^3/pp)	10.72	9.54	**8.90**	Below 1.5%	Below 2%
Printing paper per person in reams	13.46	13.50	**12.67**	Below 0.4%	Below 4%

*** Scope 1:**

a. 1,575 CO_2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC) in 2022 compared to 1,505 tCO_2e in 2021 and 1,609 tCO_2e in 2020.
b. 1,485 CO_2e emissions in tonnes (from owned vehicles of TBC Bank) in 2022 compared to 1,500 tCO_2e in 2021 and 1,285 tCO_2e in 2020.
c. 115 CO_2e emissions in tonnes (from owned generators of TBC Bank) in 2022 compared to 97 tCO_2e in 2021 and 76 tCO_2e in 2020.

The climate action initiatives are part of the overall ESG strategy, which is reviewed and approved by the Supervisory Board annually. The ESG strategy sets aspirational targets, such as achieving Net-Zero GHG emissions[1] related to direct environmental impact by 2025 and an increase in the sustainable loan portfolio, which consists of renewable energy loans, energy efficiency loans, and financing with social components, etc. As of 31 December 2022, the total sustainable portfolio[2] stood at GEL 782 million, which exceeds the 2022 target volume GEL 750 million by GEL 32 million. Further details about the sustainable portfolio breakdown can be found on page 119. The target for 2023 is set at GEL 1 billion.

From 2022 onwards, ESG-related KPIs are included in the long-term incentive plans for executive remuneration. The executive management KPIs are linked to the target volumes of the sustainable loan portfolio and other sustainable assets.

The Bank's ESG strategy is evolving. The Bank continues to develop additional targets and metrics to measure all identified risks and opportunities. In 2023, the focus will be on commencing the establishment of science-based targets and the measurement of direct impacts in line with Paris Agreement targets.

1 Please refer to the definitions of Scope 1, Scope 2 and Scope 3 on page 116.
2 Our sustainable loan portfolio includes energy efficiency, youth support and women in business loans financed by special purpose funds received from IFIs, as well as loans financing renewable energy, which include all hydro power plants financed by the Bank.

Our environmental management system

As the largest financial institution in the country, we believe that we can make a positive contribution towards tackling climate change and accelerating the transition to a low-carbon economy.

TBC Bank has a comprehensive Environmental Policy in place, which governs our Environmental Management System ("EMS") within the Group. Our Environmental policy is designed to ensure that that we:

- comply with applicable environmental, health and safety and labour regulations;
- use sound environmental, health and safety and labour practices;
- take reasonable steps to make sure that our customers also fulfil their environmental and social responsibilities.

Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com).

Our Environmental and Social Risk Management (ESRM) team is comprised of three full-time employees and is part of the SME and Corporate Business Credit Risk Department, which reports directly to the Chief Risk Officer. Our ESRM team is responsible for overseeing the operation of our EMS across the Group. It also provides assistance to our subsidiaries on environmental and social issues and conducts training sessions on a regular basis. The ESRM team reports environmental management plans and results to the Environmental Committee on a quarterly basis.

Our EMS is based on four pillars:

- Internal environmental activities;
- Environmental and social risk management in lending;
- Sustainable finance; and
- External communications.

Since 2020, the Bank has held ISO 14001:2015 certification, which serves as confirmation that our EMS is in full compliance with international standards.

Continual development of our environmental staff is crucial for the proper implementation of our EMS. In this regard, the ESRM team members attended several training sessions during the year including EBRD's e-learning training course on Environmental and Social Risk Management for Financial Intermediaries, Green for Growth Fund's (GGF) Green finance expert online course, as well as Webinar – TCFD for the Financial Sector -focus for Banks provided by United Nations Sustainable Stock Exchanges initiative.

PILLAR 1: INTERNAL ENVIRONMENTAL ACTIVITIES

Calculation of greenhouse gas ("GHG") emissions

Since banking is not a high-polluting activity, the implementation of an internal EMS to address the Group's consumption of resources is not expected to have a significant impact on the surrounding environment. However, TBC Bank has reviewed all operational activities, procured items and outsourced services that it can control (present and planned), and has identified all the material environmental aspects relevant to the business. These are sub-categorised into indirect and direct environmental aspects, analysed based on a comprehensive scorecard and managed accordingly.

TBC Bank has established a comprehensive internal environmental system to manage and report the Group's GHG emissions and is committed to reducing its GHG emissions by closely monitoring its consumption of energy, water and paper. The guidelines for documenting environmental data have been developed and responsible staff in subsidiary companies have been assigned to collect and provide the required data. TBC Bank also commissioned G&L Management LTD, an independent Health, Safety, and Environment (HSE) consulting company, to verify the measurements of its GHG emissions.

Total GHG emissions (CO_2) (tonnes) and KPIs	Actual 2020	Actual 2021	Actual 2022	2022 target increase	2023 target increase
Scope 1* Fuel Combustion (heating, vehicles, generators)	2,970	3,102	**3,175**	Below 4%	Below 6%
Scope 2 (Electricity consumption)	1,524	1,499	**1,489**	Below 2%	Below 7%
Scope 3 (International flights)	106	18	**506**	-	-
Total emissions (tCO_2)	**4,600**	**4,619**	**5,170**	**Below 3%**	**Below 6%**
Total emissions per full time employee (tCO_2/pp)	**0.65**	**0.60**	**0.62**	**Below 3%**	**Below 6%**
Water consumption per employee (m^3/pp)	10.72	9.54	**8.90**	Below 1.5%	Below 2%
Printing paper per person in reams	13.46	13.50	**12.67**	Below 0.4%	Below 4%

*** Scope 1:**

a. 1,575 CO_2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC) in 2022 compared to 1,505 tCO_2e in 2021 and 1,609 tCO_2e in 2020.
b. 1,485 CO_2e emissions in tonnes (from owned vehicles of TBC Bank) in 2022 compared to 1,500 tCO_2e in 2021 and 1,285 tCO_2e in 2020.
c. 115 CO_2e emissions in tonnes (from owned generators of TBC Bank) in 2022 compared to 97 tCO_2e in 2021 and 76 tCO_2e in 2020.

Scope 1 - In 2022, this indicator increased by around 2% compared to 2021 and remained within the target level. The increase was mainly related to the higher fuel consumption by TBC-owned cars, as the stationary delivery service for the branches was brought inhouse.

Scope 2 – In 2022, total electricity consumption slightly decreased compared to 2021.

Scope 3 – In 2022, business flights went back to normal after a considerable slowdown in the previous year due to the COVID-19 pandemic.

Overall, total emissions increased by 12% in 2022 compared to 2021 levels, while total emissions per full time employee increased by 3% over the same period.

In 2022, water consumption per employee decreased by 10% year-on-year, while usage of printing paper went down by 6%.

Calculation methodology

To calculate the GHG inventory, we took the following steps: we set the organisational boundaries, established the operational scope and developed a structured approach for data collection and the calculation of carbon dioxide (CO_2) equivalent. This report describes all emission sources required under the Companies Act 2006 (Management Report) Regulations 2013 (Scope 1 and 2) and, additionally, the emissions under Scope 3 that are applicable to the business. In preparing emissions data, the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2017 and National IPCC emission factors for electricity (tCO_2*/MWhe) were used. The required data were collected and a report was generated for TBC Bank's main activities, as follows:

Scope 1 (the combustion of fuel and operation of facilities) includes emissions from the combustion of natural gas, diesel and/or petrol in equipment at TBC Bank-owned and controlled sites. The combustion of petrol, diesel fuel, natural gas etc. in TBC Bank-owned transportation vehicles.

Scope 2 (purchased electricity for own use (lighting, office appliances, cooling, etc.) includes emissions from the use of electricity at TBC Bank-owned and controlled sites. To calculate the emissions, the conversion factor for National IPCC emission factors for electricity (tCO_2*/MWhe) was used.

Scope 3 includes emissions from all air business travel (short/medium/long and international haul); it should be noted that information on the travel class was considered and an "economy class" conversion factor has been used for the emissions calculation from the following link: www.atmosfair.de.

Intensity Ratio - we calculate intensity ratios in line with the Streamlined Energy and Carbon Reporting (SECR) guidelines, www.secrhub.co.uk.

Supply chain monitoring

As one of the largest purchasers in the country, we acknowledge and understand the social, economic and environmental impact of our procurement decisions and operations. In 2019, we developed an Environmental and Social Risk Management Questionnaire in order to screen suppliers. We also regularly assess our long-term contractor companies' environmental and social risks. In case we identify any non-compliance with our E&S standards, our ESRM team develops implementation Environmental and Social Action Plans (ESAPs) for each company and monitors their implementation.

Raising environmental awareness among our employees

We believe that raising environmental awareness among our employees is vital for the effective implementation of the EMS and to encourage new eco-friendly ideas and initiatives within the organisation.

For this purpose, we actively run various Environmental and Social training programmes, which include:

- E&S Training for new employees;
- Green Lending training for credit staff;
- An annual mandatory online EMS e-learning course for all staff, followed by a self-evaluation test;

In 2022, 97% of all staff, including senior management, successfully passed an online course and a self-evaluation test about TBC's EMS.

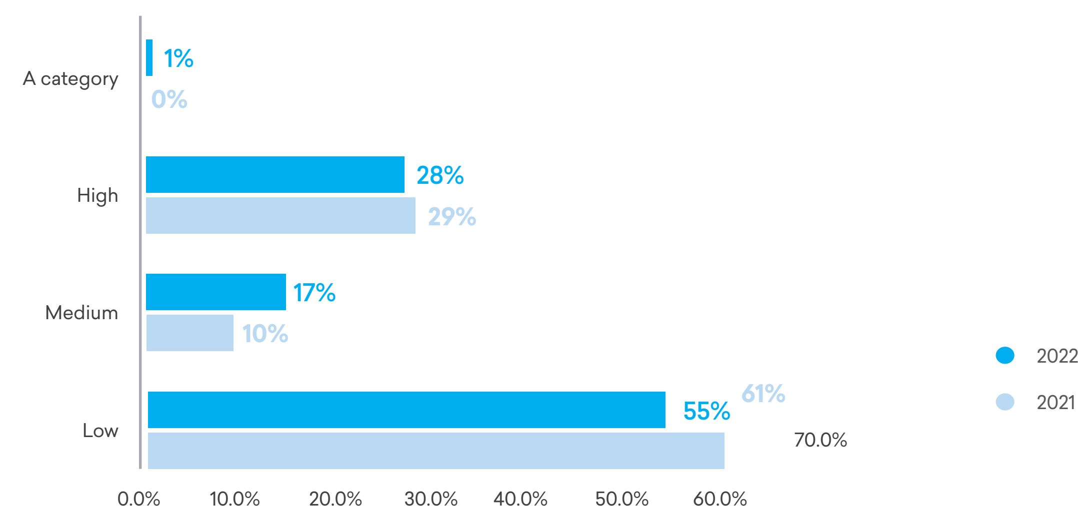
To ensure effective communication, training materials were created that briefly describe TBC's Environmental Management System.

PILLAR 2: ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT IN LENDING

We are committed to ensuring that our customers fulfil their environmental and social responsibilities. For this purpose, we have Environmental and Social Risk Management (ESRM) Procedures in place. These are fully integrated into the credit risk management process and ensure that environmental and social risk assessments, which are appropriate, risk-based and sector specific, are applied to our commercial lending activities. Our procedures incorporate appropriate consideration of IFC's Performance Standards and EBRD's Performance Requirements. This approach enables us to manage effectively credit and reputational risks that could arise from our clients' non-compliance regarding environmental and social matters.

We closely screen and assess our business portfolio distribution in terms of environmental and social risk categories and strive to reduce the share of impactful industries. In some cases, E&S risk categories differ. When categorising transactions according to E&S risk category, priority is given to those that are higher risk.

BUSINESS LOAN PORTFOLIO BREAKDOWN BY E&S CATEGORIES (BY LOAN VOLUME)



Low Risk – transactions with minimal or no adverse social or environmental impacts, which are not generally subject to further assessment (beyond their identification as such), except for the requirement for customer's assent/certification/disclosure compliance/non-compliance with local and national environmental, health and safety and labour laws and regulations.

Medium Risk – transactions with limited potential for adverse social or environmental impacts that are few in number, generally site-specific, largely reversible, clearly evident at the time of the assessment and readily addressable through mitigation measures, which typically require a limited or focused environmental and/ or social assessment, or straightforward application of environmental sitting, pollution standards, design criteria, or construction standards.

High Risk – transactions with potentially highly significant, negative and/or long-term environmental and/or social impacts, the magnitude of which may be difficult to determine at the loan application stage. These typically require analysis of environmental and social risks and impacts in the context of the total area of influence of the customer's operations. As part of the risk assessment, the client will identify individuals and groups that may be differentially or disproportionately affected by its operations.

Category A – transactions with potentially significant adverse social or environmental impacts that may be diverse, irreversible or unprecedented, the assessment of which usually requires inputs from independent external experts and may require the involvement of IFI E&S specialists in the due diligence assessment process.

In addition, we strive to make a positive contribution to the development of private companies and assist them in the proper management of environmental and social risks related to their business activities. In cases where we identify any non-compliance with local legislative requirements and/or TBC's standards, we develop Environmental and Social Action Plans (ESAP) for our clients to assist them in enhancing their environmental performance and we closely monitor the implementation of these.

PILLAR 3: SUSTAINABLE FINANCE

We acknowledge the importance of sustainable lending and are actively involved in developing a standardised approach to sustainable finance, including energy efficiency, renewable energy and resource efficiency financing for our retail and business clients.

TBC is a leading partner in Georgia in local renewable energy financing, including hydropower stations.

We actively cooperate with international partners to attract financing for sustainable lending:

- The Bank acknowledges the importance of addressing gender equality and the empowerment of women and has in place several facilities that promote women's entrepreneurship by supporting increased access to finance, providing non-financial services as well as knowledge-sharing opportunities. In addition, there are dedicated funds supporting young borrowers and entrepreneurs, providing loans for education, mortgage loans, as well as loans to start businesses.
- TBC Bank has in place several guarantee facilities with a special focus on start-ups, women and regional entrepreneurs. These risk-sharing instruments serve as a partial substitute for collateral and enable the Bank to increase access to financing for underserved target groups, granting them better growth and development opportunities.
- Moreover, TBC is actively mobilising green funds from partner international financial institutions to promote sustainable economic growth, primarily by financing energy efficiency, resource efficiency and renewable energy projects. Those facilities will help local businesses and households to become more competitive by investing in high-performance technologies and adopting energy-efficient practices. In addition, financing is coupled with technical assistance programmes, providing know-how and technical expertise to borrowers and ensuring that their green investments are successfully implemented. Several green facilities have grant incentives in place as well.

During the year, TBC attracted various facilities totaling up to GEL 280 million for these purposes from several long-standing international partners, such as EBRD, DEG, FMO, DFC.

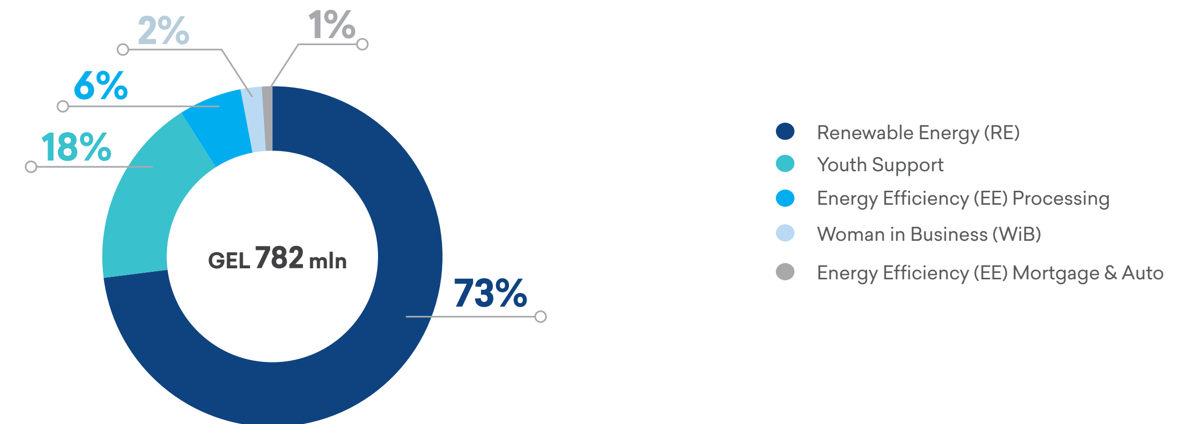
In addition, in 2022, after receiving accreditation by the Green Climate Fund (GCF) in 2021, TBC signed the Accreditation Master Agreement (AMA), which is the central instrument setting out the basic terms and conditions to work together with the GCF. This authorises TBC Bank to access and mobilise financial resources from the GCF and formalises TBC's accountability in carrying out GCF-approved projects appropriately.

Furthermore, our partners – FMO, Dutch Entrepreneurial Development Bank, Symbiotics, Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG) and Global Climate Partnership Fund (GCPF) - all conducted E&S due diligence, which included the review of our ESRM approaches, practices and plans related to the development of green financing. In addition, on-site visits were conducted with our corporate clients. The results of the due diligence were positive.

In order to support the implementation of Green Lending procedures within the Company and for better understanding of the importance of Green Lending, the ESRM team conducted "Green Lending training" sessions for 91 employees including SME credit officers, credit analysts, credit risk managers and business SME lending/sales coordinators.

During 2022, our sustainable portfolio achieved 8 874.4 tCO_2/a in CO_2 savings according to the data provided by our green facility fund providers. Over the same period, our renewable energy portfolio impact (avoided GHG emissions) amounted to 10 002 tCO_2/a according to the estimates of the external consultant under the Green for Growth Fund (GGF) Technical Assistance Facility represented by Finance in Motion GmbH financed by the European Union under the EU4Energy Initiative.

OUR SUSTAINABLE PORTFOLIO BREAKDOWN



Note: Our sustainable loan portfolio includes energy efficiency, youth support and women in business loans financed by special purpose funds received from IFIs, as well as loans financing renewable energy, which includes all hydro power plants financed by the bank.

PILLAR 4: EXTERNAL COMMUNICATION

TBC pays significant attention to the external communication of E&S matters with existing and potential customers and other stakeholders. The feedback and recommendations received from our stakeholders and other interested parties enable us to continuously improve our E&S performance.

Our grievance mechanism enables any interested party to register complaints with regards to E&S issues via our website www.tbcbank.ge. All complaints are thoroughly analysed and addressed in a timely manner.

TBC Bank has successfully passed the third year surveillance audit of the Environmental Management System, ISO 14001:2015. This means that TBC's Environmental System is managed in accordance with international standards and requirements.

TBC Bank annually discloses its Environmental and Social Performance Annual Report to all its partner International Financial Institutions. The report includes detailed information about Environmental and Social Risk Management in Lending, the distribution of the Bank's business portfolio in terms of environmental and social risk, a breakdown of its sustainable portfolio and respective procedure updates etc.

In 2022, TBC Bank released its third full-scale Sustainability Report, which was prepared in accordance with Global Reporting Initiative (GRI) standards. The Sustainability Report helps the Company to understand its role and influence on sustainable development issues such as climate change, human rights and social welfare. The report is available at www.tbcbankgroup.com.

Agromax

Agromax is a fast-growing Georgian agricultural company that has been a TBC Bank client for the past seven years. The company has diverse activities across various branches of agriculture and cultivates underrepresented farming cultures in the region, setting an example for the local farmers.

Since 2017, Agromax has been actively implementing energy-efficient and eco-friendly practices across its business. Over the years, TBC has supported its initiatives through green finance, with the support of several international institutions. Within the framework of the GGF (Green for Growth Fund) green consultancy programme, Agromax installed solar panels, allowing it to become more self-sustainable. Furthermore, with the support of the EBRD, in order to improve harvests, it implemented a drip irrigation system, which is the most efficient watering system that mitigates crop failure related to droughts.

Governance

Corporate Governance

Joint Stock Company TBC Bank (the "Bank") is the main subsidiary of TBC Bank Group PLC, a company incorporated in England and Wales and listed on the premium segment of the London Stock Exchange. The Bank's Corporate Governance is in compliance with the requirements of the National Bank of Georgia's Code on Corporate Governance for Commercial Banks, dated 26 September 2018, as amended from time to time (the "Code"). At the same time, the Bank also complies with the highest standards of corporate governance as prescribed by the UK Corporate Governance Code.

In addition, the Bank has in place an effective internal control system in order to ensure accurate and reliable financial reporting. The Bank has a well-defined framework of accountability and delegation of authority, as well as policies and procedures that include financial planning and reporting; preparation of monthly management accounts; project governance; information security; and review of the disclosures within the annual report and accounts from the respective leads, to appropriately disclose all relevant developments in the year and to meet the requirements of a true and fair presentation.

The Bank's Supervisory Board ("Supervisory Board") ensures that the Bank's governance structure enables adequate oversight and accountability, as well as a clear segregation of duties. The involvement of all governance levels in risk management, the clear segregation of authority, and effective communications between different entities facilitate clarity regarding the strategic and risk objectives, adherence to the established risk appetite, risk budget and sound risk management. The centralised Enterprise Risk Management (ERM) function ensures effective development, communication and implementation of risk strategy and risk appetite across the Bank and its subsidiaries ("Group").

The main shareholder of the Bank is TBC Bank Group PLC, which holds 99.9% of the Bank's share capital. The rights of the shareholders are governed by the Law of Georgia on Entrepreneurs and the Law on the Activities of Commercial Banks and also set out in the Charter of the Bank publicly available at www.tbcbank.ge.

The Board of Directors of TBC Bank Group PLC (the "PLC Board") is the principal decision-making body of the Bank and is responsible for promoting the Group's purpose, culture, values and long-term success strategy and the delivery of sustainable value to stakeholders by. The PLC Board is responsible for establishing and overseeing the strategic direction of the Bank.

In addition, the affairs of the Bank are supervised by a Supervisory Board. There is also equivalent committee structure of the Supervisory Board as the PLC Board's committees. There are, therefore, in practice two equivalent supervisory bodies within the Group represented by the PLC Board and the Supervisory Board, which are separate but interconnected together with committees. The work of the PLC Board, the Supervisory Board and their respective committees is carefully balanced, dividing functions according to whether they are supervising the matters that affect the Group or those concerning solely the Bank. As a result, the Group's governance structure ensures adequate oversight and accountability, as well as clear segregation of duties. Composition of PLC Board and the Supervisory Board including respective committees mirror at both levels in terms of non-executive membership.

At the date of this report, in line with the "independence" criteria set by the Code, the Supervisory Board comprises eight independent, non-executive members: Arne Berggren (Chairman), Tsira Kemularia (Senior Independent member), Per Anders Fasth, Thymios P. Kyriakopoulos, Eran Klein, Nino Suknidze,Rajeev Sawhney and Janet Heckman[1].

The Supervisory Board has established six Committees:

- The Risk Committee focuses on the possible risks and capital issues of the Bank.
- The Audit Committee deals with the external auditors, internal controls and financial reporting, as well as, communication with the market and with the regulators.
- The Remuneration Committee leads the remuneration-related issues, such as the right level of compensation to attract and retain people and balancing this with the level of compensation that is acceptable for our stakeholders.
- The Corporate Governance and Nomination Committee is response for talent management and nomination and succession planning for the Supervisory Board and the executive team.
- The Technology and Data Committee started operating in 2022 and supports the Supervisory Board in its oversight of key enablers of the strategy, data and cyber issues, and the Bank's IT resources.
- The ESG and Ethics Committee started operating in 2022 and ensures that the Bank stays focused on the ESG issues that are key for all our stakeholders.

The Bank recognises the importance of ensuring diversity and sees significant benefit to our business in having the Supervisory Board and management team that is drawn from a diverse range of backgrounds, since this brings the required expertise, cultural diversity and different perspectives to the board discussions and helps to improve the quality of decision making.

As at the date of this Annual Report, three (33%) of the eight members of the Supervisory Board are female, and there are a number of talented women in key positions, who report directly to the CEO of the Bank and other members of the management board within the Bank.

General meeting of shareholders (the "General Meeting") is the supreme governing body of the Bank. The shareholders of the Bank, among other things, are entitled to attend the General Meetings and participate in voting, receive the dividends and demand explanations from the members of the Management Board of the Bank[2] and the Supervisory Board on the issues included in the agenda of the meeting. The General Meeting by a simple majority of votes presented or represented, decides on the different matters, including (but not limited to) election and dismissal of the members of the Supervisory Board, approval of the reports of the Management Board and Supervisory Board, approval of annual financial statement, setting the compensation of the members of the Supervisory Board, approval or rejection of the profit (dividend) distribution proposal, amending the charter of the Bank, and approval of reduction of share capital of the Bank. In addition, subject to requirements of the laws of Georgia, the General Meeting may make a decision with a majority of more than 75% of the votes presented or represented on taking action for liquidation, commencement of a general assignment to creditors or voluntary winding up under applicable bankruptcy, insolvency or similar laws and on approving a merger (except for the merger of the subsidiary with the Bank, in which Bank owns 75% of the voting rights, in which case – the decision is made by a simple majority of votes presented or represented), division or other reorganisation.

Responsibility statement

The Management Report and Financial Statements have been prepared in accordance with applicable laws and regulations.

We confirm that to the best of our knowledge that:

- The Group's and the Bank's Financial Statements, which have been prepared in accordance with the IFRS standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the undertakings included in the consolidation taken as a whole;
- The Management Report includes a fair review of the development and performance of the business and of the position of the Bank and the Group, together with a description of the principal risks and uncertainties they face; and
- The Management Report and Financial Statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for the shareholders to assess the Bank's and Group's position, performance, business and strategy.

This responsibility statement was approved by the Supervisory Board and Management Board:

Vakhtang Butskhrikidze
CEO

24 April 2023

Arne Berggren
Chairman

24 April 2023

1 Appointed as an independent non-executive member of the Supervisory Board and PLC Board; in Supervisory Board - approved by National Bank of Georgia on 21 April 2023.
2 General Director of the Bank (CEO) and Deputy General Directors (Deputy CEOs)

SUPERVISORY BOARD BIOGRAPHIES

ARNE BERGGREN

POSITION Chair

COMMITTEE Chair of CGN, Member of RemCo

APPOINTED Supervisory Board: 18 July 2019, Chair: 1 March 2021

BORN 1958

NATIONALITY Swedish

CAREER Arne has worked in the financial services industry for more than 30 years. He has held several senior leadership and advisory positions at prominent financial institutions, including the IMF, World Bank, Swedbank, Carnegie Investment Bank AB and the Swedish Ministry of Finance and Bank Support Authority. Arne played a leading role in the handling of the Swedish banking crisis in 1991-93 and assisted the FRA in Thailand and FSC/ KAMCO in South Korea during the Asian crisis. Arne has also served as an independent Non-Executive Director in asset management companies in Turkey and Slovenia, and, until recently, in Greece at Piraeus Bank.

SKILLS & EXPERIENCE
Experience in international financial institutions and advising governments;
Board membership and committee chairing experience in other UK-listed banks;
Experience in investment banking activities and in leading bank restructurings;
Deep understanding of strategic planning and implementation.

CONTRIBUTION TO THE COMPANY With more than 25 years of international banking experience, coupled with his background and broad experience, Arne provides a valuable perspective as Chair to the Board. Arne plays a pivotal role in supporting the Company's relationship with its major shareholders, and, through his extensive experience in navigating economic uncertainty, is invaluable in meeting the challenges facing the Company and the wider sector. As Chair of the Corporate Governance and Nominations Committee, Arne has secured high calibre appointments in the last year. This has been instrumental in ensuring the composition of the Board matches the culture, strategy and leadership needs of the Company.

EXTERNAL APPOINTMENTS
Board member of Bank of Cyprus
Chairman of Hoting Innovations AB

TSIRA KEMULARIA

POSITION Senior Independent Non-Executive Supervisory Board Member

COMMITTEE Member of AC, ESGE and RemCo

APPOINTED Supervisory Board: 10 September 2018, Senior Independent Non-Executive Board Member: 15 September 2021

BORN 1977

NATIONALITY British

CAREER Throughout her career, Tsira has held various roles covering market risk management and commodity trading at companies including Dynegy Inc. in the US and UK and at Shell International Trading and Shipping Ltd (STASCO) in London, Russia CIS, and Caribbean operations. Between 2005 and 2016, she served in a broad range of managerial roles covering M&A and Commercial Finance, Group Treasury and Trading and Supply in the UK, Moscow and Barbados. From 2016 to 2019, Tsira was the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London. From 2019 to mid-2022, Tsira held the position of Head of Internal Audit and Investigations for Shell's global Trading and Supply organisation, the world's biggest commodity trading and supply business. In July 2022, Tsira was appointed as a Vice President of Corporate and UK Country Controller responsible for the Shell Group's financial management of the corporate segment which includes Group's Holdings and Treasury, Insurance and Pensions and responsible for statutory reporting of all Shell's UK incorporated companies and Shell UK's financial performance framework. Tsira is a member of the Shell UK Management Board, and a member of Shell UK Country Coordination Team, Chief of Staff for UK Crises Management.

SKILLS & EXPERIENCE
More than 23 years of in-depth experience across the energy sector including regulated commodity trading and financial services;
Chartered Director and Fellow with the Institute of Directors in London, UK;
Former member of the British-Georgian Society and former Chair of the Georgian Community in the UK;
Relevant experience and expertise in information security risk management.

CONTRIBUTION TO THE COMPANY Tsira's specialist knowledge in the areas of financial services, risk management and internal audit enables her to contribute to, and constructively challenge on, a wide range of Board matters. As a Chartered Director, Tsira's leadership qualities ensure she can act as a sound advisor to the Chair and represent the interests of the other Directors. Tsira brings significant regulatory, strategic and international financial services expertise and knowledge of financial markets to the Board.

EXTERNAL APPOINTMENTS
Trustee Director of the British Gas Trustee Solutions Ltd, a closed pension fund (post British Gas acquisition by Shell)
Trustee Director of Shell Trustee Solutions Ltd

PER ANDERS FASTH

POSITION Independent Non-Executive Supervisory Board Member

COMMITTEE Chair of AC, Chair (interim) RemCo, Member of RC

APPOINTED 1 July 2021

BORN 1960

NATIONALITY Swedish

CAREER Over the past 25 years, Per Anders has served as CEO at SBAB Bank, Hoist Finance and European Resolution Capital as well as CFO and other senior executive positions at the leading North-European bank SEB. He has also gained extensive strategic consulting experience having spent 10 years at top-tier consultancies McKinsey & Company and QVARTZ (now Bain & Company). Per Anders has been a non-executive director of more than 15 financial institutions in Europe. In addition, he has extensive professional experience from having worked in more than 20 European countries, including Ukraine, where he was an advisor to the World Bank and the Ministry of Finance.

SKILLS & EXPERIENCE
Extensive CEO and senior executive experience, having spent more than 20 years at leading banks and other financial institutions;
Over 30 years of accumulated experience as an independent non-executive director;
Strong listed corporate governance, leadership and strategic advisory skills;
Significant financial reporting, investor relations and internal controls experience;
Relevant experience from the financial information technologies (fintech) and credit management industries across Europe.

CONTRIBUTION TO THE COMPANY Per Anders is regarded as a financial expert in the context of audit and risk committee work. He has extensive experience of operating in regulatory environments and is widely regarded in both the corporate and financial world. Per Anders's broad accounting and global executive experience brings a wide perspective to his role as Chair of the Audit Committee and in Board discussions and decision-making.

EXTERNAL APPOINTMENTS
Chairman of Lyra Financial Wealth, a privately held wealth management company
Board member of Atle Investment Management/Services, a privately held investment management company

JANET HECKMAN

POSITION Independent Non-Executive Supervisory Board Member

COMMITTEE Member of RC and RemCo

APPOINTED 23 February 2023, approved by National Bank of Georgia on 21 April 2023

BORN 1954

NATIONALITY American

CAREER Janet was the Managing Director for the Southern and Eastern Mediterranean (SEMED) Region at the European Bank for Reconstruction and Development (EBRD) from February 2017 until December 2019. Based in Cairo, she was also the Country Head for Egypt. She currently serves on the boards of Astana International Exchange and Air Astana, Kazakhstan. During her long career at Citi, she spent time as EMEA Corporate and Investment Managing Director and held a number of field roles across EMEA, and was responsible for Global Relationship Banking across CEMEA.
Janet holds a Master's of Science in Foreign Service with distinction from Georgetown University, Washington, D.C. and a BA in History from Kenyon College, Ohio. She also studied at the American University of Beirut, Lebanon

SKILLS & EXPERIENCE
Extensive expertise in corporate banking and global relationship banking.
15 plus years experience in operations management.

CONTRIBUTION TO THE COMPANY Janet brings her extensive knowledge of financial services and corporate banking to the Board, with her pact experiences in the formulation and delivery of strategy for regional operations at the EBRD.

EXTERNAL APPOINTMENTS
Board member and audit committee chair of Astana International Exchange
Board member of Air Astana, Kazakhstan
Vice President of American Chamber of Commerce in Bulgaria and Kazakhstan and member of the board in Romania
Appointed to Fulbright association in Hungary, Romania, and Bulgaria and Chairman in Bulgaria
Member of the Board of the British Business association in Kazakhstan
Appointed to the Kenyon College Alumni Association

ERAN KLEIN

POSITION Independent Non-Executive Supervisory Board Member

COMMITTEE Chair of ESGE, Member of TD and RC

APPOINTED 1 July 2021

BORN 1965

NATIONALITY British

CAREER Eran is an experienced international banker and lawyer. Over a period spanning more than two decades, he held senior roles in leading financial institutions, such as Commerzbank, Citibank, ING Financial Markets and Deutsche Bank. Covering both developed and emerging markets, Eran has accumulated valuable knowledge in capital markets, SME finance, retail lending, corporate governance, liquidity and balance sheet management, as well as in risk management, audit and strategy implementation. Until recently, he served as a Non-Executive Director and risk committee chair at Privatbank, the largest bank in Ukraine.

SKILLS & EXPERIENCE Extensive experience in banking, credit, capital markets and legal;
Significant risk, corporate governance, strategy and structuring expertise;
Strong Emerging Markets banking and stakeholder management experience;
Relevant experience and expertise in information security risk management.

CONTRIBUTION TO THE COMPANY Eran brings to the Board extensive and varied risk, governance and strategy experience that he has gained at large financial institutions and consulting fields in both developed and developing markets, making him an ideal fit to spearhead the ESG and Ethics Committee agenda, on behalf of the Group.

EXTERNAL APPOINTMENTS No current additional board appointments.

THYMIOS P. KYRIAKOPOULOS

POSITION Independent Non-Executive Supervisory Board Member

COMMITTEE Chair of RC, Member of AC and TD

APPOINTED 1 July 2021

BORN 1975

NATIONALITY Greek

CAREER Thymios is a senior banking executive with considerable international experience. He specialises in operational transformation, balance sheet optimisation, risk management, financial engineering and portfolio management. He serves on the board of the Hellenic Corporation of Assets and Participations, the Greek sovereign wealth fund, and is Chair of its Investment and Risk Committee. Thymios was executive general manager and chief risk officer of Piraeus Bank S.A, a leading listed Greek Bank, Managing Director at Goldman Sachs Inc. in the fixed income currencies and commodities trading division, and has held board and executive roles in insurtech, fintech, financial services and advisory sectors.

SKILLS & EXPERIENCE Extensive experience in global capital markets, regional banking and supervised entities;
Expert risk manager, investor, investment banker, and balance sheet optimiser;
Operational transformation leadership and crisis management spanning systemic banks and fintech;
Strong governance, risk and asset management oversight skills for both listed and quasi-governmental entities.

CONTRIBUTION TO THE COMPANY Thymios brings extensive governance, financial and operational experience. His deep knowledge allows him to support and contribute to the strategic direction of the Company while controlling the path used in its implementation. Having led investment and risk functions in internationally listed banks and currently acting as chair of the risk committee of a national wealth fund, Thymios's broad multi-jurisdictional risk expertise enables him to bring innovative and positive insights to his role as Chair of the Risk Committee.

EXTERNAL APPOINTMENTS Board member and chair of the investment and risk committees of the Growthfund, the National Fund of Greece

RAJEEV SAWHNEY

POSITION Independent Non-Executive Supervisory Board Member

COMMITTEE Chair of TD, Member of ESGE and CGN

APPOINTED 29 November 2021

BORN 1957

NATIONALITY Indian

CAREER Rajeev has 40 years' experience as a senior corporate growth executive. He specialises in digital technologies and has served in financial services and various other industry sectors in Europe, North America and Asia. Currently, Rajeev holds the positions of Executive Chairman and Non-Executive Director of OXSIGHT Ltd, a medical technology innovation company, and an Oxford University spin off. He was formerly a senior advisor to the CEO at global IT services firm Zensar Ltd in the UK and a member of the advisory board at Garble Cloud Inc., a cybersecurity company in Silicon Valley, USA. Prior to that, Rajeev gained strong operational experience as President of HCL Technologies and at the financial services firm, Mphasis, a Hewlett Packard company. Rajeev has been on the World Economic Forum expert Task Force on Low-Carbon Economic Prosperity, and contributed at the Work Economic Forum Summer Davos on climate change deliberations.

SKILLS & EXPERIENCE Strong global corporate leadership experience of more than 40 years;
Significant advisory and executive experience with technology and cybersecurity companies in financial services and other industry sectors;
Extensive expertise in Human Resource management;
Relevant experience and expertise in information security risk management.

CONTRIBUTION TO THE COMPANY Rajeev brings the extensive international leadership and general management perspective that he has gained from the technology and fintech sectors to the Board. He provides valuable insights into the Company's increasingly important technological evolution. In line with this, he has been appointed Chair of the recently established Technology and Data Committee, where he provides key support and leadership in these areas.

EXTERNAL APPOINTMENTS Executive Chairman and board member of OXSIGHT Ltd

NINO SUKNIDZE

POSITION Independent Non-Executive Supervisory Board Member

COMMITTEE Member of AC and CGN

APPOINTED 29 November 2021

BORN 1979

NATIONALITY Georgian

CAREER Nino is a business lawyer with over 20 years' experience in the Georgian market. She has a deep understanding of, and expertise in, various areas of practice including banking, finance, corporate, regulation, competition and capital markets. Currently, Nino is the managing partner of the law firm Suknidze & Partners LLC. During 2017-20, she served as general counsel at JSC Bank of Georgia. Before joining the bank, she held various positions at the Georgian offices of international law firms Dentons and DLA Piper over a period of more than 11 years.

SKILLS & EXPERIENCE Strong financial services background;
Extensive experience as a leading legal counsel in major financial services sector transactions and listings;
Considerable governance, regulatory and risk management experience, including at an LSE-listed company;
Experience in advising companies across a range of sectors, including telecommunications, pharmaceuticals, energy and commerce.

CONTRIBUTION TO THE COMPANY Nino is an experienced domestic and international lawyer with particular expertise in regulated sectors, where she has counselled on a wide range of legal, regulatory and business issues. Nino's valuable experience brings a considered perspective to the Board, and enriches discussion and strategic thought.

EXTERNAL APPOINTMENTS Vice President at Georgian Chamber of Commerce and Industry
Board member at Care Caucasus, a charity organisation in Georgia

AC	Audit Committee
RC	Risk Committee
CGN	Corporate Governance and Nomination Committee
RemCo	Remuneration Committee
TD	Technology and Data Committee
ESGE	ESG and Ethics Committee

Financial Statements

Independent Auditor's Report

TO THE SHAREHOLDERS AND MANAGEMENT OF JSC TBC BANK

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of JSC TBC Bank (the "Bank") and its subsidiaries (together – the "Group") as at 31 December 2022, and the Group's and the Bank's consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Group's and the Bank's consolidated and separate financial statements comprise:
- the consolidated and separate statements of financial position as at 31 December 2022;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

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

Independence

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

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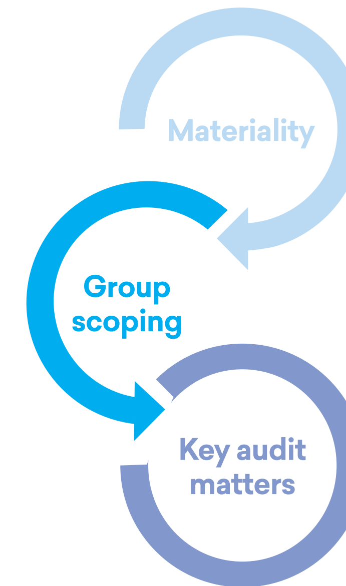
OUR AUDIT APPROACH

Overview



- Overall Group materiality: GEL 63.0 million, which represents 5% of Group's profit before tax.
- Overall Bank materiality: GEL 61.4 million, which represents 5% of the Bank's profit before tax.
- Our scoping was driven by legal entity contribution to profit before tax and other key line items in the financial statements.
- Audit matter which was of most significance in the audit of the consolidated and separate financial statements is:
  Expected credit loss allowance of loans and advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated and separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Bank materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated and separate financial statements as a whole.

Overall Group and Bank materiality	Group: GEL 63.0 million (2021: GEL 48.1 million) Bank: GEL 61.4 million (2021: GEL 48.7 million)
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	Profit before tax is a primary measure used by the shareholder in assessing the performance of the Group and the Bank and is a generally accepted benchmark for determining audit materiality. Annual profit before tax was considered as an appropriate benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance of loans and advances to customers We focused on this area as the management's estimates regarding the expected credit loss ('ECL') allowance for loans and advances to customers are complex, require a significant degree of judgement and are subject to high degree of estimation uncertainty. Under IFRS 9, Financial Instruments, management is required to determine the credit loss allowance expected to occur over either a 12-month period or the remaining life of an asset, depending on the stage allocation of the individual asset. This staging is determined by assessing whether or not there has been a significant increase in credit risk ('SICR') or default of the borrower since loan origination. Some of the criteria applied by management for such an assessment are highly judgemental and involve qualitative assessment of borrowers' creditworthiness. It is also necessary to consider the impact of future macroeconomic conditions in the determination of ECLs. The economic outlook is stable despite the inflationary pressures. Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management applies judgement to the models in situations where past experience is not considered to be reflective of future outcomes due to limited or incomplete data. We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant: – Highly judgemental criteria applied for identification of SICR, involving qualitative assessment of borrowers' creditworthiness (relevant to Corporate and SME portfolios); – Critical assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD'); – Assessment of model limitations and use of post model adjustments ('PMAs'), if required to address such risks; and – Assessment of the key assumptions related to forward-looking information ('FLI') including the appropriateness of scenario weightings and macroeconomic variables.	We understood and evaluated the design of the key controls over the determination of ECL allowance and tested their operating effectiveness. These controls included among others: – Controls over model performance monitoring, including periodic reviews of the policy and models, testing model estimates against actual outcomes and approval of model methodology changes; – Review and approval of the key judgements and assumptions used for determining LGDs, PDs and FLI; – Controls over key parameters (such as PD and LGD) calculation by the calculation engine; – Controls over regular monitoring of the financial standing of the borrowers; – Controls over ECL calculation and analysis of results; and – The Management Risk Committee's review and approval of key assumptions and assessment of ECL modelled outputs. We noted no exceptions in the design or operating effectiveness of the above controls. In addition, we performed the substantive procedures described below. We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, engaging our credit risk modelling specialists and our industry knowledge. This included an evaluation of the judgemental criteria set by management for determining whether there had been a SICR (applicable to Corporate and SME portfolios), and the critical judgements and assumptions applied in determination of LGDs, PDs and FLI. We concluded that management's judgements in deriving SICR, LGDs, PDs and FLI were reasonable We independently verified the calculation of ECL and assessed whether the ECL calculations were consistent with the approved model methodologies. We critically evaluated key aspects of model monitoring and validation ("backtesting" of projected ECL) performed by management relating to model performance and stability. We have critically assessed the monitoring results and challenged explanations for deviations from the expectation. Where relevant, model methodologies were updated to address the results of backtesting. We challenged management in respect of the appropriateness of the macroeconomic models as well as weightings applied to each macroeconomic scenario. We challenged management in respect of the completeness of PMAs. We have assessed the completeness of the PMAs applied including related judgements and assumptions used by management. We took into account the latest backtest results and the economic outlook to conclude whether circumstances exist that would indicate that existing models are not able to capture the emerging risks and additional PMAs are required, and to evaluate if management's judgements are reasonable.

How we tailored our Group and Bank audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and separate financial statements as a whole, taking into account the structure of the Group and the Bank, the accounting processes and controls, and the industry in which the Group and the Bank operates.

The Group's banking activities are primarily carried out in Georgia, with small subsidiary operations in two other countries. The Group's business activities comprise of four segments for which it manages and reports its operating results and financial position, namely Retail Banking, Corporate and Investment Banking, Micro Small and Medium Enterprises ('MSME') and Corporate Centre.

The Bank is the largest component of the Group. Its main operations are Retail and Commercial banking, with all significant operations based in Georgia. Accounting functions and management of the Bank are primarily based in Georgia, and represents 99% of the group assets and 97% of profit before tax.

Our audit approach and composition of our team were tailored to the structure of the Group. We did not use component auditors for audit of in-scope areas. We performed full scope audit of the only significant component of the Group - the Bank. We also performed audit of the material financial statement line items of one insignificant component of the Group. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 99% of revenue (comprising interest income and fee and commission income) and 99.5% of total assets of the Group. We also performed other audit procedures including testing information technology general controls and other relevant controls related to financial reporting, to mitigate the risk of material misstatement.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated and separate 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 in the Management Report, we are required to report that fact. We have nothing to report in this regard.

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

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

- the information given in the Management Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 and paragraph 7 (c), (g) of article 7 of the Law of Georgia on Accounting, Reporting and Auditing;
- the information given in the Management Report includes the information required by paragraph 7 (a), (b), (d) – (f) and paragraph 8 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Levan Kankava.

PricewaterhouseCoopers Georgia LLC

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

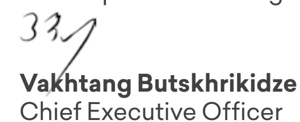
Levan Kankava (Reg.# SARAS-A-592839)

24 April 2023
Tbilisi, Georgia

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of GEL	Note	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	6	3,786,098	1,595,460
Due from other banks	7	6,298	42,237
Mandatory cash balances with National Bank of Georgia	8	2,047,564	2,086,113
Loans and advances to customers	9	17,497,442	16,547,185
Investment securities measured at fair value through other comprehensive income	10	2,884,728	1,938,196
Repurchase receivables	11	267,495	-
Finance lease receivables	13	288,886	252,340
Investment properties		22,154	22,892
Current income tax prepayment	33	27	84
Deferred income tax asset	33	2,064	2,056
Other financial assets	12	246,998	442,207
Other assets	14	411,727	373,892
Premises and equipment	15	424,252	378,657
Right of use assets	16	100,209	58,001
Intangible assets	15	311,150	267,406
Goodwill	17	28,197	28,197
Investments in associates		3,721	4,589
TOTAL ASSETS		**28,329,010**	**24,039,512**
LIABILITIES			
Due to credit institutions	18	3,885,360	2,984,075
Customer accounts	19	17,841,357	14,884,145
Other financial liabilities	22	250,518	120,620
Current income tax liability	33	601	86,302
Deferred income tax liability	33	112,877	10,979
Debt securities in issue	20	1,209,813	1,583,699
Provision for liabilities and charges	21	19,908	15,845
Other liabilities	23	80,386	83,623
Lease liabilities	34	72,240	56,522
Subordinated debt	24	590,148	623,647
TOTAL LIABILITIES		**24,063,208**	**20,449,457**
EQUITY			
Share capital	25	21,014	21,014
Share premium		521,190	521,190
Retained earnings		3,783,180	3,117,079
Share based payment reserve	26	(57,556)	(52,521)
Fair value reserve for investment securities measured at fair value through other comprehensive income		5,467	(10,862)
Cumulative currency translation reserve		(7,657)	(5,938)
Net assets attributable to owners		**4,265,638**	**3,589,962**
Non-controlling interest	37	164	93
TOTAL EQUITY		**4,265,802**	**3,590,055**
TOTAL LIABILITIES AND EQUITY		**28,329,010**	**24,039,512**

The consolidated and the separate financial statements on pages 138 to 261 were approved by the Supervisory Board on 24 April 2023 and signed on its behalf by:



Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Megrelishvili
Chief Financial Officer

The notes set out on pages 146 to 261 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of GEL	Note	2022	2021
Interest income	28	2,219,781	1,863,077
Interest income calculated using effective interest rate method	28	2,159,567	1,805,196
Other interest income	28	60,214	57,881
Interest expense	28	(1,011,397)	(895,428)
Net interest gains on currency swaps	28	34,711	28,143
Net interest income		**1,243,095**	**995,792**
Fee and commission income	29	477,613	378,160
Fee and commission expense	29	(211,963)	(153,273)
Net fee and commission income		**265,650**	**224,887**
Net gains from currency derivatives, foreign currency operations and translation	30	411,806	124,194
Net gains from disposal of investment securities measured at fair value through other comprehensive income		5,811	11,156
Other operating income		19,675	41,042
Share of profit of associates		352	837
Other operating non-interest income		**437,644**	**177,229**
Credit loss (allowance)/recovery for loans to customers	9	(105,247)	43,176
Credit loss recovery for finance lease receivables	13	781	236
Credit loss (allowance)/recovery for performance guarantees and credit related commitments	21	(2,721)	1,204
Credit loss allowance for other financial assets		(9,160)	(14,461)
Credit loss recovery for financial assets measured at fair value through other comprehensive income		862	2,594
Net impairment of non-financial assets		(22)	(11,715)
Operating income after expected credit and non-financial asset impairment losses		**1,830,882**	**1,418,942**
Staff costs	31	(306,526)	(255,747)
Depreciation and amortization	15,16	(85,108)	(70,622)
Provision for liabilities and charges	21	(2,000)	-
Administrative and other operating expenses	32	(167,348)	(128,624)
Operating expenses		**(560,982)**	**(454,993)**
Losses from modifications of financial instruments		-	(1,726)
Profit before tax		**1,269,900**	**962,223**
Income tax expense	33	(246,825)	(119,278)
Profit for the year		**1,023,075**	**842,945**
Other comprehensive income/(expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value reserve for investment securities measured at fair value through other comprehensive income	10	16,329	(22,020)
Exchange differences on translation to presentation currency		(1,719)	(677)
Other comprehensive income/(expense) for the year		**14,610**	**(22,697)**
Total comprehensive income for the year		**1,037,685**	**820,248**
Profit is attributable to:			
– Shareholders of the Group		1,023,050	842,929
– Non-controlling interest		25	16
Profit for the year		**1,023,075**	**842,945**
Total comprehensive income is attributable to:			
– Shareholders of the Group		1,037,660	820,232
– Non-controlling interest		25	16
Total comprehensive income for the year		**1,037,685**	**820,248**

The notes set out on pages 146 to 261 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of GEL	Note	Share Capital	Share premium	Share based payments reserve	Fair value reserve for investment securities at FVTOCI	Cumulative currency translation reserve	Retained earnings	Total equity excluding non-controlling interest	Non-controlling interest	Total Equity
Balance as of 1 January 2021		**21,014**	**521,190**	**(73,130)**	**11,157**	**(5,261)**	**2,355,105**	**2,830,075**	**105**	**2,830,180**
Profit for the year		-	-	-	-	-	842,929	**842,929**	16	**842,945**
Other comprehensive loss for 2021:		-	-	-	**(22,020)**	**(677)**	-	**(22,697)**	-	**(22,697)**
Effect of change in business model		-	-	-	26,062	-	-	**26,062**	-	**26,062**
Other effects during the period		-	-	-	(48,082)	(677)	-	**(48,759)**	-	**(48,759)**
Total comprehensive income for 2021		-	-	-	**(22,020)**	**(677)**	**842,929**	**820,232**	**16**	**820,248**
Share based payment expense	26	-	-	20,609	-	-	-	**20,609**	-	**20,609**
Dividends declared		-	-	-	-	-	(81,872)	**(81,872)**	(48)	**(81,920)**
Other movements		-	-	-	1	-	917	**918**	20	**938**
Balance as of 31 December 2021		**21,014**	**521,190**	**(52,521)**	**(10,862)**	**(5,938)**	**3,117,079**	**3,589,962**	**93**	**3,590,055**
Profit for the year		-	-	-	-	-	1,023,050	**1,023,050**	25	**1,023,075**
Other comprehensive income for 2022:		-	-	-	**16,329**	**(1,719)**	-	**14,610**	-	**14,610**
Disposal of investment securities measured at fair value through other comprehensive income		-	-	-	(1,853)	-	-	**(1,853)**	-	**(1,853)**
Other effects during the period		-	-	-	18,182	(1,719)	-	**16,463**	-	**16,463**
Total comprehensive income for 2022		-	-	-	**16,329**	**(1,719)**	**1,023,050**	**1,037,660**	**25**	**1,037,685**
Share based payment expense	26	-	-	23,388	-	-	-	**23,388**	-	**23,388**
Dividends declared		-	-	-	-	-	(356,798)	**(356,798)**	-	**(356,798)**
Tax effect for delivery of SBP shares to employees		-	-	(3,621)	-	-	-	**(3,621)**	-	**(3,621)**
Share based payment recharge by parent company		-	-	(24,802)	-	-	-	**(24,802)**	-	**(24,802)**
Other movements		-	-	-	-	-	(151)	**(151)**	46	**(105)**
Balance as of 31 December 2022		**21,014**	**521,190**	**(57,556)**	**5,467**	**(7,657)**	**3,783,180**	**4,265,638**	**164**	**4,265,802**

The notes set out on pages 146 to 261 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

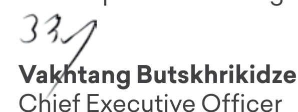
in thousands of GEL	Note	2022	2021 (restated)
Cash flows from operating activities			
Interest received		2,177,765	1,953,538
Interest received on currency swaps	28	34,711	28,143
Interest paid		(1,031,195)	(841,066)
Fees and commissions received		476,575	361,844
Fees and commissions paid		(240,044)	(152,984)
Cash received from trading in foreign currencies		338,167	61,142
Other operating income received		18,448	25,904
Staff costs paid		(280,682)	(258,274)
Administrative and other operating expenses paid		(172,303)	(130,891)
Income tax paid		(230,563)	(7,100)
Cash flows from operating activities before changes in operating assets and liabilities		**1,090,879**	**1,040,256**
Net change in operating assets			
Due from other banks and mandatory cash balances with the National Bank of Georgia		(226,175)	390,174
Loans and advances to customers		(2,491,519)	(2,993,309)
Finance lease receivables		5,273	9,493
Other financial assets		54,871	(60,786)
Other assets		59,318	14,975
Net change in operating liabilities			
Due to other banks		390,402	139,893
Customer accounts		4,797,211	2,379,482
Other financial liabilities		24,934	(1,271)
Other liabilities and provision for liabilities and charges		4,672	40,277
Net cash flows from operating activities		**3,709,866**	**959,184**
Cash flows (used in)/from investing activities			
Acquisition of investment securities measured at fair value through other comprehensive income	10	(2,412,783)	(797,285)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	816,417	1,025,775
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	391,341	412,204
Acquisition of premises, equipment and intangible assets		(198,371)	(107,544)
Proceeds from disposal of premises, equipment and intangible assets		17,454	20,826
Proceeds from disposal of investment properties		5,472	23,639
Net cash flows (used in)/from investing activities		**(1,380,470)**	**577,615**
Cash flows from/(used in) financing activities			
Proceeds from other borrowed funds	34	2,501,875	1,750,443
Redemption of other borrowed funds	34	(1,731,699)	(3,337,495)
Repayment of principal of lease liabilities	34	(13,099)	(12,825)
Proceeds from subordinated debt		62,578	–
Redemption of subordinated debt	34	(13,710)	(12,562)
Share based payment recharge paid		(24,802)	–
Proceeds from debt securities in issue	34	3,504	242,287
Redemption of debt securities in issue	34	(205,898)	-
Dividends paid		(356,365)	(81,920)
Net cash from/(used in) financing activities		**222,384**	**(1,452,072)**
Effect of exchange rate changes on cash and cash equivalents		(361,142)	(90,866)
Net increase/(decrease) in cash and cash equivalents		**2,190,638**	**(6,139)**
Cash and cash equivalents at the beginning of the year	6	**1,595,460**	**1,601,599**
Cash and cash equivalents at the end of the year	6	**3,786,098**	**1,595,460**

The notes set out on pages 146 to 261 form an integral part of these consolidated and separate financial statements.

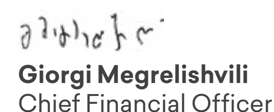
SEPARATE STATEMENT OF FINANCIAL POSITION

in thousands of GEL	Note	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	6	3,747,594	1,565,400
Due from other banks	7	6,269	16,722
Mandatory cash balances with National Bank of Georgia	8	2,047,564	2,086,113
Loans and advances to customers	9	17,505,605	16,549,460
Investment securities measured at fair value through other comprehensive income	10	2,904,714	1,958,198
Repurchase receivables	11	267,495	-
Investment properties		21,292	22,022
Other financial assets	12	299,720	442,305
Other assets	14	349,885	321,009
Premises and equipment	15	398,964	352,743
Right of use assets	16	98,228	56,244
Intangible assets	15	285,884	249,356
Goodwill	17	27,502	27,502
Investments in subsidiaries and associates		34,041	32,451
TOTAL ASSETS		**27,994,757**	**23,679,525**
LIABILITIES			
Due to credit institutions	18	3,669,727	2,757,243
Customer accounts	19	17,976,594	14,932,402
Other financial liabilities	22	187,464	92,613
Current income tax liability		1,576	86,681
Deferred income tax liability	33	112,877	10,979
Debt securities in issue	20	1,163,116	1,539,518
Provisions for liabilities and charges	21	19,908	15,845
Other liabilities	23	73,393	75,263
Lease liabilities	34	70,280	54,328
Subordinated debt	24	560,278	592,333
TOTAL LIABILITIES		**23,835,213**	**20,157,205**
EQUITY			
Share capital	25	21,014	21,014
Share premium		521,190	521,190
Retained earnings		3,669,480	3,043,459
Share based payment reserve	26	(57,556)	(52,521)
Fair value reserve for investment securities measured at fair value through other comprehensive income		5,416	(10,822)
TOTAL EQUITY		**4,159,544**	**3,522,320**
TOTAL LIABILITIES AND EQUITY		**27,994,757**	**23,679,525**

The consolidated and the separate financial statements on pages 138 to 261 were approved by the Supervisory Board on 24 April 2023 and signed on its behalf by:



Vakhtang Butskhrikidze
Chief Executive Officer



Giorgi Megrelishvili
Chief Financial Officer

The notes set out on pages 146 to 261 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of GEL	Note	2022	2021
Interest income	28	2,158,813	1,803,709
Interest expense	28	(994,169)	(878,444)
Net interest gains on currency swaps	28	34,711	28,143
Net interest income		**1,199,355**	**953,408**
Fee and commission income	29	443,437	349,598
Fee and commission expense	29	(240,901)	(176,028)
Net fee and commission income		**202,536**	**173,570**
Net gains from currency derivatives, foreign currency operations and translation	30	412,975	124,879
Net gains from disposal of Investment securities measured at fair value through other comprehensive income		5,811	11,156
Other operating income		18,456	86,170
Share of profit of associates		584	810
Other operating non-interest income		**437,826**	**223,015**
Credit loss (allowance)/recovery for loans to customers	9	(108,446)	37,633
Credit loss (allowance)/recovery for performance guarantees and credit related commitments	36	(2,721)	1,204
Credit loss allowance for other financial assets	12	(4,374)	(5,979)
Credit loss recovery for financial assets measured at fair value through other comprehensive income	10	868	2,670
Net recovery/(impairment) of non-financial assets		1,223	(10,205)
Operating income after expected credit and non-financial asset impairment losses		**1,726,267**	**1,375,316**
Staff costs	31	(279,273)	(232,291)
Depreciation and amortization		(76,766)	(62,653)
Provision for liabilities and charges	21	(2,000)	-
Administrative and other operating expenses	32	(139,143)	(103,668)
Operating expenses		**(497,182)**	**(398,612)**
Losses from modifications of financial instruments		-	(1,726)
Profit before tax		**1,229,085**	**974,978**
Income tax expense	33	(246,294)	(109,813)
Profit for the year		**982,791**	**865,165**
Other comprehensive income/(expense) for the year: *Items that may be reclassified subsequently to profit or loss:*			
Movement in fair value reserve for investment securities measured at fair value through other comprehensive income		16,238	(22,081)
Other comprehensive income/ (expense) for the year		**16,238**	**(22,081)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**999,029**	**843,084**

The notes set out on pages 146 to 261 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

in thousands of GEL	Note	Share Capital	Share premium	Share based payment reserve	Fair value reserve of investment securities measured at FVOCI	Retained earnings	Total
Balance as of 1 January 2021		**21,014**	**521,190**	**(73,129)**	**11,259**	**2,259,159**	**2,739,493**
Profit for the year		-	-	-	-	865,165	**865,165**
Other comprehensive loss for 2021:		**-**	**-**	**-**	**(22,081)**	**-**	**(22,081)**
Effect of change in business model		-	-	-	26,062	-	**26,062**
Other effects during the period		-	-	-	(48,143)	-	**(48,143)**
Total comprehensive income for 2021		**-**	**-**	**-**	**(22,081)**	**865,165**	**843,084**
Dividends declared		-	-	-	-	(81,872)	**(81,872)**
Share based payment expense	26	-	-	20,609	-	-	**20,609**
Other movements		-	-	(1)	-	1,007	**1,006**
Balance as of 31 December 2021		**21,014**	**521,190**	**(52,521)**	**(10,822)**	**3,043,459**	**3,522,320**
Profit for the year		-	-	-	-	982,791	**982,791**
Other comprehensive income for 2022:		**-**	**-**	**-**	**16,238**	**-**	**16,238**
Disposal of investment securities measured at fair value through other comprehensive income		-	-	-	(1,853)	-	**(1,853)**
Other effects during the period		-	-	-	18,091	-	**18,091**
Total comprehensive income for 2022		**-**	**-**	**-**	**16,238**	**982,791**	**999,029**
Share based payment expense	26	-	-	23,388	-	-	**23,388**
Dividends declared		-	-	-	-	(356,798)	**(356,798)**
Share based payment recharge by parent company		-	-	(24,802)	-	-	**(24,802)**
Tax effect for delivery of SBP shares to employees		-	-	(3,621)	-	-	**(3,621)**
Other movement		-	-	-	-	28	**28**
Balance as of 31 December 2022		**21,014**	**521,190**	**(57,556)**	**5,416**	**3,669,480**	**4,159,544**

The notes set out on pages 146 to 261 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

in thousands of GEL	Note	2022	2021 (restated)
Cash flows from operating activities			
Interest received		2,118,976	1,896,294
Interest received on currency swaps	28	34,711	28,143
Interest paid		(1,013,784)	(827,586)
Fees and commissions received		442,406	347,743
Fees and commissions paid		(268,982)	(175,738)
Cash received from trading in foreign currencies		341,465	56,478
Staff costs paid		(252,817)	(235,399)
Administrative and other operating expenses paid		(145,066)	(103,865)
Income tax paid		(229,501)	(60)
Other operating income received		11,358	18,839
Cash flows from operating activities before changes in operating assets and liabilities		**1,038,766**	**1,004,849**
Net change in operating assets			
Due from other banks and mandatory cash balances with the National Bank of Georgia		(250,716)	414,144
Loans and advances to customers		(2,497,954)	(2,981,673)
Other financial assets		40,347	(67,642)
Other assets		67,426	32,810
Net change in operating liabilities			
Due to other banks		390,307	139,332
Customer accounts		4,885,904	2,304,853
Other financial liabilities		21,892	14,680
Other liabilities and provision for liabilities and charges		5,277	39,348
Net cash flows from operating activities		**3,701,249**	**900,701**
Cash flows (used in)/from investing activities			
Acquisition of investment securities measured at fair value through other comprehensive income	10	(2,411,395)	(797,285)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	815,083	1,025,775
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	391,341	412,204
Dividends received		5,959	52,593
Cash received from capital reductions in subsidiaries and contributions paid in subsidiaries		-	1,101
Acquisition of premises, equipment and intangible assets		(178,404)	(93,626)
Proceeds from disposal of premises, equipment and intangible assets		12,859	20,609
Proceeds from disposal of investment properties		5,472	24,423
Capital injection in subsidiaries		(1,006)	-
Net cash flows (used in)/ from investing activities		**(1,360,091)**	**645,794**
Cash flows from/(used in) financing activities			
Proceeds from other borrowed funds		2,407,703	1,692,815
Redemption of other borrowed funds		(1,652,197)	(3,267,884)
Repayment of principal of lease liabilities		(11,716)	(10,797)
Proceeds from subordinated debt		46,258	-
Redemption of subordinated debt		-	(12,562)
Proceeds from debt securities in issue		-	236,820
Redemption of debt securities in issue		(205,898)	-
Dividends paid		(356,365)	(81,872)
Share based payment recharge paid		(24,802)	-
Net cash from/(used in) financing activities		**202,983**	**(1,443,480)**
Effect of exchange rate changes on cash and cash equivalents		(361,947)	(74,332)
Net increase in cash and cash equivalents		**2,182,194**	**28,683**
Cash and cash equivalents at the beginning of the year	6	**1,565,400**	**1,536,717**
Cash and cash equivalents at the end of the year	6	**3,747,594**	**1,565,400**

The notes set out on pages 146 to 261 form an integral part of these consolidated and separate financial statements.

1. INTRODUCTION

Principal activity. JSC TBC Bank (hereafter the "Bank") was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro-operations within Georgia. The Bank is a parent of a group of companies (hereafter the "Group") incorporated in Georgia and Azerbaijan; their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia. The Bank was registered by District Court of Vake and the registration number is 204854595.

The Bank has 129 (2021: 134) branches[1] within Georgia.

TBC Bank Group PLC ("TBCG") is a public limited by shares company, incorporated in the United Kingdom. TBCG held 99.88% of the share capital of JSC TBC Bank (hereafter the "Bank") as at 31 December 2022 (2021: 99.88%), thus representing the Bank's ultimate parent company. TBC Bank Group PLC's registered legal address is 100 Bishopsgate, C/O Law Debenture, London, England, EC2N 4AG. Registered number of TBC Bank Group PLC is 10029943.

As of 31 December 2022 and 2021 the Group shareholder structure was as follows:

	% of ownership interest held as of 31 December	
Shareholders	**2022**	**2021**
TBC Bank Group PLC	99.88%	99.88%
Other	0.12%	0.12%
Total	**100.00%**	**100.00%**

As of 31 December 2022 and 31 December 2021, the shareholder structure of TBC Bank Group PLC by beneficiary ownership interest was as follows:

	% of ownership interest held as of 31 December	
Shareholders	**2022**	**2021**
Dunross & Co.	6.58%	7.45%
Allan Gray Investment Management	5.66%	4.89%
BlackRock	3.99%	2.90%
Vanguard Group	3.91%	2.73%
Fidelity International	3.88%	3.13%
JPMorgan Asset Management	3.86%	3.15%
European Bank for Reconstruction and Development	3.54%	5.05%
Founders*	16.04%	14.6%
Other**	52.54%	56.1%
Total	**100.00%**	**100.00%**

* Founders include direct and indirect ownerships of Mamuka Khazaradze, Badri Japaridze.
** Other includes individual as well as corporate shareholders.

1. INTRODUCTION CONTINIUED

Subsidiaries and associates. The consolidated and separate financial statements include the following principal subsidiaries:

	Proportion of voting rights and ordinary share capital held as of 31 December				
Subsidiary name	**2022**	**2021**	**Principal place of business or incorporation**	**Year of incorp-oration**	**Principal activities**
United Financial Corporation JSC	99.53%	99.53%	Tbilisi, Georgia	2001	Card processing
TBC Capital LLC	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	100.00%	100.00%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	100.00%	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution
TBC Pay LLC	100.00%	100.00%	Tbilisi, Georgia	2008	Processing
TBC Invest-Georgia LLC	100.00%	100.00%	Ramat Gan, Israel	2011	Financial services
Index LLC	100.00%	100.00%	Tbilisi, Georgia	2009	Real estate management
TBC Asset Management LLC	100.00%	100.00%	Tbilisi, Georgia	2021	Asset management

The Group has investments in the following associates:

	Proportion of voting rights and ordinary share capital held as of 31 December				
Subsidiary name	**2022**	**2021**	**Principal place of business or incorporation**	**Year of incorp-oration**	**Principal activities**
CreditInfo Georgia JSC	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation
Tbilisi Stock Exchange JSC	28.87%	28.87%	Tbilisi, Georgia	2015	Finance, Service
Georgian Central Securities Depository JSC	22.87%	22.87%	Tbilisi, Georgia	1999	Finance, Service
Georgian Stock Exchange JSC[2]	17.33%	17.33%	Tbilisi, Georgia	1999	Finance, Service
Kavkasreestri JSC[2]	10.03%	10.03%	Tbilisi, Georgia	1998	Finance, Service

1 Excluding pawnshop units.
2 The Group has a significant influence on Georgian Stock Exchange JSC and Kavkasreestri JSC with representatives in management board.

1. INTRODUCTION CONTINUED

The country of incorporation is also the principal area of operation of each of the above subsidiaries and associates.

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.

	Proportion of voting rights and ordinary share capital held as of 31 December				
Subsidiary name	**2022**	**2021**	**Principal place of business or incorporation**	**Year of incorp-oration**	**Principal activities**
TBC Invest International Ltd[1]	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund[1]	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Natural Products of Georgia LLC[1]	25.00%	25.00%	Tbilisi, Georgia	2001	Trade, Service
TBC Trade LLC[1]	100.00%	100.00%	Tbilisi, Georgia	2008	Trade, Service
Diversified Credit Portfolio JSC	100.00%	100.00%	Tbilisi, Georgia	2021	Asset Management

Operating environment of the Group. Georgia, where most of the Group's activities are located, displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 33). In 2021 the Georgian economy rebounded at 10.5%, mainly on the back of the recovery of inflows, as well as stronger domestic demand. As for 2022, despite the adverse impact of Russia's invasion of Ukraine, the expansion continued at a speed that exceeded initial expectations, with real GDP increasing by 10.1% in 2022. The main reasons behind the strong growth momentum are the resilience of Georgia's terms of trade at the time of rising commodity prices as well as Georgia's broadly balanced net exposure to oil prices. Moreover, while Russia's invasion of Ukraine tourism recovery has slowed compared to the pre-war dynamics, when adding the migration effect from citizens of Russia, Belarus and also to some extent Ukraine, the tourism recovery has even strengthened. Additionally, higher remittance inflows and recovering foreign direct investments (FDIs) were growth supportive throughout the year.

However, the baseline strongly depends on the global developments. While the Georgian economy is so far resilient against recently elevated global slowdown risks and adverse economic impacts of Russia's invasion of Ukraine, there is a probability of more severe spill-over effects, as well as COVID resurgence risks. The materialization of these risks could severely restrict economic activity in Georgia, and negatively impact the business environment and clients of the Group.

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

Climate Impact. Although global market conditions have affected market confidence and consumer spending patterns, the Group remains well placed to continue displaying strong financial results. The Group has reviewed its exposure to climate-related risks, but has not identified any risks that could significantly impact the financial performance or position of the Group as at 31 December 2022. See more details outlined in risk management disclosures in note 35.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI") and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing. The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Changes in presentation of the consolidated and separate statement of cash flows of JSC TBC Bank within operating activity

To correct the presentation of cash flow items related to foreign exchange differences within the operating activities of consolidated and separate statements of cash flows of JSC TBC Bank, the management corrected certain financial statement line items. For details refer to the tables below and for further information refer to note 30.

Consolidated statement of cash flows:

in thousands of GEL	31 December 2021 (as originally presented)	Restatement	31 December 2021 (as restated)
Cash received from trading in foreign currencies	113,043	(51,901)	61,142
Other financial assets	(229,236)	168,450	(60,786)
Customer accounts	2,606,998	(227,516)	2,379,482
Other financial liabilities	(112,238)	110,967	(1,271)

Separate statement of cash flows:

in thousands of GEL	31 December 2021 (as originally presented)	Restatement	31 December 2021 (as restated)
Cash received from trading in foreign currencies	108,379	(51,901)	56,478
Other financial assets	(236,092)	168,450	(67,642)
Customer accounts	2,532,369	(227,516)	2,304,853
Other financial liabilities	(96,287)	110,967	14,680

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

Separate financial statements. Investments in subsidiaries - The Company accounts investments at the original cost of the investment until the investment is derecognised or impaired for its separate financial statements. The carrying amounts of the investments are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. Value in use is determined by

1 Dormant.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUIED

the present value of expected future cash flows discounted to present value. An impairment loss is recognised when the carrying amount of the investments exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Business combinations and goodwill accounting. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the acquisition date. Acquisition-related costs are recognised as an expense in the profit or loss in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures the non-controlling interest that represents the current ownership's interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquired entity. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the acquiree's net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after the management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from the equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investments in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for expected credit losses. Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position. Repayments for loans are accounted for penalties in the first place, then accrued interest and after that principal amount.

The effective interest method is a method of allocating interest income or interest expense over the term of the financial instrument so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy). For assets that are purchased or originated defaulted ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Initial recognition of financial instruments. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL (expected credit loss) allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame set by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Financial assets – classification and subsequent measurement – business model. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

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

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. The judgements applied by the Group in performing the SPPI test for its financial assets is discussed below:

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (iii) the fair value of the prepayment feature is immaterial at initial recognition.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group change its business model in 2020 in relation to the securities held at amortised cost, which took effect from 1 January 2021 in these financial statements as required by IFRS 9.

Financial assets impairment – expected credit loss (ECL) allowance. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition:

- Stage 1: A financial instrument that is not defaulted on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL");
- Stage 2: If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis ("Lifetime ECL"). If a SICR is no longer observed, instrument will move back to Stage 1. Financial instrument moves back from stage 2 to stage 1 with 6 month cure period in case of loans previously having default flag, while restructured loans remain in stage 2 until the restructured status is removed. In order to remove restructured status, borrower should make at least 12 consecutive payments, unless financial monitoring is performed. Refer to Note 35 for a description of how the Group determines, on a forward-looking basis, when a SICR has occurred;
- Stage 3: Defaulted assets are transferred to Stage 3 and allowance for Lifetime ECL is recognized. The Group's definition of defaulted assets and definition of default is based on the occurrence of one or more loss events, described further in Note 35.

Change in ECL is recognized in the statement of profit or loss with a corresponding allowance reported as a decrease in carrying value of the financial asset on the statement of financial position. For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

Gross carrying amount and write offs. Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The loans are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the loan segment and product type.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets- derecognition and modification. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets.

The Group assesses whether the modification of contractual cash flows is substantial, in which it considers certain qualitative and quantitative factors combined. Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

- Change in contract currency;
- Consolidation of two or more loans into one new loan;
- Change in counterparty;
- Loan with no predetermined payment schedule is changed with loan with schedule or vice versa;
- Change in contractual interest rate due to market environment changes.

The Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is significant (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If the risks and rewards do not change, the modified asset will not be substantially different (exceed 10% test) from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate and recognises a modification gain or loss in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition and modification. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent the Group's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with National Bank of Georgia are carried at AC and represent mandatory reserve deposits that are not available to finance the Group's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at fair value through profit or loss (FVTPL). Otherwise they are carried at fair value (FV).

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, fair value through other comprehensive income (FVOCI) or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 35 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Group incorporates forward-looking information in the ECL models.

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

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss. The Group applies IFRS 9 for measurement of performance guarantees.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Investment securities at fair value through other comprehensive income or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as Cash and cash equivalents (If the maturity of placement is less than 3 months), due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds. Based on classification of securities sold under the sale and repurchase agreements, the Group classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

Finance lease receivables. Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as finance lease receivables and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The interest income on stage 3 exposures is recognized on a carrying amount after deducting ECL. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivables and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the lease investments. There is a 'three stage' approach which is based on the change in credit quality of financial lease receivables since initial recognition. Immediate loss that is equal to the 12-month ECL is recorded on initial recognition of financial leases that are not defaulted. In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment);
- Down payment;
- Real estate properties;
- Third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

The Group classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – defaulted exposures.

For stage 1 exposures the Group creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

For the Stage 2 classification purposes the Group applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition;

Default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

indicating the borrower's unlikeness to repay the liabilities.

The Group incorporates forward looking information (FLI) for both individual and collective assessment. For FLI purposes the Group defines three scenarios, which are:

- Baseline (most likely);
- Upside (better than most likely);
- Downside (worse than most likely).

The Group derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs- to ensure the alignment to the consensus market expectations. Refer to Note 35 for the description of how the Group incorporates FLI in ECL calculations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Group calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

Receivables from terminated leases. The Group recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of finance lease receivables. Receivables are accounted for at AC less ECL.

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprises of advance payments made to purchase assets for transfer into leases. Such advances are accounted for as non-financial assets. On commencement of the leases, advances towards lease contracts are transferred into finance lease receivables.

Due to credit institutions. Amount due to credit institutions are recorded when counterparty banks advance money or other assets to the Group. The non-derivative liability is carried at AC. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met and is included in the Bank's "tier 2" capital. Subordinated debt is carried at AC.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at AC. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are recognized at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting. Certain derivative instruments embedded in other financial liabilities are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

When derivative instruments are entered into with a view to decrease cost of funding, respective interest effect is presented as a separate line of statement of comprehensive income, within net interest income.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation. This is generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

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

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment and right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Asset	Useful life
Premises	30 – 110 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years;
Right-of-use assets	term of the underlying lease;
Intangible assets	1 – 20 years;

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property that the Groups owns to earn rental income or for capital appreciation, or both, and that it does not occupy.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. It is amortised on a straight line basis over an expected useful lives of 30 to 50 years. In case of any indication that the investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

As at 31 December 2022 The investment property of the bank after impairment and accumulated depreciation comprised of land GEL 1,350 thousand and buildings GEL 19,942 thousand (2021: GEL 4,631 thousand and GEL 17,391 thousand).

Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

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

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment.

Intangible assets. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs and direct overheads of the software development team. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 20 years.

Accounting for leases by the Group as a lessee. The Group leases office, branches and service centre premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Group applied the Amendment to IFRS 16 to COVID-19 related rent concessions granted by lessors 2020 and extension of this amendment in 2021, respectively. These concessions were recorded as a reduction in the lease liability and variable rent in the period in which they were granted. The amount was not material to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Accounting for operating leases by the Group as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Income taxes. Income taxes are provided in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises of current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax is the amount expected-to-be-paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period that are expected to apply to the extent of time when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Material provisions include provision for performance guarantees, credit related commitments.

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The group does not have Interest income on debt instruments at FVTPL.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUIED

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become defaulted (Stage 3), for which interest income is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated defaulted, for which the original credit-adjusted effective interest rate is applied to the AC.

All other fees, commissions and other income and expense items are generally recorded when earned by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

For cross currency basis swaps interest component calculation, notional amount is multiplied by agreement interest rate for respective period. While making allocation of an interest income/(expense) from FX Swaps transactions, annualized spread earned interest income/(expense) is calculated and distributed linearly throughout the lifetime of the contract.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, annual plastic card fees etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, plastic card transactions, merchant fees, fees for cash settlements, collection or cash disbursements, etc.

Foreign currency translation. The Group's presentation currency is the Georgian Lari. The Group's and the Bank's presentation currency is the Georgian Lari. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the territories where the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) Components of equity are translated at the historic rate; and

(iv) All resulting exchange differences are recognised in other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUIED

After losing control over a foreign operation, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2022 the closing rate of exchange used for translating foreign currency balances was GBP 1 = GEL 3.2581 (2021: GBP 1 = GEL 4.1737); USD 1 = GEL 2.7020 (2021: USD 1 = GEL 3.0976); EUR 1 = GEL 2.8844 (2021: EUR 1 = GEL 3.5040); AZN 1 = GEL 1.5924 (2021 AZN 1 = GEL 1.8222).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the Group's employees.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Share based payments. A share-based payment arrangement is an agreement between the entity and another party (including an employee) that entitles the other party to receive cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares) of the entity or another group entity, or equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met. Under the share-based compensation plan the Group receives services from the management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by the reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in the assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled scheme is accounted for under share based payment reserve. The Bank pays recharge amount to the TBC Bank Group PLC and the share based reserve is debited correspondingly when treasury shares are purchased by employee benefit trust (EBT). When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

3.CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Critical Judgements and Estimates

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements and estimates that have the most significant effect on the amounts recognised in the consolidated financial statements are the estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include following:

Judgements and estimates related to ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, development of models and preparation of data inputs. Expert management judgement is an also an essential part of calculating expected credit losses.

Management considers the significant management judgements and estimates in calculating ECL as follows:

Judgements used to define criteria used in definition of default. The Bank defines default using both quantitative and qualitative criteria. Borrower is classified as defaulted if:

- any amount of contractual repayments is past due more than 90 days; or
- factors indicating the borrower's unlikeliness-to-pay.

In addition, default exit criteria is defined using judgement as well as whether default should be applied on a borrower or exposure level. For more details on the methodology please see Note 35.

Judgements used to define criteria for assessing, if there has been a significant increase in credit risk (SICR) which is defined using both quantitative and qualitative criteria.

Qualitative factors usually include judgements around delinquency period of more than 30 days on contractual repayments; exposure is restructured, but is not defaulted; borrower is classified as "watch".

On a quantitative basis the Bank assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Bank has sufficient number of observations.

The table below represents the sensitivity analysis of (i) 20% decrease of SICR thresholds (quantitative criteria applied for retail and micro exposures described above. (ii) 10% increase in total number of stage 2 borrowers.

In thousands of GEL	31 December 2022	31 December 2021
20% decrease in SICR thresholds	Increase credit loss allowance on loans and advances by GEL 2,106. Change of the Bank's cost of credit risk ratio by 1 basis points	Increase credit loss allowance on loans and advances by GEL 2,470. Change of the Bank's cost of credit risk ratio by 2 basis points.
10% increase in Number of Stage 2 Contracts	Increase credit loss allowance on loans and advances by GEL 1,639. Change of the Bank's cost of credit risk ratio by 1 basis points.	Increase credit loss allowance on loans and advances by GEL 2,511. Change of the Bank's cost of credit risk ratio by 2 basis points.

Judgements used for calculation of credit risk parameters namely exposure at default (EAD), probability of default (PD) and loss given default (LGD). The judgements includes and are not limited by:

(i) definition of the segmentation for risk parameters estimation purposes,
(ii) decision whether simplified or more complex models can be used,
(iii) time since default date after which no material recoveries are expected,
(iv) collateral haircuts from market value as well as the average workout period for collateral discounting.

3.CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

The table below describes sensitivity on 10% increase of PD and LGD estimates:

In thousands of GEL	31 December 2022	31 December 2021
10% increase (decrease) in PD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 19,891 (GEL 18,843). Change of the Bank's cost of credit risk ratio by 12 (11) basis points	Increase (decrease) credit loss allowance on loans and advances by GEL 25,043 (GEL 18,905). Change of the Bank's cost of credit risk ratio by 16 (12) basis points
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 31,635 (GEL (31,770). Change of the Bank's cost of credit risk ratio by 19 (19) basis points.	Increase (decrease) credit loss allowance on loans and advances by GEL 39,900 (GEL 35,129).Change of the Bank's cost of credit risk ratio by 26 (22) basis points.

Estimates used for forward-looking macroeconomic scenarios and judgements made for their probability weightings.

For forward-looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy.

Estimates applied in differentiating between these three scenarios represent GDP, USD/GEL rate, RE price, employment levels, monetary policy rate and other macro variables. Under usual conditions, the scenario weights applied are 50%, 25% and 25% for the base case, upside and downside scenarios respectively. As at 31 December 2022 the weights remained the same as at 31 December 2021 - 50%, 25% and 25% for the base, upside and downside scenarios respectively. Based on the changes of the macro environment the Bank modifies the weightings based on expert judgement.

The table below describes the unweighted ECL for each economic scenario as at 31 December 2022:

In thousands of GEL	Baseline	Upside	Downside	Weighted
Corporate	45,775	45,456	48,827	46,458
MSME	95,991	94,270	98,169	96,112
Consumer	183,342	182,366	184,396	183,352
Mortgage	33,856	33,519	34,421	33,912
Total	**358,964**	**355,611**	**365,813**	**359,834**

The table below describes the unweighted ECL for each economic scenario as at 31 December 2021:

In thousands of GEL	Baseline	Upside	Downside	Weighted
Corporate	48,220	46,752	59,640	50,731
MSME	112,592	104,856	122,768	113,101
Consumer	180,003	176,638	183,600	180,050
Mortgage	63,080	59,464	68,491	63,486
Total	**403,895**	**387,710**	**434,499**	**407,368**

3.CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2022:

	Baseline			Upside			Downside		
Growth rates YoY, %	2023	2024	2025	2023	2024	2025	2023	2024	2025
GDP	3.5%	5.4%	5.2%	5.2%	7.9%	8.4%	1.7%	2.7%	1.9%
USD/GEL rate (EOP)	2.80	2.65	2.60	2.47	2.31	2.24	3.06	2.92	2.90
RE Price (in USD)	19.8%	-2.0%	-1.3%	24.2%	4.1%	4.8%	11.6%	-13.1%	-12.5%
Employment (EOP)	1.9%	-0.8%	-0.2%	2.5%	-0.1%	0.6%	1.5%	-1.3%	-0.9%
Monetary policy rate (EOP, Level)	9.0%	7.8%	7.8%	8.4%	7.0%	6.8%	10.1%	9.3%	9.6%

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2021:

	Baseline			Upside			Downside		
Growth rates YoY, %	2022	2023	2024	2022	2023	2024	2022	2023	2024
GDP	6.0%	5.5%	5.0%	7.8%	8.2%	8.3%	4.1%	2.8%	1.7%
USD/GEL rate (EOP)	3.30	3.25	3.20	2.95	2.87	2.80	3.55	3.55	3.52
RE Price (in USD)	1.6%	2.1%	2.6%	4.6%	6.3%	7.7%	-1.6%	-2.5%	-3.5%
Employment (EOP)	1.0%	1.0%	0.5%	1.5%	1.7%	1.3%	0.6%	0.4%	-0.2%
Monetary policy rate (EOP, Level)	8.5%	7.5%	7.0%	8.0%	6.8%	6.1%	9.4%	8.7%	8.4%

The Bank assessed the impact of changes in GDP growth, unemployment and monetary policy rate variables on ECL as a most critical estimates applied in ECL assessment.

The sensitivity analysis was performed separately for each of the variable to show their significant in ECL assessment, but changes in those variables may not happen in isolation as various economic factors tend to be correlated across the scenarios. The variables were adjusted in all three macroeconomic scenarios and the staging has been maintained unchanged. From the assessment of forward looking scenarios, management is comfortable with the scenarios capturing the non-linearity of the losses.

The table below shows the impact of +/-20% change in GDP growth, unemployment and monetary policy variables across all scenarios on the Bank's ECL as at 31 December 2022:

	Change in GDP growth		Change in unemployment		Change in Monetary Policy	
In thousands of GEL	20% increase	20% decrease	20% increase	20% decrease	20% increase	20% decrease
Impact on ECL	(987)	1,038	1,341	(1,231)	710	(616)

The table below shows the impact of +/-20% change in GDP growth and unemployment variables across all scenarios on the Bank's ECL as at 31 December 2021:

	Change in GDP growth		Change in unemployment		Change in Monetary Policy	
In thousands of GEL	20% increase	20% decrease	20% increase	20% decrease	20% increase	20% decrease
Impact on ECL	(9,036)	10,359	4,805	(4,541)	4,045	(3,493)

3.CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Individual assessment: Individual assessment is mainly used for stage 2 and stage 3 individually significant borrowers.

For selecting individually significant exposures, the management uses the following estimated thresholds above which exposures are selected for individual review: for stage 2 - to GEL 10 million and for stage 3 - GEL 4 million. Additionally, the Bank may arbitrarily designate selected exposures to individual measurement of ECL based on the Bank's credit risk management or underwriting departments' decision. The individual assessment takes into account latest available information in order to define ECL under baseline, upside and downside scenarios.

Post model adjustments

PMAs are a specific set of management adjustments to address known model limitations, either in model methodology or model inputs. PMAs are made based on analysis of model inputs and parameters to determine the required modifications in order to improve model accuracy.

Post model overlays

Post model overlays (PMOs) reflect management judgement that mainly rely on expert judgement and are applied directly to expected credit losses at an aggregated level.

Once implemented, post model overlays and adjustments are re-assessed at each reporting date to determine the validity of the adjustments. The appropriateness of PMAs and PMOs is subject to rigorous review and challenge. Post model overlays and adjustments review and approval process goes through same phases as made for ECL process governance.

As a result of COVID-19 pandemic, the Bank applied expert judgement to the measurement of the expected credit losses in the form of post model adjustments (PMAs). The adjustments made were all in model adjustments, which means that we made adjustments either to model inputs or its parameters and run the models based on the updated adjustments. No post model overlays has been processed.

As at 31 December 2022 Bank introduced a PMA for clients affected by the Russian invasion in Ukraine. Specifically, the default definition was modified for restructured, war-affected exposures amounting to GEL 8,174 thousand. Restructured exposures are transferred to stage 2 instead of stage 3, however, for that particular exposures a lower number of days past due ('DPD') will be used for default recognition: namely, instead of applying a standard 90 DPD, default will be recognised earlier at 30 DPD after the end of grace period. The effect of this PMA on staging shares amount to 0.05 pp. while the effect on ECL amounted GEL 2,340 thousand as at 31 December 2022 in case those exposures were in stage 3.

As of 31 December 2022 all the COVID-19 related PMAs are no longer in place. Effect of PMAs on expected credit losses as at 31 December 2021 is summarized below:

- **Loss given default (LGD) – Recovery rate:** As reported at 31 December 2021, the Bank had applied a downward adjustment on recovery rates in stage 3 to reflect the expected impact of the COVID- 19 pandemic. The effect of LGD related PMA on ECL as at 31 December 2021 amounted to GEL 12,835 thousand;
- **Loss given default (LGD) – AWT:** As reported at 31 December 2021, the Bank had extended AWT (average workout period) from 1 Year to 2 years for SME and non-significant corporate portfolios, in order to reflect delayed recoveries, mainly driven by COVID-19 pandemic. An adjustment was applied across all stages. The effect of this PMA on ECL as at 31 December 2021 amounted to GEL 2,754 thousand.
- **Full prepayment ratio (FPR):** As reported at 31 December 2021, the Bank had applied downward adjustment to FPR ratio which is used for exposure at default modeling (EAD). The adjustment was made based on the expectations that full prepayments will be lower compared to the pre-pandemic levels. The effect of this PMA on ECL as at 31 December 2021 amounted to GEL 0.512 thousand.

1 Total exposure of the bank toward the borrower or group of interconnected borrowers

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Financial effect of IBOR reform. The reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published on 31 December 2021, while certain USD LIBOR rates will stop being published by 30 June 2023.

The Group applied the practical expedients of Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9 to reflect changes to the basis for determining the contractual cash flows by adjusting the effective interest rate to the financial assets and liabilities that have been subject to the index change. The Group is using a secured overnight financing rate (SOFR, Term SOFR), which is selected as an alternative rate for USD LIBOR. The newly signed contracts are in most cases already formed in SOFR or Term SOFR to reflect the anticipated change and therefore are not subject to the transition process. A few contracts have already been changed from LIBOR to economically equivalent SOFR in 2022 (as a direct consequence of IBOR reform), hence the change effect has not resulted in material effect for the Group.

The table below discloses amounts of non-derivative financial assets and liabilities and derivative contracts on 31 December 2022 that are to be transitioned to alternative interest rate benchmarks in 2023:

In thousands of GEL			**Non derivative financial assets**	**Non derivative financial liabilities**		**Contingencies and commitments**		**Derivatives**
Index	Currency	Cessation Date	Loans and advances to customers	Subordinated debt	Due to credit institutions	Letters of credit	Undrawn credit lines	Derivative liabilities
3M Libor	USD	30-Jun-23	-	-	1,671	-	-	22,978
6M Libor	USD	30-Jun-23	3,719,416	248,069	268,754	1,593	256,892	-
Total			**3,719,416**	**248,069**	**270,425**	**1,593**	**256,892**	**22,978**

The table below discloses amounts of non-derivative financial assets and liabilities and derivative contracts on 31 December 2021 that are to be transitioned to alternative interest rate benchmarks in 2022:

In thousands of GEL			**Non derivative financial assets**	**Non derivative financial liabilities**		**Contingencies and commitments**		**Derivatives**
Index	Currency	Cessation Date	Loans and advances to customers	Subordinated debt	Due to credit institutions	Letters of credit	Undrawn credit lines	Derivative assets
6M Euro Libor	EUR	31-Dec-21	-	-	88,761	-	-	-
1M Libor	USD	TBD	24,831	-	-	-	1,032	-
3M Libor	USD	30-Jun-23	26,139	-	2,858	-	11	3,613
6M Libor	USD	30-Jun-23	5,432,142	281,604	361,360	4,771	909,315	-
12M Libor	USD	30-Jun-23	1,460	-	30,992	-	-	-
Total			**5,484,572**	**281,604**	**483,971**	**4,771**	**910,358**	**3,613**

The Group is exposed to a risk that the liquidity of the above financial instruments would start to decrease, as the volume of operations with traditional IBOR-based financial instruments are shrinking. The Group may also expose to a risk, that reference rate structure for funds attracted and loans disbursed may differ after moving to different reference rates hence the change effect has not resulted in material financial effect for the Group.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

The Group is working with its customers and other counterparties, such as international financial institutions to perform a transition of legacy IBOR-based financial instruments to alternative benchmark interest rates and develop new financial products for its customers. The Group is also enhancing its IT systems and internal processes to ensure smooth transition from IBOR to alternative benchmark interest rates.

The continued orderly transition from LIBOR is going to be the Group's key objective through 2023 and is grouped into two work streams:

1. The development of alternative rate and risk free rate product capabilities.
2. The transition of legacy LIBOR contracts.

The Groups initiatives in connection with LIBOR transition include:

(a) Implementing rate fallback provisions into contracts, where appropriate;

(b) The Group continues to engage with market participants and the regulator to address market-wide challenges associated with the USD LIBOR transition, including the efforts to introduce forward-looking term rates linked to SOFR;

(c) To educate and inform clients on LIBOR transition and the necessity to prepare for the cessation of it.

The following amended standards became effective from 1 January 2022, but did not have any material impact on the Group:

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant or equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfill a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

5. NEW ACCOUNTING PRONOUNCEMENTS

The Group has not early adopted any of the amendments effective after 31 December 2022. The Group expects the amendments will have an insignificant effect, when adopted, or is in the process of assessment of the scale of any potential impact on the consolidated or separate financial statements of the Group and Bank.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- Effective date: The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

- Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.
- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allow an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These amend ments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. Currently we are assessing the scale of impact on the consolidated financial statements of the Group and the separate financial statements of JSC TBC Bank.

6. CASH AND CASH EQUIVALENTS

In thousands of GEL	31 December 2022	31 December 2021
Cash on hand	1,224,264	831,035
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	315,253	134,262
Correspondent accounts and overnight placements with other banks	1,442,961	630,247
Placements with and receivables from other banks with original maturities of less than three months	434,027	45
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	370,022	-
Total gross amount of cash and cash equivalents	**3,786,527**	**1,595,589**
Less: credit loss allowance by stages	(429)	(129)
Stage 1	(429)	(129)
Total cash and cash equivalents	**3,786,098**	**1,595,460**

As of 31 December 2022, 96% of the correspondent accounts and overnight placements with other banks was placed with OECD (Organization for Economic Co-operation and Development) banking institutions (31 December 2021: 94%).

As of 31 December 2022, GEL 303,206 thousand was placed on interbank term deposits with one OECD bank and none with non-OECD (As at 31 December 2021 GEL 45 thousand was placed on interbank term deposits with one non-OECD bank and none with OECD banks). Interest rate analysis of cash and cash equivalents is disclosed in Note 35.

The credit-ratings of correspondent accounts and overnight placements with other banks are as follows:

In thousands of GEL	31 December 2022	31 December 2021
AA	280,732	69,943
AA-	207,873	2,117
A+	705,316	425,554
A	-	1,795
A-	86,538	23,766
BBB+	102,814	70,886
BBB	2,360	7
BBB-	-	12,569
BB+	647	367
BB	5,457	1,519
BB-	23,600	13,367
B+	26,888	8,343
B	42	14
B-	694	-
Total correspondent accounts and overnight placements with other banks	**1,442,961**	**630,247**

6. CASH AND CASH EQUIVALENTS CONTINUED

The credit rating of placements with and receivables from other banks with original maturities of less than three months stands as follows:

In thousands of GEL	31 December 2022	31 December 2021
AAA	1,085	-
BBB+	303,364	-
BB	9,541	-
BB-	120,037	-
Not rated	-	45
Total placements with and receivables from other banks with original maturities of less than three months	**434,027**	**45**

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used, for those financial institutions which are not assigned credit ratings country ratings are used. As at 31 December 2022 there were GEL 374,255 thousand investment securities held as collateral against reverse sale and repurchase agreements with other banks with original maturities of less than three months (2021: nil). As at 31 December 2022 credit rating of reverse sale and repurchase agreements with other banks with original maturities of less than three months is rated at BB-.

7. DUE FROM OTHER BANKS

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2022 and 2021. Credit ratings of placements with and receivables from other banks with original maturities of more than three months and restricted cash were as follows:

In thousands of GEL	31 December 2022	31 December 2021
A+	-	13,099
BBB+	-	21
BBB	1,298	-
BBB-	-	2,943
BB	4,326	1,468
B+	674	24,706
Total placements with and receivables from other banks with original maturities of more than three months and restricted cash	**6,298**	**42,237**

As at 31 December 2022 the Group had no placements, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2021: two placements). The total aggregated amount of placements with and receivables from other banks with original maturities of more than three months was GEL 5,623 thousand (2021: GEL 28,428 thousand) or 89.3% of the total amount due from other banks (2021: 67.3%).

As at 31 December 2022 GEL 693 thousand (2021: GEL 13,819 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks.

For the estimated fair values of due from other bank balances please refer to Note 40.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances at 31 December 2022 is GEL 18.9 thousand (2021: GEL 9.9 thousand).

8. MANDATORY CASH BALANCES WITH NATIONAL BANK OF GEORGIA

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Bank earned up to 10.88%, 2.17% and (0.7%) annual interest in GEL, USD and EUR, respectively, on mandatory reserve with NBG during the year 2022 (2021: 10.5%, (0.25%) and (0.7%) in GEL, USD and EUR, respectively).

In July 2022, Fitch Ratings has affirmed Georgia's Long-Term Foreign and Local Currency Issuer Default Rating (IDRs) at 'BB', the stable outlook. The Country Ceiling Rating is affirmed at 'BBB-', while short-term foreign and local-currency IDRs are kept at 'B'.

9. LOANS AND ADVANCES TO CUSTOMERS

in thousands of GEL	31 December 2022	31 December 2021
Corporate loans	6,282,469	6,547,741
Loans to micro, small and medium enterprises	4,809,415	4,141,305
Consumer loans	2,512,220	2,153,066
Mortgage loans	4,253,172	4,112,441
Total gross loans and advances to customers at amortised cost (AC)	**17,857,276**	**16,954,553**
Less: credit loss allowance	(359,834)	(407,368)
Stage 1	(101,747)	(101,972)
Stage 2	(96,993)	(120,417)
Stage 3	(161,094)	(184,979)
Total loans and advances to customers at amortised cost (AC)	**17,497,442**	**16,547,185**

As of 31 December 2022, GEL 17,859,189 thousand of gross loans and advances to customers and GEL 353,584 thousand of credit loss allowance were attributable to the Bank (2021: GEL 16,948,195 thousand and GEL 398,735 thousand).

As at 31 December 2022 loans and advances to customers carried at GEL 958,530 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2021: GEL 843,006 thousand).

Total credit loss allowance includes PMAs amounted to GEL 2,340 thousand and GEL 16,107 thousand for YE 2022 and YE 2021 respectively.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period. Below main movements in the table are described:

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

- Transfers occur between Stage 1, 2 and 3, due to significant increases (or decreases) of credit risk or exposures becoming defaulted in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. It should be noted, that:
  - For loans, which existed at the beginning of the period, opening exposures are disclosed as transfer amounts;
  - For newly issued loans, exposures upon issuance are disclosed as transfer amounts;
- New originated or purchased gives us information regarding gross loans issued and corresponding credit loss allowance created during the period (however, exposures which were issued and repaid during the period and issued to refinance existing loans are excluded);
- Derecognised during the period refers to the balance of loans and credit loss allowance at the beginning of the period, which were fully repaid during the period. Exposures which were issued and not fully repaid during the period, written off or refinanced by other loans, are excluded;
- Net repayments refers to the net changes in gross carrying amounts, which is loan disbursements less repayments, excluding loans that were fully repaid;
- Write-offs refer to write off of loans during the period;
- Foreign exchange movements refers to the translation of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary;
- Net re-measurement due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations;
- Modification refers to changes in terms that do not result in derecognition;
- Re-segmentation refers to the transfer of loans from one reporting segment to another. For presentation purposes, amounts are rounded to the nearest thousands of GEL, which in certain cases is disclosed as nil.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Total loans *in thousands of GEL*	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2022	**14,512,165**	**1,933,530**	**508,858**	**16,954,553**	**101,972**	**120,417**	**184,979**	**407,368**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(2,241,877)*	*2,377,744*	*(135,867)*	-	*(80,875)*	*131,871*	*(50,996)*	-
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(64,005)*	*(363,664)*	*427,669*	-	*(9,832)*	*(109,393)*	*119,225*	-
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*1,991,879*	*(1,979,138)*	*(12,741)*	-	*138,471*	*(137,647)*	*(824)*	-
New originated or purchased	9,824,500	-	-	**9,824,500**	169,303	-	-	**169,303**
Derecognised or fully repaid during the period	(4,745,259)	(173,137)	(116,526)	**(5,034,922)**	(50,872)	(14,164)	(38,873)	**(103,909)**
Net repayments	(2,037,641)	(219,172)	(55,873)	**(2,312,686)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments[1]	-	-	-	-	(165,382)	107,892	147,574	**90,084**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(194,012)	**(194,012)**	-	-	(194,012)	**(194,012)**
Changes in accrued interest	(26,737)	5,690	3,631	**(17,416)**	-	-	-	-
Modification	4,016	834	732	**5,582**	-	-	-	-
Foreign exchange movements	(1,151,310)	(180,726)	(36,287)	**(1,368,323)**	(1,038)	(1,983)	(5,979)	**(9,000)**
At 31 December 2022	**16,065,731**	**1,401,961**	**389,584**	**17,857,276**	**101,747**	**96,993**	**161,094**	**359,834**

1 Movements with impact on credit loss allowance charge for the period differs from statement of profit or loss with amount of recoveries of GEL 50,231 thousands in 2022 (2021: GEL 44,642 thousands) The amount of recoveries include recoveries from sale of written off portfolio in the amount of GEL 12,688 thousands sold In January 2022 and GEL 5,946 thousands sold in September 2022 (2021: GEL 11,649 thousands).

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Total loans *in thousands of GEL*	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	**11,860,559**	**2,448,126**	**891,830**	**15,200,515**	**130,228**	**142,915**	**333,103**	**606,246**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(1,734,485)*	*2,099,936*	*(365,451)*	-	*(66,102)*	*162,746*	*(96,644)*	-
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(366,906)*	*(262,234)*	*629,140*	-	*(83,962)*	*(39,902)*	*123,864*	-
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*1,950,513*	*(1,780,706)*	*(169,807)*	-	*143,565*	*(93,518)*	*(50,047)*	-
New originated or purchased	7,369,167	-	-	**7,369,167**	115,394	-	-	**115,394**
Derecognised or fully repaid during the period	(2,161,851)	(162,437)	(192,679)	**(2,516,967)**	22,759	(16,651)	(50,522)	**(44,414)**
Net repayments	(1,809,284)	(267,445)	(66,207)	**(2,142,936)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(158,517)	(33,483)	122,486	**(69,514)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(193,678)	**(193,678)**	-	-	(193,678)	**(193,678)**
Changes in accrued interest	11,271	(3,229)	1,870	**9,912**	-	-	-	-
Modification	5,346	1,930	2,466	**9,742**	-	-	-	-
Foreign exchange movements	(612,165)	(140,411)	(28,626)	**(781,202)**	(1,393)	(1,690)	(3,583)	**(6,666)**
At 31 December 2021	**14,512,165**	**1,933,530**	**508,858**	**16,954,553**	**101,972**	**120,417**	**184,979**	**407,368**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Corporate loans *in thousands of GEL*	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2022	**5,743,444**	**712,548**	**91,749**	**6,547,741**	**24,404**	**1,310**	**25,017**	**50,731**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(167,429)*	*171,531*	*(4,102)*	-	*(770)*	*1,550*	*(780)*	-
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(13,861)*	*(21,457)*	*35,318*	-	*(1,428)*	*(160)*	*1,588*	-
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*219,373*	*(207,522)*	*(11,851)*	-	*1,113*	*(738)*	*(375)*	-
New originated or purchased	3,659,826	-	-	**3,659,826**	51,203	-	-	**51,203**
Derecognised or fully repaid during the period	(2,805,071)	(35,641)	(13,318)	**(2,854,030)**	(18,621)	(188)	(1,383)	**(20,192)**
Net repayments	(378,989)	(68,653)	(8,529)	**(456,171)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(36,022)	(494)	4,210	**(32,306)**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	64,980	16,622	-	**81,602**	139	16	-	**155**
Write-offs	-	-	(1,126)	**(1,126)**	-	-	(1,126)	**(1,126)**
Changes in accrued interest	(40,308)	(563)	242	**(40,629)**	-	-	-	-
Modification	1,520	62	74	**1,656**	-	-	-	-
Foreign exchange movements	(542,085)	(108,593)	(5,722)	**(656,400)**	(1,088)	(82)	(837)	**(2,007)**
At 31 December 2022	**5,741,400**	**458,334**	**82,735**	**6,282,469**	**18,930**	**1,214**	**26,314**	**46,458**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Corporate loans *in thousands of GEL*	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	**4,574,134**	**955,187**	**161,428**	**5,690,749**	**53,995**	**8,194**	**45,452**	**107,641**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	*(260,069)*	*331,488*	*(71,419)*	-	*(6,701)*	*12,127*	*(5,426)*	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	*(93,919)*	*(25,017)*	*118,936*	-	*(30,508)*	*(391)*	*30,899*	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	*461,963*	*(405,275)*	*(56,688)*	-	*27,590*	*(8,265)*	*(19,325)*	-
New originated or purchased	2,604,204	-	-	**2,604,204**	39,357	-	-	**39,357**
Derecognised or fully repaid during the period	(1,034,926)	(10,074)	(35,273)	**(1,080,273)**	(3,172)	102	(16,258)	**(19,328)**
Net repayments	(414,977)	(82,387)	(32,038)	**(529,402)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(55,960)	(10,378)	(12,081)	**(78,419)**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	213,296	29,590	6,401	**249,287**	476	314	2,897	**3,687**
Write-offs	-	-	(340)	**(340)**	-	-	(340)	**(340)**
Changes in accrued interest	1,988	(3,035)	3,917	**2,870**	-	-	-	-
Modification	719	608	996	**2,323**	-	-	-	-
Foreign exchange movements	(308,969)	(78,537)	(4,171)	**(391,677)**	(673)	(393)	(801)	**(1,867)**
At 31 December 2021	**5,743,444**	**712,548**	**91,749**	**6,547,741**	**24,404**	**1,310**	**25,017**	**50,731**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Loans to micro, small and medium enterprises *in thousands of GEL*	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2022	**3,519,842**	**413,339**	**208,124**	**4,141,305**	**20,487**	**32,234**	**60,380**	**113,101**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	*(596,643)*	*649,360*	*(52,717)*	-	*(12,887)*	*30,360*	*(17,473)*	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	*(3,607)*	*(131,785)*	*135,392*	-	*(785)*	*(22,920)*	*23,705*	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	*470,443*	*(469,705)*	*(738)*	-	*31,196*	*(30,853)*	*(343)*	-
New originated or purchased	2,732,945	-	-	**2,732,945**	30,670	-	-	**30,670**
Derecognised or fully repaid during the period	(799,199)	(49,055)	(32,100)	**(880,354)**	(10,514)	(3,232)	(9,333)	**(23,079)**
Net repayments	(680,252)	(58,076)	(27,557)	**(765,885)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(33,027)	18,867	39,156	**24,996**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(56,707)	(15,755)	-	**(72,462)**	(70)	74	-	**4**
Write-offs	-	-	(46,258)	**(46,258)**	-	-	(46,258)	**(46,258)**
Changes in accrued interest	13,981	3,054	(716)	**16,319**	-	-	-	-
Modification	546	255	353	**1,154**	-	-	-	-
Foreign exchange movements	(273,607)	(23,802)	(19,940)	**(317,349)**	(132)	(569)	(2,621)	**(3,322)**
At 31 December 2022	**4,327,742**	**317,830**	**163,843**	**4,809,415**	**24,938**	**23,961**	**47,213**	**96,112**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Loans to micro, small and medium enterprises *in thousands of GEL*	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
At 1 January 2021	**2,661,786**	**631,347**	**262,946**	**3,556,079**	**24,490**	**46,853**	**88,567**	**159,910**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	*(466,965)*	*534,711*	*(67,746)*	-	*(10,917)*	*29,516*	*(18,599)*	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	*(71,234)*	*(94,868)*	*166,102*	-	*(14,450)*	*(10,455)*	*24,905*	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	*570,554*	*(537,576)*	*(32,978)*	-	*36,444*	*(28,030)*	*(8,414)*	-
New originated or purchased	2,023,430	-	-	**2,023,430**	16,667	-	-	**16,667**
Derecognised or fully repaid during the period	(522,685)	(44,334)	(33,607)	**(600,626)**	(688)	(1,613)	(11,988)	**(14,289)**
Net repayments	(475,809)	(61,832)	(30,299)	**(567,940)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(26,678)	(3,534)	32,293	**2,081**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(80,868)	6,542	(4,798)	**(79,124)**	(3,824)	78	(4,898)	**(8,644)**
Write-offs	-	-	(40,086)	**(40,086)**	-	-	(40,086)	**(40,086)**
Changes in accrued interest	14,130	1,126	1,449	**16,705**	-	-	-	-
Modification	1,208	369	424	**2,001**	-	-	-	-
Foreign exchange movements	(133,705)	(22,146)	(13,283)	**(169,134)**	(557)	(581)	(1,400)	**(2,538)**
At 31 December 2021	**3,519,842**	**413,339**	**208,124**	**4,141,305**	**20,487**	**32,234**	**60,380**	**113,101**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Consumer loans *in thousands of GEL*	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
At 1 January 2022	**1,829,908**	**237,400**	**85,758**	**2,153,066**	**54,279**	**64,793**	**60,978**	**180,050**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	*(650,136)*	*668,563*	*(18,427)*	-	*(64,388)*	*76,190*	*(11,802)*	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	*(34,514)*	*(177,854)*	*212,368*	-	*(5,980)*	*(84,055)*	*90,035*	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	*409,926*	*(409,774)*	*(152)*	-	*88,788*	*(88,682)*	*(106)*	-
New originated or purchased	2,080,841	-	-	**2,080,841**	85,603	-	-	**85,603**
Derecognised or fully repaid during the period	(818,914)	(41,409)	(47,920)	**(908,243)**	(21,501)	(8,971)	(19,551)	**(50,023)**
Net repayments	(600,668)	(49,488)	(2,136)	**(652,292)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(81,011)	103,143	89,322	**111,454**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	3,580	(34)	-	**3,546**	(77)	(39)	-	**(116)**
Write-offs	-	-	(142,912)	**(142,912)**	-	-	(142,912)	**(142,912)**
Changes in accrued interest	3,110	5,105	5,345	**13,560**	-	-	-	-
Modification	1,076	260	101	**1,437**	-	-	-	-
Foreign exchange movements	(31,786)	(2,777)	(2,220)	**(36,783)**	(134)	(261)	(309)	**(704)**
At 31 December 2022	**2,192,423**	**229,992**	**89,805**	**2,512,220**	**55,579**	**62,118**	**65,655**	**183,352**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Consumer loans *in thousands of GEL*	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	**1,556,559**	**267,296**	**187,730**	**2,011,585**	**48,372**	**66,352**	**127,101**	**241,825**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(404,297)*	*469,103*	*(64,806)*	**-**	*(46,034)*	*83,035*	*(37,001)*	**-**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(107,233)*	*(99,591)*	*206,824*	**-**	*(22,505)*	*(25,955)*	*48,460*	**-**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*319,163*	*(287,805)*	*(31,358)*	**-**	*57,187*	*(45,306)*	*(11,881)*	**-**
New originated or purchased	1,410,607	-	-	**1,410,607**	57,565	-	-	**57,565**
Derecognised or fully repaid during the period	(408,992)	(55,937)	(87,562)	**(552,491)**	23,943	(14,452)	(11,487)	**(1,996)**
Net repayments	(491,278)	(53,145)	29,536	**(514,887)**	-	-	-	**-**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	**-**	(67,672)	541	94,437	**27,306**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(30,782)	491	2,385	**(27,906)**	3,400	348	2,861	**6,609**
Write-offs	-	-	(151,635)	**(151,635)**	-	-	(151,635)	**(151,635)**
Changes in accrued interest	(1,447)	(1,248)	(4,446)	**(7,141)**	-	-	-	**-**
Modification	2,098	437	828	**3,363**	-	-	-	**-**
Foreign exchange movements	(14,490)	(2,201)	(1,738)	**(18,429)**	23	230	123	**376**
At 31 December 2021	**1,829,908**	**237,400**	**85,758**	**2,153,066**	**54,279**	**64,793**	**60,978**	**180,050**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Mortgage loans *in thousands of GEL*	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2022	**3,418,971**	**570,243**	**123,227**	**4,112,441**	**2,802**	**22,080**	**38,604**	**63,486**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(827,669)*	*888,290*	*(60,621)*	**-**	*(2,830)*	*23,771*	*(20,941)*	**-**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(12,023)*	*(32,568)*	*44,591*	**-**	*(1,639)*	*(2,258)*	*3,897*	**-**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*892,137*	*(892,137)*	*-*	**-**	*17,374*	*(17,374)*	*-*	**-**
New originated or purchased	1,350,888	-	-	**1,350,888**	1,827	-	-	**1,827**
Derecognised or fully repaid during the period	(322,075)	(47,032)	(23,188)	**(392,295)**	(236)	(1,773)	(8,606)	**(10,615)**
Net repayments	(377,732)	(42,955)	(17,651)	**(438,338)**	-	-	-	**-**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	**-**	(15,322)	(13,624)	14,886	**(14,060)**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(11,853)	(833)	-	**(12,686)**	8	(51)	-	**(43)**
Write-offs	-	-	(3,716)	**(3,716)**	-	-	(3,716)	**(3,716)**
Changes in accrued interest	(3,520)	(1,906)	(1,240)	**(6,666)**	-	-	-	**-**
Modification	874	257	204	**1,335**	-	-	-	**-**
Foreign exchange movements	(303,832)	(45,554)	(8,405)	**(357,791)**	316	(1,071)	(2,212)	**(2,967)**
At 31 December 2022	**3,804,166**	**395,805**	**53,201**	**4,253,172**	**2,300**	**9,700**	**21,912**	**33,912**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Mortgage loans *in thousands of GEL*	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
At 1 January 2021	**3,068,080**	**594,296**	**279,726**	**3,942,102**	**3,371**	**21,516**	**71,983**	**96,870**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(603,154)*	*764,634*	*(161,480)*	-	*(2,450)*	*38,068*	*(35,618)*	-
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(94,520)*	*(42,758)*	*137,278*	-	*(16,499)*	*(3,101)*	*19,600*	-
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*598,833*	*(550,050)*	*(48,783)*	-	*22,344*	*(11,917)*	*(10,427)*	-
New originated or purchased	1,330,926	-	-	**1,330,926**	1,805	-	-	**1,805**
Derecognised or fully repaid during the period	(195,248)	(52,092)	(36,237)	**(283,577)**	2,676	(688)	(10,789)	**(8,801)**
Net repayments	(427,220)	(70,081)	(33,406)	**(530,707)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(8,207)	(20,112)	7,837	**(20,482)**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(101,646)	(36,623)	(3,988)	**(142,257)**	(52)	(740)	(860)	**(1,652)**
Write-offs	-	-	(1,617)	**(1,617)**	-	-	(1,617)	**(1,617)**
Changes in accrued interest	(3,400)	(72)	950	**(2,522)**	-	-	-	-
Modification	1,321	516	218	**2,055**	-	-	-	-
Foreign exchange movements	(155,001)	(37,527)	(9,434)	**(201,962)**	(186)	(946)	(1,505)	**(2,637)**
At 31 December 2021	**3,418,971**	**570,243**	**123,227**	**4,112,441**	**2,802**	**22,080**	**38,604**	**63,486**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2022:

	31 December 2022			
in thousands of GEL	**Stage 1 (12months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
Corporate loans risk category				
- Very low	5,605,060	-	-	**5,605,060**
- Low	136,070	427,830	-	**563,900**
- Moderate	270	30,504	-	**30,774**
- Default	-	-	82,735	**82,735**
Gross carrying amount	**5,741,400**	**458,334**	**82,735**	**6,282,469**
Credit loss allowance	(18,930)	(1,214)	(26,314)	**(46,458)**
Carrying amount	**5,722,470**	**457,120**	**56,421**	**6,236,011**
Consumer loans risk category				
- Very low	1,432,943	6,988	-	**1,439,931**
- Low	643,378	40,120	-	**683,498**
- Moderate	116,102	141,735	-	**257,837**
- High	-	41,149	-	**41,149**
- Default	-	-	89,805	**89,805**
Gross carrying amount	**2,192,423**	**229,992**	**89,805**	**2,512,220**
Credit loss allowance	(55,579)	(62,118)	(65,655)	**(183,352)**
Carrying amount	**2,136,844**	***167,874***	**24,150**	**2,328,868**
Mortgage loans risk category				
- Very low	3,349,388	38,732	-	**3,388,120**
- Low	433,913	205,328	-	**639,241**
- Moderate	20,865	125,898	-	**146,763**
- High	-	25,847	-	**25,847**
- Default	-	-	53,201	**53,201**
Gross carrying amount	**3,804,166**	**395,805**	**53,201**	**4,253,172**
Credit loss allowance	(2,300)	(9,700)	(21,912)	**(33,912)**
Carrying amount	**3,801,866**	**386,105**	**31,289**	**4,219,260**
Loans to MSME risk category				
- Very low	3,437,333	24,043	-	**3,461,376**
- Low	876,548	177,178	-	**1,053,726**
- Moderate	13,741	85,733	-	**99,474**
- High	120	30,876	-	**30,996**
- Default	-	-	163,843	**163,843**
Gross carrying amount	**4,327,742**	**317,830**	**163,843**	**4,809,415**
Credit loss allowance	(24,938)	(23,961)	(47,213)	**(96,112)**
Carrying amount	**4,302,804**	**293,869**	**116,630**	**4,713,303**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2021:

	31 December 2021			
in thousands of GEL	Stage 1 (12months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Corporate loans risk category				
- Very low	5,491,018	4,275	–	**5,495,293**
- Low	246,591	598,209	–	**844,800**
- Moderate	5,835	110,064	–	**115,899**
- Default	–	–	91,749	**91,749**
Gross carrying amount	**5,743,444**	**712,548**	**91,749**	**6,547,741**
Credit loss allowance	(24,404)	(1,310)	(25,017)	**(50,731)**
Carrying amount	**5,719,040**	**711,238**	**66,732**	**6,497,010**
Consumer loans risk category				
- Very low	1,180,163	16,309	-	**1,196,472**
- Low	542,853	55,552	-	**598,405**
- Moderate	106,892	138,340	-	**245,232**
- High	-	27,199	-	**27,199**
- Default	-	-	85,758	**85,758**
Gross carrying amount	**1,829,908**	**237,400**	**85,758**	**2,153,066**
Credit loss allowance	(54,279)	(64,793)	(60,978)	**(180,050)**
Carrying amount	**1,775,629**	**172,607**	**24,780**	**1,973,016**
Mortgage loans risk category				
- Very low	3,069,543	78,659	–	**3,148,202**
- Low	328,538	353,765	–	**682,303**
- Moderate	20,890	122,855	–	**143,745**
- High	–	14,964	–	**14,964**
- Default	–	–	123,227	**123,227**
Gross carrying amount	**3,418,971**	**570,243**	**123,227**	**4,112,441**
Credit loss allowance	(2,802)	(22,080)	(38,604)	**(63,486)**
Carrying amount	**3,416,169**	**548,163**	**84,623**	**4,048,955**
Loans to MSME risk category				
- Very low	2,836,336	41,741	–	**2,878,077**
- Low	673,872	250,173	–	**924,045**
- Moderate	9,634	86,859	–	**96,493**
- High	–	34,566	–	**34,566**
- Default	–	–	208,124	**208,124**
Gross carrying amount	**3,519,842**	**413,339**	**208,124**	**4,141,305**
Credit loss allowance	(20,487)	(32,234)	(60,380)	**(113,101)**
Carrying amount	**3,499,355**	**381,105**	**147,744**	**4,028,204**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The contractual amounts outstanding on loans to customers that have been written off partially or fully but are still subject to enforcement activity was principal amount GEL 22,535 thousand (31 December 2021: GEL 19,238 thousand), accrued interest GEL 4,160 thousand (31 December 2021: GEL 4,963 thousand) and accrued off balance sheet penalty GEL 2,814 thousand (31 December 2021: GEL 2,113 thousand).

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

	31 December 2022		31 December 2021	
in thousands of GEL	Amount	%	Amount	%
Individual	6,851,397	38%	6,407,171	38%
Real Estate	1,564,352	9%	1,591,277	9%
Hospitality,Restaurants & Leisure	1,147,098	7%	1,350,184	8%
Construction	1,073,761	6%	1,041,416	6%
Food Industry	1,060,058	6%	994,780	6%
Trade	1,054,958	6%	860,286	5%
Energy & Utilities	947,441	5%	1,095,387	7%
Agriculture	822,779	5%	838,719	5%
Healthcare	451,304	3%	406,608	2%
Services	388,517	2%	348,738	2%
Automotive	297,558	2%	309,043	2%
Financial Services	262,675	1%	112,937	1%
Transportation	240,535	1%	224,066	1%
Pawn Shops	196,489	1%	159,851	1%
Metals and Mining	179,365	1%	43,132	0%
Communication	30,758	0%	41,191	0%
Other	1,288,231	7%	1,129,767	7%
Total gross loans and advances to customers	**17,857,276**	**100%**	**16,954,553**	**100%**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

As of 31 December 2022, the Group had 177 borrowers (2021: 188 borrowers) with aggregated gross loan amounts above GEL 10,000 thousand. The total aggregated amount of these loans was GEL 4,510,504 thousand (2021: GEL 5,017,758 thousand) or 25.26% of the gross loan portfolio (2021: 29.6%).

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

- Real estate;
- Movable property including fixed assets, inventory and precious metals;
- Financial assets including deposits, shares, and third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

The effect of collateral as at 31 December 2022:

	31 December 2022			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	3,534,635	9,524,073	2,747,834	1,135,017
Consumer loans	793,141	1,932,508	1,719,079	60,642
Mortgage loans	3,729,421	10,695,687	523,751	238,075
Loans to micro, small and medium enterprises	3,439,685	7,566,047	1,369,730	523,237
Total	**11,496,882**	**29,718,315**	**6,360,394**	**1,956,971**

The effect of collateral as at 31 December 2021:

	31 December 2021			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	3,929,725	8,578,057	2,618,016	878,667
Consumer loans	648,355	3,117,799	1,504,711	23,910
Mortgage loans	3,672,323	9,877,124	440,118	156,248
Loans to micro, small and medium enterprises	3,098,087	7,035,782	1,043,218	419,978
Total	**11,348,490**	**28,608,762**	**5,606,063**	**1,478,803**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

As at 31 December 2022 loans and advances to customers which were 1. over-collateralised and 2. credit loss allowance was nil amounted to GEL 1,525,046 thousand (2021: GEL 1,576,220 thousand).

The effect of collateral by types as at 31 December 2022:

	31 December 2022			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	304,408	336,311	164,437	128,474
Gold	147,485	186,835	40,777	40,181
Inventory	407,338	2,061,199	258,222	150,724
Real Estate	10,637,651	27,133,970	2,554,711	1,637,592
Unsecured and secured solely by third party guarantees	-	-	3,342,247	-
Total	**11,496,882**	**29,718,315**	**6,360,394**	**1,956,971**

The effect of collateral by types as at 31 December 2021:

	31 December 2021			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	271,396	310,681	207,788	147,871
Gold	91,525	115,404	15,917	15,657
Inventory	331,047	1,313,628	253,934	138,523
Real Estate	10,654,522	26,869,049	1,861,299	1,176,752
Unsecured and secured solely by third party guarantees	-	-	3,267,125	-
Total	**11,348,490**	**28,608,762**	**5,606,063**	**1,478,803**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The financial effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

Stage 3 loans presented by segments and collateral classes as at 31 December 2022 are the following:

	31 December 2022			
in thousands of GEL	Corporate	Consumer	Mortgage	Loans to micro, small and medium enterprises
Cash Cover	21	9	-	47
Gold	-	991	-	308
Inventory	8,913	-	-	1,131
Real Estate	59,302	19,931	50,539	143,285
Unsecured and secured solely by third party guarantees	14,499	68,874	2,662	19,072
Total	**82,735**	**89,805**	**53,201**	**163,843**

Stage 3 loans presented by segments and collateral classes as at 31 December 2021 are the following:

	31 December 2021			
in thousands of GEL	Corporate	Consumer	Mortgage	Loans to micro, small and medium enterprises
Cash Cover	19	6	13	267
Gold	-	-	-	294
Inventory	8,359	-	-	527
Real Estate	62,463	32,281	117,443	189,533
Unsecured and secured solely by third party guarantees	20,908	53,471	5,771	17,503
Total	**91,749**	**85,758**	**123,227**	**208,124**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The gross carrying amount of loans by stages that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses loans are the following:

in thousands of GEL	31 December 2022	31 December 2021
Stage 1	354,308	487,742
Stage 2	184,044	431,160
Stage 3	49,975	50,792
Total	**588,327**	**969,694**

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the Internal Appraisal Group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The Internal Appraisal Group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collateral such as movable assets and precious metals.

In some instances, where the discounted recovery from the liquidation of collateral (adjusted for the liquidity haircut and discounted for the period of expected workout time) is larger than the estimated exposure at default, no credit loss allowance is recognised.

Collateral values include the contractual price of third-party guarantees, which, due to their nature, are capped at the loan's carrying value. The values of third-party guarantees in the tables above amounted to GEL 387,356 thousand and GEL 857,891 thousand as of 31 December 2022 and 2021, respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 40 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 35. Information on related party balances is disclosed in Note 42.

For the year ended 31 December 2022 amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event was GEL 1,796,668 thousand (31 December 2021: GEL 2,110,117 thousand). During 2022, gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL (14) thousand (2021: GEL 205 thousand)

For the year ended 31 December 2022 gross carrying amount of loans that were contractually modified (without derecognition) in the past when measured at lifetime ECL and which were reclassified to Stage 1 (12 months ECL) during the current year was GEL 1,063,796 thousand (31 December 2021: GEL 994,526 thousand).

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in thousands of GEL	31 December 2022	31 December 2021
Corporate bonds	1,291,719	707,253
Ministry of Finance of Georgia treasury bills	1,559,867	1,231,024
Foreign government treasury bills	35,617	1,683
Less: credit loss allowance by stages	(3,140)	(2,818)
Stage 1	(3,140)	(2,818)
Stage 2	-	-
Stage 3	-	-
Total investment securities measured at fair value through other comprehensive income excluding corporate shares	**2,884,063**	**1,937,142**
Corporate shares – unquoted	665	1,054
Total investment securities measured at fair value through other comprehensive income	**2,884,728**	**1,938,196**

All debt securities in 2022 and 2021 except for corporate bonds and foreign government treasury bills are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB with stable outlook (as assigned by Fitch rating agency in July 2022).87.6% of corporate bonds are issued by triple A rated international financial institutions, 0.2% of corporate bonds are issued by BB- rated financial institutions, 9.5% of corporate bonds are issued by BB rating and 2.7% by B+ rating. Information includes credit ratings assigned by the international rating agencies (Standard & Poor's, Fitch), for those financial institutions which are not assigned credit ratings, country ratings are used.

In 2022 fair value adjustment to investment securities measured at fair value through other comprehensive income amounted to GEL 16,329 thousands (2021: GEL (22,020) thousands).

The Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held primarily for liquidity management or medium term investment purposes instead of short-term profit making from subsequent sales.

As at 31 December 2022 investment securities measured at fair value through other comprehensive income carried at GEL 475,259 thousand have been pledged with local banks or financial institutions as a collateral for other borrowed funds (2021: GEL 383,790 thousand). Refer to Note 18.

The movements in investment securities measured at fair value through other comprehensive income are as follows:

in thousands of GEL	2022	2021
Carrying amount as of 1 January	**1,938,196**	**2,613,276**
Purchases	2,412,783	797,285
Disposals	(816,417)	(1,025,775)
Redemption at maturity	(391,341)	(412,204)
Revaluation	16,329	(45,696)
Interest income accrued	196,114	185,424
Interest income received	(178,112)	(169,068)
Effect of translation to presentation currency	(25,007)	(5,486)
Transfer to repurchase receivables	(267,495)	-
Changes in credit loss allowance	(322)	440
Carrying amount as of 31 December	**2,884,728**	**1,938,196**

11. REPURCHASE RECEIVABLES

Repurchase receivables represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge.

in thousands of GEL	31 December 2022	31 December 2021
Investment securities measured at FVOCI sold under sale and repurchase agreements	267,495	-
Total repurchase receivables	**267,495**	**-**

For the end of 2022 the total balance of repurchase receivables gross portfolio were under stage 1 for credit loss allowance purposes and respectively, the ECL amounted nil (2021: nil). Meanwhile credit risk category of total portfolio is classified as very low.

12. OTHER FINANCIAL ASSETS

in thousands of GEL	31 December 2022	31 December 2021
Derivative financial assets	69,921	199,233
Receivables on credit card services and money transfers	46,724	62,881
Receivable on terminated leases	40,103	46,346
Receivables from plastic card service providers	28,081	14,472
Receivables on guarantees and letters of credit	23,140	9,766
Receivable from insurance service providers	21,194	18,785
Advances paid to promotional service provider	19,733	17,681
Investment held at fair value through profit or loss	9,704	11,125
Government subsidy related receivables	3,981	1,949
Trade receivables	3,892	6,827
Prepayments for purchase of leasing assets	2,794	2,073
Receivables for rental income	666	1,349
Receivables from sales of non-financial assets	657	72,650
Other	30,823	28,877
Total gross amount of other financial assets	**301,413**	**494,014**
Less: credit loss allowance	(54,415)	(51,807)
Total other financial assets	**246,998**	**442,207**

For the year end of 2022 other financial asset gross portfolio with related credit loss allowance represented: stage 1 - GEL 236,923 thousand and GEL 9,899 thousand (2021: GEL 416,687 thousand and GEL 3,955 thousand); stage 2 - GEL 412 thousand and GEL 66 thousand (2021: GEL 3,730 thousand and GEL 1,706 thousand); stage 3 – GEL 64,078 thousand and GEL 44,450 thousand (2021: GEL 73,597 thousand and GEL 46,146 thousand).

13. FINANCE LEASE RECEIVABLES

As at 31 December 2022 finance lease receivables of GEL 288,886 thousand (2021: GEL 252,340 thousand) are represented by leases of fixed assets excluding land and buildings.

The Company normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Company holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contractual term subject to full payment of lease obligations. Generally, the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment) ;
- Down payment;
- Real estate properties.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralized assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("undercollateralized assets").

Finance lease payments receivable and their present values as of 31 December 2022 are as follows:

in thousands of GEL	Due in 1 year	Due between 1 and 2 year	Due between 2 and 3 year	Due between 3 and 4 year	Due between 4 and 5 year	Due in 5 year or more	Total
Lease payments receivable	143,900	89,898	60,931	35,399	24,306	42,693	**397,127**
Unearned finance income	(36,763)	(23,306)	(13,885)	(7,758)	(4,454)	(13,475)	**(99,641)**
Credit loss allowance	(2,791)	(1,795)	(1,339)	(951)	(973)	(751)	**(8,600)**
Present value of lease payments receivable	**104,346**	**64,797**	**45,707**	**26,690**	**18,879**	**28,467**	**288,886**

Finance lease payments receivable and their present values as of 31 December 2021 are as follows:

in thousands of GEL	Due in 1 year	Due between 1 and 2 year	Due between 2 and 3 year	Due between 3 and 4 year	Due between 4 and 5 year	Due in 5 year or more	Total
Lease payments receivable	129,836	98,520	55,544	28,065	11,848	6,868	**330,681**
Unearned finance income	(32,106)	(19,805)	(9,777)	(4,332)	(1,460)	(1,078)	**(68,558)**
Credit loss allowance	(3,698)	(3,144)	(1,769)	(699)	(304)	(169)	**(9,783)**
Present value of lease payments receivable	**94,032**	**75,571**	**43,998**	**23,034**	**10,084**	**5,621**	**252,340**

For fair values refer to Note 40.

13. FINANCE LEASE RECEIVABLES CONTINUED

The following table discloses the changes in the credit loss allowance and gross carrying amount for finance lease receivables between the beginning and the end of the reporting period:

	Gross carrying amount				**Credit loss allowance**			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
At 1 January 2022	**190,697**	**43,732**	**27,694**	**262,123**	**2,712**	**3,422**	**3,649**	**9,783**
Transfers								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(23,095)	29,847	(6,752)	-	(961)	1,385	(424)	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(13,873)	(4,680)	18,553	-	(733)	(128)	861	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	7,688	(7,653)	(35)	-	199	(195)	(4)	-
New originated or purchased	178,718	-	-	**178,718**	3,933	-	-	**3,933**
Derecognised or fully repaid during the period	(51,936)	(18,430)	(17,459)	**(87,825)**	(813)	(2,024)	(2,855)	**(5,692)**
Net repayments	(36,184)	(5,121)	(3,723)	**(45,028)**	-	-	-	-
Foreign exchange movements	(8,228)	(954)	(1,217)	**(10,399)**	(85)	(26)	(141)	**(252)**
Other movements	(873)	(23)	793	**(103)**	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(130)	(261)	1,219	**828**
At 31 December 2022	**242,914**	**36,718**	**17,854**	**297,486**	**4,122**	**2,173**	**2,305**	**8,600**

13. FINANCE LEASE RECEIVABLES CONTINUED

in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	**171,152**	**60,769**	**49,254**	**281,175**	**2,914**	**3,419**	**3,864**	**10,197**
Transfers								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(27,924)	30,085	(2,161)	-	(181)	193	(12)	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(9,135)	(1,952)	11,087	-	(83)	(107)	190	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	47,278	(38,439)	(8,839)	-	1,318	(1,042)	(276)	-
New originated or purchased	109,604	9,178	2,456	**121,238**	1,589	2,374	559	**4,522**
Derecognised or fully repaid during the period	(58,654)	(11,429)	(21,386)	**(91,469)**	(955)	(597)	(3,398)	**(4,950)**
Net repayments	(36,612)	(4,109)	(4,847)	**(45,568)**	-	(42)	(61)	**(103)**
Foreign exchange movements	(3,110)	(1,353)	(1,096)	**(5,559)**	-	-	-	**-**
Other movements	(1,832)	977	3,161	**2,306**	-	(42)	(54)	**(96)**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	**-**	(1,843)	(738)	2,794	**213**
At 31 December 2021	**190,767**	**43,727**	**27,629**	**262,123**	**2,759**	**3,418**	**3,606**	**9,783**

As at 31 December 2022, credit quality of finance lease receivables is analysed below:

in thousands of GEL	31 December 2022 Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Finance lease receivables risk category				
– Very low	216,763	-	-	216,763
– Low	26,063	6,982	-	33,045
– Moderate	88	9,780	-	9,868
– High	-	19,956	-	19,956
– Default	-	-	17,854	17,854
Gross carrying amount	**242,914**	**36,718**	**17,854**	**297,486**
Credit loss allowance	(4,122)	(2,173)	(2,305)	(8,600)
Carrying amount	**238,792**	**34,545**	**15,549**	**288,886**

13. FINANCE LEASE RECEIVABLES CONTINUED

As at 31 December 2021, credit quality of finance lease receivables is analysed below:

in thousands of GEL	31 December 2021 Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Finance lease receivables risk category				
– Very low	161,019	4,397	-	165,416
– Low	29,748	8,993	-	38,741
– Moderate	-	15,797	-	15,797
– High	-	14,540	-	14,540
– Default	-	-	27,629	27,629
Gross carrying amount	**190,767**	**43,727**	**27,629**	**262,123**
Credit loss allowance	(2,759)	(3,418)	(3,606)	(9,783)
Carrying amount	**188,008**	**40,309**	**24,023**	**252,340**

The effect of collateral as at 31 December 2022:

in thousands of GEL	31 December 2022 Over-collateralised Assets: Gross carrying value of the assets	Fair value of collateral	Under-collateralised Assets: Gross carrying value of the assets	Fair value of collateral
Finance lease receivables	226,389	397,377	71,097	57,456
Total	**226,389**	**397,377**	**71,097**	**57,456**

The effect of collateral as at 31 December 2021:

in thousands of GEL	31 December 2021 Over-collateralised Assets: Gross carrying value of the assets	Fair value of collateral	Under-collateralised Assets: Gross carrying value of the assets	Fair value of collateral
Finance lease receivables	221,676	366,792	40,447	31,842
Total	**221,676**	**366,792**	**40,447**	**31,842**

14. OTHER ASSETS

in thousands of GEL	31 December 2022	31 December 2021
Current other assets		
Repossessed collateral	269,006	255,785
Prepayments for other assets	47,859	54,730
Prepayments for purchase of leasing assets	28,595	28,829
Other inventories	14,741	8,203
Prepaid taxes other than income tax	5,860	6,624
Total current other assets	**366,061**	**354,171**
Non-current other assets		
Assets repossessed from terminated leases	16,531	10,224
Prepayments for construction in progress	22,460	5,229
Prepaid insurance of leasing assets	2,364	2,380
Assets purchased for leasing purposes	1,049	120
Other	3,262	1,768
Total non-current other assets	**45,666**	**19,721**
Total other assets	**411,727**	**373,892**

Repossessed collateral represents tangible assets acquired by the Group in settlement of overdue loans, which is expected to be disposed in a foreseeable future. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2 “Inventories”. The assets were initially recognised at the lower of cost and net realisable value when acquired. In 2022, collaterals repossessed for settlement of impaired loans amounted to GEL 98,289 thousand (2021: GEL 131,917 thousand).

As at 31 December 2022 repossessed collateral of the bank after impairment is comprised of lands to GEL 19,996 thousand, buildings to GEL 246,700 thousand and movable property to GEL 1,290 thousand (2021: GEL 11,898 thousand, GEL 242,106 thousand and GEL 433 thousand).

For certain repossessed collateral, the Group has granted previous owners a right to repurchase the repossessed collateral at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 24 months from the repossession date, during this time the repossessed collateral may not be disposed to third parties. In some cases prolongation of repurchase right is offered to the owners of the property. As at 31 December 2022, the carrying value of the repossessed collaterals subjected to the repurchase agreement was GEL 143,780 thousand (2021: GEL 124,687 thousand).

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

in thousands of GEL	Land, premises and leasehold improvements	Office and other equipment*	Construction in progress	Total premises and equipment	Intangible assets	Total
At cost						
1 January 2021	**210,034**	**252,990**	**103,669**	**566,693**	**318,303**	**884,996**
Additions	10,606	38,097	10,422	59,125	103,226	**162,351**
Transfers within premises and equipment	2,888	-	(2,888)	-	-	**-**
Disposals	(12,312)	(12,243)	(1,693)	(26,248)	(30,080)	**(56,328)**
Impairment (charge)/reversal	(7,787)	354	(483)	(7,916)	(92)	**(8,008)**
Effect of translation to presentation currency	(66)	(68)	-	(134)	(23)	**(157)**
31 December 2021	**203,363**	**279,130**	**109,027**	**591,520**	**391,334**	**982,854**
Additions	11,814	54,565	27,559	93,938	89,345	**183,283**
Transfers within premises and equipment	4,704	(274)	(4,430)	-	-	**-**
Disposals	(3,082)	(19,867)	(2,958)	(25,907)	(4,770)	**(30,677)**
Reclassification to right of use assets	(20,813)	-	-	(20,813)	-	**(20,813)**
Impairment reversal	746	349	-	1,095	-	**1,095**
Effect of translation to presentation currency	(107)	(148)	-	(255)	(53)	**(308)**
31 December 2022	**196,625**	**313,755**	**129,198**	**639,578**	**475,856**	**1,115,434**
Accumulated depreciation / amortisation						
1 January 2021	**(47,694)**	**(156,136)**	**-**	**(203,830)**	**(94,726)**	**(298,556)**
Depreciation / amortisation charge	(5,346)	(19,823)	-	(25,169)	(30,994)	**(56,163)**
Elimination of accumulated depreciation/ amortisation on disposals	8,093	7,925	-	16,018	1,771	**17,789**
Effect of translation to presentation currency	52	66	-	118	21	**139**
31 December 2021	**(44,895)**	**(167,968)**	**-**	**(212,863)**	**(123,928)**	**(336,791)**
Depreciation / amortisation charge	(5,102)	(19,377)	-	(24,479)	(42,910)	**(67,389)**
Elimination of accumulated depreciation of reclassification to right of use assets	9,249	-	-	9,249	-	**9,249**
Elimination of accumulated depreciation/ amortisation on disposals	943	11,612	-	12,555	2,084	**14,639**
Effect of translation to presentation currency	107	105	-	212	48	**260**
31 December 2022	**(39,698)**	**(175,628)**	**-**	**(215,326)**	**(164,706)**	**(380,032)**
Carrying amount						
31 December 2021	**158,468**	**111,162**	**109,027**	**378,657**	**267,406**	**646,063**
31 December 2022	**156,927**	**138,127**	**129,198**	**424,252**	**311,150**	**735,402**

*Office and other equipment include furniture and fixtures, computer and office equipment, motor vehicles as well as other equipment

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

As of 31 December 2022 GEL 398,964 thousand of premises and equipment and GEL 285,884 thousand of intangible assets were attributable to the Bank (2021: GEL 352,743 thousand and GEL 249,356 thousand).

On 10 August 2021, the Bank entered into a sale agreement to dispose of Space platform, which carried out the Group's digital banking operations. The disposal was effected in order to support the Groups plan for further expansion. The disposal was completed on 10 August 2021, on which date control of Space platform passed to the Space International JSC (subsidiary of TBC Bank Group PLC). The carrying value of the assets sold were GEL 24,615 thousand, which was sold for the consideration of GEL 24,615 thousand.

On 18 June 2021, the Group sold land and buildings, where some of its back office functions were located, for cash consideration of USD 25 million. USD 25 million (GEL 79.7 million) was received by 30 April 2022. Selling of those assets was part of the Group's plan to gradually prepare for relocation to new headquarter, which is in the process of construction. Under the plan, the Group gradually discharged the occupied part of the buildings by 30 April 2022 and staff have been distributed to existing offices before the new headquarter will be completed. During this period the property was being leased back using IFRS 16 exemption for short term leases. Net carrying amount of disposed properties was GEL 37,416 thousand, out of which net balance disposed from premises and equipment were GEL 5,442 thousand, while the remaining part was disposed from investment property. Net gain on disposal from the sale was recognised as part of other operating income in the 2021 consolidated financial statements of profit or loss in the amount of GEL 26,294 thousand. Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarter, that will be transferred to premises upon completion.

Land and premises of the bank after impairment and depreciation comprised of land GEL 12,927 thousand and buildings GEL 143,116 thousand (2021: GEL 12,927 thousand and GEL 137,446 thousand).

16. RIGHT OF USE ASSETS

The Group leases offices, branches and service centres. Rental contracts are typically made for fixed periods of 1 to 14 years.

Leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets represents premises and is analysed as follows:

in thousands of GEL	2022	2021
Carrying amount at 1 January	**58,001**	**49,746**
Additions of new contracts	30,062	5,650
Increases in value from substantial changes in contractual terms	5,199	9,601
Reclassification from premises and equipment	11,564	-
Disposals	(1,830)	(1,234)
Depreciation charge	(17,277)	(13,710)
Elimination of depreciation	14,490	7,948
Carrying amount at 31 December	**100,209**	**58,001**

The lease agreements do not impose any covenants, other than the security interests in the leased assets that are held by the lessor. Leased assets cannot be used as collateral for borrowings.

16. RIGHT OF USE ASSETS CONTINUED

Expenses relating to short-term leases amounted GEL 2,385 thousand during 2022 (2021: GEL 5,325 thousand) and expenses relating to leases of low-value assets amounted GEL 6,769 thousand during 2022 (2021: GEL 7,112 thousand). These expenses are included in administrative and other operating expenses.

17. GOODWILL

As at 31 December 2022 carrying amount of Goodwill represented GEL 28,197 thousand (2021: GEL 28,197 thousand).

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

in thousands of GEL	31 December 2022	31 December 2021
Bank Republic JSC	**24,166**	**24,166**
Bank Republic Retail	11,088	11,088
Bank Republic Corporate	7,491	7,491
Bank Republic MSME	4,791	4,791
Bank Republic Other	796	796
Other	4,031	4,031
Total carrying amount of goodwill	**28,197**	**28,197**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below, which is relevant for the market, where CGU is operating.

Key assumptions used for value-in-use calculations is following:

in thousands of GEL	31 December 2022	31 December 2021
Bank Republic JSC		
Growth rate applied to free cash flow to equity beyond three years	5.2% p.a.	5.2% p.a.
Pre-tax discount rate	14.7% p.a.	17.1% p.a.

Pre-tax discount rate used for value-in-use calculations is the assumption to which the recoverable amount is most sensitive. The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average long term growth rates used are consistent with the forecasts included in the industry reports. The discount rates reflect specific risks related to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Retail had been 10 percent higher than the management's estimates or growth rate beyond three years of free cash flow to equity had been 10 percent lower, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 3,253,314 thousand (2021: GEL 2,269,542 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 35.72% p.a. (2021: 41.86% p.a.).

17. GOODWILL CONTINUED

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percent higher than the management's estimates or growth rate beyond three years of free cash flow to equity had been 10 percent lower, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Corporate CGU exceeds its carrying amount by GEL 3,793,123 thousand (2021: GEL 1,744,639 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 34.99% p.a. (2021: 29.47% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percent higher than the management's estimates or growth rate beyond three years of free cash flow to equity had been 10 percent lower, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic MSME CGU exceeds its carrying amount by GEL 1,073,190 thousand (2021: GEL 611,733 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 25.00% p.a. (2021: 28.41% p.a.).

18. DUE TO CREDIT INSTITUTIONS

in thousands of GEL	31 December 2022	31 December 2021
Due to other banks		
Correspondent accounts and overnight placements	334,081	181,905
Deposits from banks	38,469	142,752
Sale and repurchase agreements with other banks	262,415	-
Total due to other banks	**634,965**	**324,657**
Other borrowed funds		
Borrowings from foreign banks and international financial institutions	2,185,622	1,653,245
Borrowings from other local banks and financial institutions	34,239	24,754
Borrowings from National Bank of Georgia	1,030,534	981,419
Total other borrowed funds	**3,250,395**	**2,659,418**
Total amounts due to credit institutions	**3,885,360**	**2,984,075**

As of 31 December 2022, for the purposes of maturity analysis of financial liabilities (Note 35) the above-mentioned due to other banks are included within the amounts for which repayment is expected within 3 months.

19. CUSTOMER ACCOUNTS

in thousands of GEL	31 December 2022	31 December 2021
State and public organisations		
Current/settlement accounts	1,053,255	577,020
Term deposits	553,743	364,121
Other legal entities		
Current/settlement accounts	5,859,281	4,865,920
Term deposits	1,265,154	932,480
Individuals		
Current/settlement accounts	5,329,038	4,444,586
Term deposits	3,780,886	3,700,018
Total customer accounts	**17,841,357**	**14,884,145**

State and public organisations include government owned profit orientated businesses. Economic sector concentrations within customer accounts are as follows:

	31 December 2022		31 December 2021	
in thousands of GEL	Amount	%	Amount	%
Individuals	9,101,046	51%	8,144,604	55%
Trade	1,568,181	9%	1,237,807	8%
Financial services	1,296,593	7%	1,226,110	8%
Energy & utilities	1,073,229	6%	542,425	4%
Services	830,207	5%	718,050	5%
Construction	773,603	4%	598,856	4%
Government sector	623,953	3%	480,046	3%
Real estate	545,959	3%	418,062	3%
Transportation	452,229	3%	403,249	3%
Hospitality & leisure	223,906	1%	155,778	1%
Healthcare	169,611	1%	194,648	1%
Agriculture	77,068	1%	78,810	1%
Metals and mining	26,514	0%	32,675	0%
Other	1,079,258	6%	653,025	4%
Total customer accounts	**17,841,357**	**100%**	**14,884,145**	**100%**

As of 31 December 2022, the Group had 156 customers (2021: 141 customers) with balances above GEL 10,000 thousand. Their aggregate balance was GEL 6,404,397 thousand (2021: GEL 4,754,533 thousand) or 35.9% of total customer accounts (2021: 32%).

As of 31 December 2022, included in customer accounts are deposits of GEL 72,591 thousand and GEL 188,699 thousand (2021: GEL 28,379 thousand and GEL 109,404 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. The latter is discussed in Note 36. As of 31 December 2022, deposits held as collateral for loans to customers amounted to GEL 478,295 thousand (2021: GEL 576,261 thousand).

Refer to Note 40 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 42.

20. DEBT SECURITIES IN ISSUE

in thousands of GEL	Currency	Carrying amount as of 31 December 2022	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	614,748	6/19/2024	5.80%	6.40%
Bonds issued on Irish Stock Exchange	USD	343,891	10/3/2024	10.80%	11.40%
Bonds issued on Irish Stock Exchange	USD	204,477	2/4/2027	8.90%	9.90%
Bonds issued on Georgian Stock Exchange	GEL	38,550	3/20/2023	TIBR 3M+3.25%	12.50%
Baku Stock Exchange CJSC	AZN	4,904	9/23/2023	12.00%	12.40%
Baku Stock Exchange CJSC	AZN	1,652	6/6/2024	12.00%	12.40%
Baku Stock Exchange CJSC	AZN	1,591	7/15/2024	12.00%	12.40%
Total debt securities in issue		**1,209,813**			

in thousands of GEL	Currency	Carrying amount as of 31 December 2021	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	918,504	6/19/2024	5.80%	6.40%
Bonds issued on Irish Stock Exchange	USD	392,840	10/3/2024	10.80%	11.40%
Bonds issued on Irish Stock Exchange	USD	228,174	2/4/2027	8.90%	9.90%
Bonds issued on Georgian Stock Exchange	GEL	38,532	3/20/2023	TIBR 3M+3.25%	12.50%
Baku Stock Exchange CJSC	AZN	5,649	9/23/2023	12.00%	12.40%
Total debt securities in issue		**1,583,699**			

On 14 July 2022 the TBC Kredit LLC issued interest-baring paperless unsecured bond in the amount of AZN 1 million, with 2 year maturity at 12%.

On 7 June 2022 the TBC Kredit LLC issued interest-baring paperless unsecured bond in the amount of AZN 1 million, with 2 year maturity at 12%.

On 6 April 2022 the Bank completed the partial redemption of 2019 issued senior bond in the amount of USD 55 million. Consideration paid amounted to USD 52 million. The difference between amount paid and amortised cost of the bond adjusted with transaction fee was accounted as a gain on extinguishment of debt in the amount of USD 2 million recognized within other operating income.

On 28 October 2021, the Bank completed the transaction of USD 75 million 8.894% yield Additional Tier 1 Capital Perpetual Subordinated Notes issue (“AT1 Notes”) and successfully returned to the international capital markets. The AT1 Notes are listed on the regulated market of Euronext Dublin and are rated B- by Fitch.

On 23 September 2021 the TBC Kredit LLC issued interest-baring paperless unsecured bond in the amount of AZN 3 million, with 2 year maturity at 12%.

On 20 March 2020, TBC Leasing JSC with the help of TBC Capital LLC placed senior secured bonds of amount GEL 58.4 million on the Georgian Stock Exchange JSC. The percentage of securities is variable, 3.25% added to the 3-month Tbilisi Interbank Interest rate. Fitch rates the bonds ‘BB-‘.

21. PROVISION FOR LIABILITIES AND CHARGES

Movements in credit loss allowance for performance guarantees, credit related commitment and liabilities and charges are as follows:

in thousands of GEL	Performance guarantees	Credit related commitments	Provision for other liabilities and charges	Total
Carrying amount as of 1 January 2021	**4,427**	**5,424**	**7,601**	**17,452**
Charges/(releases) recorded in profit or loss	384	(1,588)	-	**(1,204)**
Effect of translation to presentation currency	(191)	(212)	-	**(403)**
Carrying amount as of 31 December 2021	**4,620**	**3,624**	**7,601**	**15,845**
Charges/(releases) recorded in profit or loss	2,931	(210)	2,000	**4,721**
Effect of translation to presentation currency	(345)	(237)	(76)	**(658)**
Carrying amount as of 31 December 2022	**7,206**	**3,177**	**9,525**	**19,908**

Credit related commitments and performance guarantees: Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines. For letter of credits and guarantees allowance estimation purposes the Group applies the staged approach and classifies them in stage 1, stage 2 or stage 3. Significant stage 3 guarantees are assessed individually. Non-significant stage 3 as well as all stage 1 and stage 2 guarantees and letter of credits are assessed collectively using exposure, marginal probability of conversion, loss given default and discount factor. Amount of the expected allowance differs based on the classification of the facility in the respective stage.

For impairment allowance assessment purposes for undrawn exposures the Group distinguishes between revocable and irrevocable loan commitments. For revocable commitments the Group does not create impairment allowance. As for the irrevocable undisbursed exposures the Group estimates utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

22. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

in thousands of GEL	31 December 2022	31 December 2021
Derivative financial liabilities	73,102	10,216
Trade payables	49,210	27,307
Transfers in transit	43,905	15,136
Liabilities for leasing activities	38,747	18,295
Payables to plastic card service providers	22,785	28,963
Payable to deposit insurance agency	1,365	1,033
Prepayments related to guarantees	804	516
Liabilities related to co-financing of hotels and restaurants sectors	550	1,638
Security deposits for finance lease receivables	137	906
Other accrued liabilities	19,913	16,610
Total other financial liabilities	**250,518**	**120,620**

Refer to Note 40 for disclosure of the fair value of other financial liabilities.

As of 31 December 2022 GEL 187,453 thousand of other financial liabilities were attributable to the Bank (2021: GEL 92,613 thousand).

23. OTHER LIABILITIES

in thousands of GEL	31 December 2022	31 December 2021
Accrued employee benefit costs	52,060	45,984
Advances received	15,164	13,075
Taxes payable other than on income	4,101	17,046
Other	9,061	7,518
Total other liabilities	**80,386**	**83,623**

All of the above liabilities are expected to be settled within twelve months after the year-end.

24. SUBORDINATED DEBT

As of 31 December 2022, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Agreement interest rate	Outstanding amount in original currency	Outstanding amount in GEL
Asian Developement Bank	10/18/2016	12/31/2026	USD	12.19%	51,001	137,804
Private lenders	6/8/2017-12/6/2022	1/25/2023-3/31/2028	USD	8%-9.5%	36,271	98,008
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	9.16%	25,097	67,813
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	8.84%	20,079	54,252
Green for Growth Fund	12/18/2015	12/16/2030	USD	9.74%	15,359	41,501
BlueOrchard Microfinance Fund	12/14/2018	12/15/2025	USD	9.28%	14,986	40,492
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	9.28%	14,968	40,443
European Fund for Southeast Europe	12/18/2015	12/16/2030	USD	9.74%	7,679	20,749
European Fund for Southeast Europe	3/15/2016	3/17/2031	USD	9.74%	7,678	20,745
ResponsAbility SICAV (Lux) Micro and SME Finance Leaders	4/7/2022	4/7/2032	USD	9.94%	6,080	16,428
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	11.31%	5,955	16,091
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	4/7/2022	4/7/2032	USD	9.94%	5,168	13,964
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	4/7/2022	4/7/2032	USD	9.94%	3,952	10,679
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	11.31%	3,128	8,453
ResponsAbility SICAV (Lux) - Microfinance Leaders	11/30/2018	11/30/2028	USD	11.31%	1,009	2,726
Total subordinated debt						**590,148**

24. SUBORDINATED DEBT CONTINUED

As of 31 December 2021, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Agreement interest rate	Outstanding amount in original currency	Outstanding amount in GEL
Asian Developement Bank	10/18/2016	12/31/2026	USD	7.66%	50,486	156,386
Private lenders	6/8/2017-12/19/2018	1/30/2022-12/19/2024	USD	8-8.5%	35,304	109,427
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	9.16%	25,097	77,739
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	8.84%	20,079	62,195
Green for Growth Fund	12/18/2015	12/16/2030	USD	6.05%	15,189	47,048
BlueOrchard Microfinance Fund	12/14/2018	12/15/2025	USD	9.28%	14,966	46,360
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	9.28%	14,954	46,321
European Fund for Southeast Europe	12/18/2015	12/16/2030	USD	6.05%	7,594	23,523
European Fund for Southeast Europe	3/15/2016	3/17/2031	USD	6.05%	7,592	23,517
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	6.35%	5,930	18,369
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	6.35%	3,115	9,649
ResponsAbility SICAV (Lux) - Microfinance Leaders	11/30/2018	11/30/2028	USD	6.35%	1,005	3,113
Total subordinated debt						**623,647**

The debt ranks after all other creditors in case of liquidation, except AT1 Notes.

Refer to Note 40 for the disclosure of the fair value of subordinated debt.

25. EQUITY

Share capital

in thousands of GEL, unless otherwise indicated	Number of ordinary shares	Share Capital
As of 31 December 2021	**52,539,769**	**21,014**
As of 31 December 2022	**52,539,769**	**21,014**

Each share has a nominal value of GEL 0.4 (31 December 2021: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

Dividends

in thousands of GEL	2022	2021
Dividends payable at 1 January	**314**	**214**
Interim dividend:		
Dividends declared during the year	238,000	81,872
Dividends paid in cash during the year:	(237,711)	(81,772)
Prior year final dividend:		
Dividends declared during the year	118,798	-
Dividends paid in cash during the year:	(118,654)	-
Dividends payable at 31 December	**747**	**314**

On 11 August 2022, JSC TBC Bank's shareholders agreed on an interim dividend of GEL 4.53 per share. The dividend was paid on 4 October 2022.

On 13 May 2022, JSC TBC Bank's shareholders passed a resolution to declare a final dividend of GEL 2.26 per share. The dividend was paid on 8 July 2022.

On August 11, 2021, JSC TBC Bank's shareholders agreed on a dividend of GEL 1.56 per share. The dividend was paid on 7 September 2021.

26. SHARE BASED PAYMENTS

2022-2024 remuneration scheme:

The current compensation system was approved by shareholders at the TBC Bank Group PLC's Annual General Meeting in June 2021 and came into effect on 1 January 2022. It covers the period 2022-2024 inclusive.

Share salary 2022-2024

The base salary of the executive management board members of the Bank is determined based on market practice and provides with a competitive fixed income to efficiently retain and reward TBC's leadership.

For the CEO of the Bank the base salary comprises cash salary payable in GEL on a monthly basis and share salary. Salary shares are delivered during the first quarter of the second year (i.e. the year after the performance year). The number of shares is calculated based on the average share price of the last 10 days preceding the Remuneration Committee decision date. Shares do not have deferral period, are not subject to malus and claw back or any other restrictions and are vested immediately upon delivery.

The Deputy CEO's base salary comprises only cash and is payable in GEL on a monthly basis.

Variable Remuneration

Variable remuneration of the Top Management consists of the annual bonus delivered in shares (the "Annual Bonus") and the share awards under Long Term Incentive Plan (the "LTIP Award"). 60% of variable remuneration is LTIP Award and the remaining 40% constitutes the Annual Bonus.

Variable remuneration (Annual Bonus and LTIP Awards) are subject to meeting eligibility "gate KPIs", which, based on the Remuneration Committee's recommendation, can be amended every year by the Board, and will only be paid if the "gate KPIs" are met.

(a) Annual Bonus under Deferred Share plan 2022-2024

Annual Bonus is delivered in TBC PLC shares. The Top Management receives annual bonus entirely in TBC PLC shares and it does not comprise any cash component. The Annual Bonus KPIs are set at the beginning of each year in relation to that year by the Remuneration Committee.

The maximum opportunity of the Annual Bonus for each member of the Top Management is fixed at 135% of fixed salary. For achieving target performance, no more than 50% of the maximum Annual Bonus opportunity is payable. For threshold performance, no Annual Bonus is paid. The number of Shares to be allocated is calculated based on the average share price of the last 10 days preceding the Remuneration Committee's decision date. Annual Bonus share awards are governed by the Deferred Share Plan of TBC PLC as amended from time to time (the "Deferred Share Plan").

The Top Management's Annual Bonus awards are subject to a holding period (but not continued employment) over 2 years period with 50% being released after one year and remaining 50% being released at the end of second year. The Annual Bonus is subject to malus and claw back provisions as described in the Deferred Share Plan. During the holding period, participants are entitled to vote at the shareholder meetings and receive dividends.

(b) Long Term Incentive Plan (LTIP) 2022-2024

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align the Group's and the Bank's executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view.

The level of LTIP Award grant is determined pro rata from the LTIP maximum opportunity based on the assessment of the base i.e., prior year's Annual Bonus corporate KPIs performance. LTIP Awards granted will then be subject to 3-year LTIP forward-looking performance conditions and will vest at the end of 5-year period following the grant. LTIP Award forward-looking KPIs are set at the beginning of each year in relation to that year's cycle by the Remuneration Committee.

The maximum opportunity of the LTIP Award in any given year is 161% of salary. 100% of the award will crystalize for achieving the maximum performance set for each measure. At threshold level of performance, for each measure, 25% of the award will crystalize.

26. SHARE BASED PAYMENTS CONTINUED

The Remuneration Committee has the discretion, any time after an award has been granted, to reduce (including to zero) an award if the Remuneration Committee considers that either the underlying financial performance of the Bank or the performance of the individual is such that the level of vesting cannot be justified. The Participants are not entitled to any dividend or voting rights until the LTIP Award vests.

2019-2021 remuneration system:

The compensation system was approved by shareholders at the AGM on 21 May 2018 and came into effect on 1 January 2019 and it covers the period 2019-2021 inclusive.

Deferred share salary 2019-2021

Part of the top management salary was paid with shares with the objective of closely promoting the long-term success of the Group and aligning senior executive directors' and shareholders' interests. Shares were usually delivered during the first quarter of the second year (i.e. the year after the performance year). 50% of the shares had 1 year deferral period and the remaining 50% were deferred for 2 years from the delivery date. The shares were registered in the trustees name as nominee for the participants and the participants were entitled to receive dividends. Starting from 2021, deferred share salary is no longer subject to the deferral and will be vested immediately upon delivery.

Deferred Bonus plan 2019-2021

The annual bonus for the top management was determined as to the extent that the annual KPIs have been met. Shares were usually delivered during the first quarter of the second year (i.e. the year after the performance year) and the exact date was determined by the Board. 50% of the shares had 1 year deferral period and the remaining 50% was deferred for 2 years from the delivery date. The shares were registered in the trustees name as nominee for the participants and the participants were entitled to receive dividends.

Annual KPIs were set by the Remuneration Committee at the beginning of each year in relation to that year and approved by the Board. To the extent that the KPIs were achieved, the Remuneration Committee may recommend to the Board whether an award may be made and the amount of such award. The Group did not pay guaranteed bonuses to executive directors. The nature of the KPIs with their specific weightings and targets is disclosed in the published annual report. Awards are subject to the Group's malus and clawback policies until the end of the relevant holding period. If at any time after making the award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee can recommend to the Board that some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares was calculated based on the average share price of the last 10 days preceding the committee decision date.

Long Term Incentive Plan (LTIP) 2019-2021

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align the Group's and the Bank's executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet rolling performance conditions over the 3 year performance period.

26. SHARE BASED PAYMENTS CONTINUED

Tabular information on the schemes is given below:

	31 December 2022	31 December 2021
Number of unvested shares at the beginning of the period	**2,125,246**	**3,028,818**
Number of shares granted		
Number of shares granted - Deferred salary*	36,659	–
Number of shares granted - Deferred bonus*	286,301	–
Number of shares granted - LTIP*	424,114	–
Number of shares granted - Middle management, subsidiaries' management and other eligible employees**	-	321,453
Number of shares granted	**747,074**	**321,453**
Change in estimates for 2019-2021 awards	-	(361,739)
Change in estimates of number of shares expected to be granted	**-**	**(361,739)**
Change in estimate of number of shares expected to vest based on changes in share price and exchange rate	(35,879)	(169,753)
Number of shares vested		
2017 year award – 80% vesting	–	(451,251)
2018 year award – 10% vesting	–	(57,102)
2018 year award – 80% vesting	(456,815)	–
2019 year award – MM 33% vesting	(47,401)	(47,401)
2019 year award – TM 50% vesting	(137,779)	(137,779)
2020 year award – MM 33% vesting	(14,846)	–
2020 year award – TM 50% vesting	(45,902)	–
2021 year award - TM 100% vesting	(89,094)	–
Number of shares vested	**(791,837)**	**(693,533)**
Number of unvested shares at the end of the period	**2,044,604**	**2,125,246**

*2022 amounts represent 2022-2024 remuneration schemes for top management granted in 2022.

**2021 amounts represent 2021-2022 remuneration schemes for middle management granted in 2021

Expense recognised as staff cost during the period was GEL 21,672 thousand (31 December 2021: GEL 19,352 thousand).

Tax part of the existing bonus system is accounted for on an equity settled basis.

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

27. SEGMENT ANALYSIS

The Management Board (the "Board") is the chief operating decision maker and it reviews the Group's internal reporting in order to assess the performance and to allocate resources. In 2022 the Group made following re-segmentations:

- Standard annual re-segmentation after which some of the clients were reallocated to different segments – GEL 106,315 thousand of loans and GEL 87,359 thousand of customer accounts were transferred from micro, small and medium enterprises to Corporate segment.

For corporate segment annual revenue and granted facility limits have been increased to GEL 15.0 million and GEL 6.0 million, respectively.

The definition has been updated starting from January 1, 2022. The updated changes are reflected in segments' definitions below.

The operating segments according to the definition are determined as follows:

- Corporate – a legal entity/group of affiliated entities with an annual revenue exceeding GEL 15 million or which has been granted facilities of more than GEL 6.0 million. Some other business customers may also be assigned to the CIB segment or transferred to the micro, small and medium enterprises segment on a discretionary basis. In addition, CIB includes Wealth Management private banking services to high-net-worth individuals with a threshold of US$ 250,000 on assets under management (AUM), as well as on discretionary basis;
- Retail – non-business individual customers; or individual customers of the fully digital bank, Space;
- Micro, small and medium enterprises – business customers who are not included in the CIB segment;
- Corporate centre and other operations - comprises the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The Board of Directors assesses the performance of the operating segments based on a measure of profit before income tax.

The reportable segments are the same as the operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2022 and 2021.

The vast majority of the Group's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in Note 35.

Allocation of indirect expenses is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the expenses with similar nature (e.g. other operating expenses would follow the pattern of closest category of operating expenses).

Intersegment transfer pricing methodology is internally created tool, which is based on matched maturity logics. It is used to manage liquidity and interest rate risks. Corporate centre borrows monetary amounts (deposits) from business segments, therefore, each of segment is compensated on each deposit based on its currency, duration, type and liquidity requirements. Business segments then borrow money from corporate centre, to fund loans, on which each segment pays agreed price to corporate centre, based on each loans currency, type (fixed or floating), duration, capital requirement.

27. SEGMENT ANALYSIS CONTINUED

A summary of the Group's reportable segments for the years ended 31 December 2022 and 2021 is provided below:

Segment disclosure below is prepared with the effect of 2022 re-segmentations as described above:

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2022					
Interest income	626,782	816,448	488,629	287,922	**2,219,781**
Interest expense	(368,195)	(120,248)	(11,632)	(511,322)	**(1,011,397)**
Net interest gains on currency swaps	1,205	98	-	33,408	**34,711**
Inter-segment interest income/(expense)	140,947	(254,944)	(234,065)	348,062	**-**
Net interest income	**400,739**	**441,354**	**242,932**	**158,070**	**1,243,095**
Fee and commission income	87,399	356,829	33,385	-	**477,613**
Fee and commission expense	(12,868)	(175,988)	(13,275)	(9,832)	**(211,963)**
Net fee and commission income/(epense)	**74,531**	**180,841**	**20,110**	**(9,832)**	**265,650**
Net gains from derivatives, foreign currency operations and translation	126,900	91,187	54,674	139,045	**411,806**
Net gains from disposal of investment securities measured at fair value through other comprehensive income	3,573	-	-	2,238	**5,811**
Other operating income	1,702	6,579	1,417	9,977	**19,675**
Share of (loss)/profit of associate	(232)	-	-	584	**352**
Other operating non-interest income	**131,943**	**97,766**	**56,091**	**151,844**	**437,644**
Credit loss recovery/(allowance) for loans to customers	2,763	(88,185)	(19,825)	-	**(105,247)**
Credit loss (allowance)/recovery for performance guarantees and credit related commitments	(2,889)	341	(173)	-	**(2,721)**
Credit loss recovery for finance lease receivables	-	-	-	781	**781**
Credit loss allowance for other financial assets	(1,423)	(1,602)	(416)	(5,719)	**(9,160)**
Credit loss recovery for financial assets measured at fair value through other comprehensive income	79	-	-	783	**862**
Net recovery/(impairment) of non-financial assets	432	(64)	105	(495)	**(22)**
Operating income after expected credit and non-financial asset impairment losses	**606,175**	**630,451**	**298,824**	**295,432**	**1,830,882**
Staff costs	(59,710)	(165,527)	(65,904)	(15,385)	**(306,526)**
Depreciation and amortization	(6,668)	(61,535)	(14,378)	(2,527)	**(85,108)**
Provision for liabilities and charges	-	-	-	(2,000)	**(2,000)**
Administrative and other operating expenses	(23,371)	(102,131)	(26,258)	(15,588)	**(167,348)**
Operating expenses	**(89,749)**	**(329,193)**	**(106,540)**	**(35,500)**	**(560,982)**
Profit before tax	**516,426**	**301,258**	**192,284**	**259,932**	**1,269,900**
Income tax expense	(54,289)	(31,274)	(20,038)	(141,224)	**(246,825)**
Profit for the year	**462,137**	**269,984**	**172,246**	**118,708**	**1,023,075**
Total gross loans and advances to customers reported	6,282,469	6,765,392	4,809,415	-	**17,857,276**
Total customer accounts reported	9,133,452	6,536,649	1,758,814	412,442	**17,841,357**
Total credit related commitments and performance guarantees	2,573,935	165,807	468,333	-	**3,208,075**

27. SEGMENT ANALYSIS CONTINUED

For comparison purposes segment disclosure below is prepared with the effect of 2022 re-segmentations as described above:

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2021					
Interest income	568,021	678,815	378,330	237,911	**1,863,077**
Interest expense	(278,751)	(119,200)	(10,416)	(487,061)	**(895,428)**
Net interest gains on currency swaps	-	-	-	28,143	**28,143**
Inter-segment interest income /(expense)	70,380	(169,947)	(153,799)	253,366	**-**
Net interest income	**359,650**	**389,668**	**214,115**	**32,359**	**995,792**
Fee and commission income	77,141	275,875	25,144	-	**378,160**
Fee and commission expense	(11,488)	(128,133)	(13,568)	(84)	**(153,273)**
Net fee and commission income/(expense)	**65,653**	**147,742**	**11,576**	**(84)**	**224,887**
Net gains from derivatives, foreign currency operations and translation	58,880	35,942	25,718	3,654	**124,194**
Net gains from disposal of investment securities measured at fair value through other comprehensive income	1,411	-	-	9,745	**11,156**
Other operating income	2,706	8,879	877	28,580	**41,042**
Share of profit of associate	-	-	-	837	**837**
Other operating non-interest income	**62,997**	**44,821**	**26,595**	**42,816**	**177,229**
Credit loss recovery/(allowance) for loans to customers	58,304	(23,742)	8,614	-	**43,176**
Credit loss recovery for performance guarantees and credit related commitments	636	369	199	-	**1,204**
Credit loss recovery for finance lease receivables	-	-	-	236	**236**
Credit loss allowance for other financial assets	(521)	(3,307)	-	(10,633)	**(14,461)**
Credit loss recovery for financial assets measured at fair value through other comprehensive income	1,096	-	-	1,498	**2,594**
Net impairment of non-financial assets	(7,950)	(36)	(1,360)	(2,369)	**(11,715)**
Operating income after expected credit and non-financial asset impairment losses	**539,865**	**555,515**	**259,739**	**63,823**	**1,418,942**
Staff costs	(49,009)	(134,138)	(52,956)	(19,644)	**(255,747)**
Depreciation and amortization	(5,258)	(51,480)	(11,626)	(2,258)	**(70,622)**
Administrative and other operating expenses	(16,394)	(77,593)	(20,384)	(14,253)	**(128,624)**
Operating expenses	**(70,661)**	**(263,211)**	**(84,966)**	**(36,155)**	**(454,993)**
Losses from modifications of financial instruments	(945)	(688)	(93)	-	**(1,726)**
Profit before tax	**468,259**	**291,616**	**174,680**	**27,668**	**962,223**
Income tax expense	(53,195)	(29,126)	(19,784)	(17,173)	**(119,278)**
Profit for the year	**415,064**	**262,490**	**154,896**	**10,495**	**842,945**
Total gross loans and advances to customers reported	6,654,056	6,265,507	4,034,990	-	**16,954,553**
Total customer accounts reported	7,465,911	5,629,823	1,476,791	311,620	**14,884,145**
Total credit related commitments and performance guarantees	3,205,059	178,556	377,428	-	**3,761,043**

27. SEGMENT ANALYSIS CONTINUED

Segment disclosure below is prepared without the effect of 2022 re-segmentations as described above:

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2021					
Interest income	562,014	678,815	384,337	237,911	**1,863,077**
Interest expense	(278,005)	(119,200)	(11,162)	(487,061)	**(895,428)**
Net interest gains on currency swaps	-	-	-	28,143	**28,143**
Inter-segment interest income /(expense)	71,408	(169,947)	(154,827)	253,366	**-**
Net interest income	**355,417**	**389,668**	**218,348**	**32,359**	**995,792**
Fee and commission income	112,479	212,922	52,759	-	**378,160**
Fee and commission expense	(81,033)	(38,282)	(33,874)	(84)	**(153,273)**
Net fee and commission income/(expense)	**31,446**	**174,640**	**18,885**	**(84)**	**224,887**
Net gains from derivatives, foreign currency operations and translation	57,102	35,942	27,496	3,654	**124,194**
Net gains from disposal of investment securities measured at fair value through other comprehensive income	1,411	-	-	9,745	**11,156**
Other operating income	2,706	8,879	877	28,580	**41,042**
Share of profit of associate	-	-	-	837	**837**
Other operating non-interest income	**61,219**	**44,821**	**28,373**	**42,816**	**177,229**
Credit loss recovery/(allowance) for loans to customers	59,743	(23,742)	7,175	-	**43,176**
Credit loss recovery for performance guarantees and credit related commitments	636	369	199	-	**1,204**
Credit loss recovery for finance lease receivables	-	-	-	236	**236**
Credit loss allowance for other financial assets	(521)	(3,307)	-	(10,633)	**(14,461)**
Credit loss recovery for financial assets measured at fair value through other comprehensive income	1,096	-	-	1,498	**2,594**
Net impairment of non-financial assets	(7,950)	(36)	(1,360)	(2,369)	**(11,715)**
Operating income after expected credit and non-financial asset impairment losses	**501,086**	**582,413**	**271,620**	**63,823**	**1,418,942**
Staff costs	(49,009)	(134,138)	(52,956)	(19,644)	**(255,747)**
Depreciation and amortization	(5,258)	(51,480)	(11,626)	(2,258)	**(70,622)**
Administrative and other operating expenses	(16,394)	(77,593)	(20,384)	(14,253)	**(128,624)**
Operating expenses	**(70,661)**	**(263,211)**	**(84,966)**	**(36,155)**	**(454,993)**
Losses from modifications of financial instruments	(945)	(688)	(93)	-	**(1,726)**
Profit before tax	**429,480**	**318,514**	**186,561**	**27,668**	**962,223**
Income tax expense	(48,779)	(32,189)	(21,137)	(17,173)	**(119,278)**
Profit for the year	**380,701**	**286,325**	**165,424**	**10,495**	**842,945**
Total gross loans and advances to customers reported	6,547,741	6,265,507	4,141,305	-	**16,954,553**
Total customer accounts reported	7,378,552	5,629,823	1,564,150	311,620	**14,884,145**
Total credit related commitments and performance guarantees	3,201,286	178,556	381,201	-	**3,761,043**

27. SEGMENT ANALYSIS CONTINUED

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2022					
– Fee and commission income	87,399	356,829	33,385	-	**477,613**
– Other operating income	1,702	6,579	1,417	9,977	**19,675**
Total	**89,101**	**363,408**	**34,802**	**9,977**	**497,288**
Timing of revenue recognition:					
– At point in time	88,697	362,296	34,749	9,977	**495,719**
– Over a period of time	404	1,112	53	-	**1,569**

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2021					
– Fee and commission income	112,479	212,922	52,759	-	**378,160**
– Other operating income	2,706	8,879	877	28,580	**41,042**
Total	**115,185**	**221,801**	**53,636**	**28,580**	**419,202**
Timing of revenue recognition:					
– At point in time	115,185	220,246	53,636	28,580	**417,647**
– Over a period of time	-	1,555	-	-	**1,555**

28. INTEREST INCOME AND EXPENSE

in thousands of GEL	2022	2021
Interest income calculated using effective interest method		
Loans and advances to customers	1,911,782	1,601,966
Investment securities measured at fair value through other comprehensive income	196,114	185,424
Repurchase receivables	2,449	-
Due from other banks	45,577	13,491
Other financial assets	3,645	4,315
Other interest income		
Finance lease receivables	60,214	57,881
Total interest income	**2,219,781**	**1,863,077**
Interest expense		
Customer accounts	(571,575)	(469,873)
Due to credit institutions	(266,280)	(256,746)
Subordinated debt	(53,889)	(53,338)
Debt securities in issue	(116,654)	(113,146)
Other interest expense		
Lease Liabilities	(2,999)	(2,325)
Total interest expense	**(1,011,397)**	**(895,428)**
Net interest gains on currency swaps	34,711	28,143
Net interest income	**1,243,095**	**995,792**

During 2022 interest accrued on defaulted loans amounted to GEL 31,739 thousand (2021: GEL 36,105 thousand).

During 2022 capitalized interest expense in the amount of GEL 1,794 thousand (2021: GEL 1,756 thousand) was attributable to the development of the Group's headquarter. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is weighted average of interest-bearing liabilities by currencies: 8.7% in GEL, 2.3% in USD and 0.6% in EUR. (2021: 7.7% in GEL, 2.9% in USD and 1.3% in EUR).

29. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense of the Group are as follows:

in thousands of GEL	2022	2021
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
– Card operations	249,608	188,749
– Settlement transactions	132,582	108,046
– Guarantees issued	40,559	42,125
– Cash transactions	8,879	7,383
– Issuance of letters of credit	6,816	2,906
– Foreign exchange operations	5,234	3,259
– Other	33,935	25,692
Total fee and commission income	**477,613**	**378,160**
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
– Card operations	152,069	115,998
– Settlement transactions	22,177	18,052
– Cash transactions	18,460	6,062
– Guarantees received	3,714	3,034
– Letters of credit	1,256	1,594
– Foreign exchange operations	930	402
– Other	13,357	8,131
Total fee and commission expense	**211,963**	**153,273**
Net fee and commission income	**265,650**	**224,887**

29. FEE AND COMMISSION INCOME AND EXPENSE CONTINUED

Fee and commission income and expense of the Bank are as follows:

in thousands of GEL	2022	2021
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
– Card operations	246,899	185,842
– Settlement transactions	101,027	79,617
– Guarantees issued	40,559	44,960
– Cash transactions	17,543	13,825
– Issuance of letters of credit	6,861	73
– Foreign exchange operations	5,242	3,262
– Other	25,306	22,019
Total fee and commission income	**443,437**	**349,598**
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
– Card operations	159,611	124,191
– Settlement transactions	19,958	16,143
– Cash transactions	43,531	23,843
– Guarantees received	3,714	3,034
– Letters of credit	1,256	1,594
– Foreign exchange operations	922	392
– Other	11,909	6,831
Total fee and commission expense	**240,901**	**176,028**
Net fee and commission income	**202,536**	**173,570**

30. NET GAINS FROM CURRENCY DERIVATIVES, FOREIGN CURRENCY OPERATIONS AND TRANSLATION

Net gains from currency derivatives, foreign currency operations and translation for the following years are as follows:

in thousands of GEL	2022	2021
Net gains from trading in foreign currencies	117,779	329,582
Net gains/(losses) from foreign exchange translation	280,952	(212,601)
Net gains from derivative financial instruments other than derivatives on foreign currency	135	289
Total net gains from currency derivatives, foreign currency operations and translation	**398,866**	**117,270**

Management has corrected the presentation of translation gains/losses from derivatives on foreign currency. Gains of GEL 227,516 thousand was presented as "Net gains/(losses) from foreign exchange translation" in 2021 accounts and was reclassified to "Net gains from trading in foreign currencies" in 2022, comparatives and consolidated statement of cash flows has been restated accordingly.

in thousands of GEL	31 December 2021 (As originally presented)	Reclassification	31 December 2021 (as restated)
Net gains from trading in foreign currencies	113,043	216,539	329,582
Net gains/(losses) from foreign exchange translation	3,938	(216,539)	(212,601)

31. STAFF COSTS

Staff costs of the Group are as follows:

in thousands of GEL	2022	2021
Salaries and bonuses	269,245	220,584
Share based compensation	21,672	19,352
Other compensation cost	15,609	15,811
Salaries and other employee benefits	**306,526**	**255,747**

Staff costs of the Bank are as follows:

in thousands of GEL	2022	2021
Salaries and bonuses	244,225	198,837
Share based compensation	21,672	19,352
Other compensation cost	13,376	14,102
Salaries and other employee benefits	**279,273**	**232,291**

Share based compensation represents remuneration paid in shares and is excluded as non-cash in the consolidated and separate statement of cash flows.

Breakdown of monthly average number of employees by categories is as follows:

Number of employees of the Group are as follows:

Position		2022	2021
Top Management	Temporary	-	-
	Permanent	6	6
Middle Management	Temporary	-	-
	Permanent	286	295
Other Employees	Temporary	1,105	1,047
	Permanent	6,965	6,370
Total		**8,362**	**7,718**

Number of employees of the Bank are as follows:

Position		2022	2021
Top Management	Temporary	-	-
	Permanent	6	6
Middle Management	Temporary	-	-
	Permanent	237	226
Other Employees	Temporary	1,038	1,000
	Permanent	6,252	5,728
Total		**7,533**	**6,960**

32. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses of the Group are as follows:

in thousands of GEL	2022	2021
Advertising and marketing services	30,592	17,375
Professional services	23,230	19,085
Intangible asset maintenance	21,071	19,131
Taxes other than on income	11,515	9,850
Occupancy and rent*	9,154	12,437
Utilities services	8,662	8,192
Premises and equipment maintenance	8,227	6,589
Insurance	7,945	7,999
Communications and supply	6,010	5,615
Representative expenses	5,956	539
Stationery and other office expenses	5,485	4,431
Personnel training and recruitment	4,178	2,553
Transportation and vehicle maintenance	2,939	2,365
Business trip expenses	1,674	337
Security services	1,572	1,787
Loss on disposal of repossessed collateral	1,505	598
Loss on disposal of premises and equipment	1,138	1,229
Charity	854	417
Other	15,641	8,095
Total administrative and other operating expenses	**167,348**	**128,624**

*Includes short-term leases, low value leases not recognised under IFRS 16 scope.

32. ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

Administrative and other operating expenses of the Bank are as follows:

in thousands of GEL	2022	2021
Advertising and marketing services	29,591	16,621
Professional services	21,888	19,547
Intangible asset maintenance	17,632	16,500
Utilities services	8,303	7,852
Premises and equipment maintenance	7,740	6,200
Occupancy and rent*	6,810	9,634
Taxes other than on income	6,201	5,584
Representative expenses	5,910	515
Stationery and other office expenses	5,167	4,108
Communications and supply	4,919	4,553
Personnel training and recruitment	4,017	2,389
Insurance	2,583	2,214
Business trip expenses	1,515	297
Security services	1,406	1,619
Loss on disposal of repossessed collateral	1,297	583
Loss on disposal of premises and equipment	983	1,117
Transportation and vehicle maintenance	905	634
Charity	749	417
Other	11,527	3,284
Total administrative and other operating expenses	**139,143**	**103,668**

*Includes short-term leases, low value leases not recognised under IFRS 16 scope.

32. ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

Auditors' remuneration is included within professional services expenses above and comprises:

in thousands of GEL	Audit	Audit Related	Other Services	Total
2022				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,894	-	-	1,894
Review of TBC Bank Group and subsidiaries interim financial statements	-	201	-	201
Other assurance services	-	-	984	984
Total auditors' remuneration	**1,894**	**201**	**984**	**3,079**
2021				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,623	-	-	1,623
Review of TBC Bank Group and subsidiaries interim financial statements	-	480	-	480
Other assurance services	-	-	932	932
Total auditors' remuneration	**1,623**	**480**	**932**	**3,035**

Fees presented in the tables above are exclusive of taxes. For the year ended 31 December 2021, GEL 910 thousands (included in the table in other services) is attributable to the services in relation to issuance of AT1 Notes in October 2021. The mentioned amount is not part of the administrative expenses as it was integral to the transaction and has been included in the effective interest rate of the instrument.

33. INCOME TAXES

Income tax credit/(expense) comprise of the following:

in thousands of GEL	2022	2021
Current tax charge	144,919	121,305
Effect of change in tax legislation	112,877	-
Deferred tax credit	(10,971)	(2,027)
Total income tax expense for the year	**246,825**	**119,278**

In 2022 the Government of Georgia has approved the changes to the current corporate tax model in Georgia for financial institutions applicable from 2023.

According to the announced changes, the financial sector will no longer switch to the Estonian tax model, which was expected to exempt banks from paying corporate taxes on retained earnings and only required a payment of 15% corporate tax rate on distributed earnings.

The change to the corporate taxation model has an immediate impact on deferred tax balances and a corresponding income tax expense, attributable to temporary differences between financial and tax accounting balances, arising from prior periods. In addition to above changes, tax authorities require the banks to reimburse the tax reliefs obtained through previous provisioning calculation differences caused by differences in tax and IFRS bases. On the other hand, the effects of the equalizing of tax and IFRS bases for interest income and expense items are still under consideration by tax authorities.

As a result of these changes, in 2022 the Group has recognized net deferred tax liabilities and corresponding deferred tax expense in the amount of GEL 112,877 thousand in the statement of profit and loss.

In addition, with the effect from 2023, the existing corporate tax rate for banks will be increased from 15% to 20%, while dividends will no longer be taxed with 5% dividend tax.

Current income tax liability to the regulatory authorities is generally paid on a quarterly basis. The amount is calculated by dividing previous year current income tax amount by 4 equal portions.

The weighted average income tax rate is 2022: 15% (2021: 15%), when the income tax rate applicable to the majority of subsidiaries income ranged from 15% - 20% (2021: 15% - 20%).

Reconciliation between the expected and the actual taxation (credit)/expense is provided below.

in thousands of GEL	2022	2021
Statutory rate	**15% – 20%**	**15% – 20%**
Profit before tax	**1,269,900**	**962,223**
Theoretical tax charge at statutory rate (15%-20%)	190,594	144,310
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Income which is exempt from taxation	(38,636)	(25,447)
– Non-deductible expenses	187	158
– Expected effects of change in tax legislation	94,716*	343
– Other differences	(36)	(86)
Total income tax expense for the year	**246,825**	**119,278**

*The amount represents the impact of 2022 tax legislation change, reduced by the deferred income tax that would have been accrued in 2022 if the tax legislation change had not occurred.

33. INCOME TAXES CONTINUED

Differences between financial reporting framework and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2021: 15%) for Georgia and 20% (2021: 20%) for Azerbaijan,

Income which is exempt from taxation includes interest income from placements in NBG, Georgian Government Treasury bills and IFI securities. Non-deductible expenses include penalties paid and charity expenses towards beneficiary which are not registered charity organizations.

Deferred tax assets/liabilities as of 31 December 2022 and 31 December 2021 are the following.

in thousands of GEL	1 January 2022	Credited/ (charged) to profit or loss	Effect of change in tax legislation	Effect of currency translation	31 December 2022
Tax effect of (taxable)/deductible temporary differences and tax loss carry forwards					
Premises and equipment	(1,162)	1,157	(50,882)	-	(50,887)
Loans and advances to customers	(13,399)	15,230	-	16	1,847
Other financial assets	4,110	(4,092)	4,736	-	4,754
Other assets	-	265	64	-	329
Due to credit institutions	(368)	368	-	-	-
Other financial liabilities	123	(128)	(719)	-	(724)
Other liabilities	(922)	866	(867)	-	(923)
Share based payment	2,695	(2,695)	4,302	-	4,302
Goodwill	-	-	(4,987)	-	(4,987)
Investments in associates	-	-	(423)	-	(423)
One off reimbursement for different tax and IFRS bases	-	-	(64,101)	-	(64,101)
Net deferred tax (liability)/asset	**(8,923)**	**10,971**	**(112,877)**	**16**	**(110,813)**
Recognised deferred tax asset	2,056	(8)	-	16	2,064
Recognised deferred tax liability	(10,979)	10,979	(112,877)	-	(112,877)
Net deferred tax (liability)/asset	**(8,923)**	**10,971**	**(112,877)**	**16**	**(110,813)**

33. INCOME TAXES CONTINUED

in thousands of GEL	1 January 2021	Credited/ (charged) to profit or loss	31 December 2021
Tax effect of (taxable)/deductible temporary differences and tax loss carry forwards			
Premises and equipment	(3,781)	2,619	(1,162)
Loans and advances to customers	(18,617)	5,218	(13,399)
Other financial assets	2,608	1,502	4,110
Due to credit institutions	(1,684)	1,316	(368)
Other financial liabilities	(461)	584	123
Other liabilities	(2,333)	1,411	(922)
Share based payment	1,368	1,327	2,695
Tax loss carried forward	11,950	(11,950)	-
Net deferred tax liability	**(10,950)**	**2,027**	**(8,923)**
Recognised deferred tax asset	2,134	(78)	2,056
Recognised deferred tax liability	(13,084)	2,105	(10,979)
Net deferred tax liability	**(10,950)**	**2,027**	**(8,923)**

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below sets out movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

in thousands of GEL	Other borrowed funds	Debt securities in Issue	Subordinated debt	Lease Liabilities	Total
Liabilities from financing activities at 1 January 2021	**4,345,079**	**1,419,513**	**672,740**	**54,588**	**6,491,920**
Proceeds from principal	1,750,443	242,287	-	-	**1,992,730**
Redemption of principal	(3,337,495)	-	(12,562)	(12,825)	**(3,362,882)**
Net interest movement**	(30,002)	2,710	(191)	63	**(27,420)**
Other non-cash movements*	-	-	-	18,462	**18,462**
Foreign exchange adjustments	(68,607)	(80,811)	(36,340)	(3,766)	**(189,524)**
Liabilities from financing activities at 31 December 2021	**2,659,418**	**1,583,699**	**623,647**	**56,522**	**4,923,286**
Proceeds from principal	2,501,875	3,504	62,578	-	**2,567,957**
Redemption of principal	(1,731,699)	(205,898)	(13,710)	(13,099)	**(1,964,406)**
Net interest movement**	5,318	13,765	2,921	284	**22,288**
Other non-cash movements*	-	(6,951)	-	36,553	**29,602**
Foreign exchange adjustments	(184,517)	(178,306)	(85,288)	(8,020)	**(456,131)**
Liabilities from financing activities at 31 December 2022	**3,250,395**	**1,209,813**	**590,148**	**72,240**	**5,122,596**

* Other non-cash movements represent additions less terminations for finance lease contracts and gain on extinguishment of debt securities in issue.
**Net interest movement includes interest accrued and interest paid. Interest paid on other borrowed funds, debt securities in issue, subordinated debt and lease liabilities is included in operating cash flow interest paid caption.

35. FINANCIAL AND OTHER RISK MANAGEMENT

Credit Quality

Depending on the type of financial asset the Group may utilize different sources of asset credit quality information including credit ratings assigned by the international rating agencies (Standard & Poor's, Fitch), credit scoring information from credit bureau and internally developed credit ratings. Financial assets are classified in an internally developed credit quality grades by taking into account the internal and external credit quality information in combination with other indicators specific to the particular exposure (e.g. delinquency). The Group defines following credit quality grades:

- Very low risk – exposures demonstrate strong ability to meet financial obligations;
- Low risk – exposures demonstrate adequate ability to meet financial obligations;
- Moderate risk – exposures demonstrate satisfactory ability to meet financial obligations;
- High risk – exposures that require closer monitoring, and
- Default – exposures in default, with observed credit impairment.

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The Group uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Group classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not defaulted when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition but the financial instrument is not considered defaulted. The exposures for which the defaulted indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events potentially occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by The Group affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

Definition of default

Financial assets for which the Group observed occurrence of one or more loss events are classified in Stage 3.

The Group uses both quantitative and qualitative criteria for the definition of default. The borrower is classified as defaulted if at least one of the following occurred:

- Any amount of contractual repayments is past due more than 90 days;
- Factors indicating the borrower's unlikeliness-to-pay.

In case of individually significant borrowers The Group additionally applies criteria including but not limited to: bankruptcy proceedings, significant fraud in the borrower's business that significantly affected its financial condition, breach of the contract terms etc. For SME and corporate borrowers default is identified on the counterparty level, meaning that all the claims against the borrower are treated as defaulted. As for retail and micro exposures, facility level default definition is applied considering additional pulling effect criteria. If the amount of defaulted exposure exceeds predefined threshold, all the claims against the borrower are classified as defaulted. Once financial instrument is classified as defaulted, it remains as such until it no longer meets any of the default criteria for a consecutive period of six months, in which case exposure is considered to no longer be in default (i.e. to have cured). Probation period of six months has been determined on analysis of likelihood of a financial instrument returning to default status after curing. Exposures which are moved to stage 2 from default state are kept there for certain period before transferring to Stage 1 and classified as fully performing instruments again.

Significant increase in credit risk ("SICR")

Financial assets for which the Group identifies significant increase in credit risk since its origination are classified in Stage 2. SICR indicators are recognized at financial instrument level even though some of them refer to the borrower's characteristics. The Group uses both quantitative and qualitative indicators of SICR.

Quantitative criteria

On a quantitative basis The Group assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Qualitative criteria

Financial asset is transferred to Stage 2 and lifetime ECLs is measured if at least one of the following SICR qualitative criteria is observed:

- delinquency period of more than 30 days on contractual repayments;
- exposure is restructured, but is not defaulted;
- borrower is classified as "watch".

The Group has not rebutted the presumption that there has been significant increase in credit risk since origination when financial asset becomes more than 30 days past due. This qualitative indicator of SICR together with debt restructuring is applied to all segments. Particularly for corporate and SME segment the Group uses downgrade of risk category since origination of the financial instrument as a qualitative indicator of SICR. Based on the results of the monitoring, borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Once the borrower is classified as "watch" category it is transferred to Stage 2. If any of the SICR indicators described above occur financial instrument is transferred to Stage 2. Financial asset may be moved back to Stage 1, if SICR indicators are no longer observed.

ECL measurement

The Group utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is mainly used for stage 2 and stage 3 individually significant borrowers. Additionally, the Group may arbitrarily designate selected exposures to individual measurement of ECL based on the Group's credit risk management or underwriting departments' decision.

The Group uses the discounted cash flow (DCF) method for the determination of recovery amount under individual assessment. In order to ensure the accurate estimation of recoverable amount the Group utilizes scenario analysis approach. Scenarios may be defined considering the specifics and future outlook of individual borrower, sector the borrower operates in or changes in values of collateral. In case of scenario analysis The Group forecasts recoverable amount for each scenario and estimates respective losses. Ultimate ECL is calculated as the weighted average of losses expected in each scenario, weighted by the probability of scenario occurring.

As for the non-significant and non-impaired significant borrowers The Group estimates expected credit losses collectively. For the collective assessment and risk parameters estimation purposes the exposures are grouped into a homogenous risk pools based on similar credit risk characteristics. Common credit risk characteristics of the group include but are not limited to: Stage (Stage 1, Stage 2 or Stage 3), type of counterparty (individual vs business), type of product, rating (external or internal), overdue status, restructuring status, months in default category or any other characteristics that may differentiate certain sub-segments for risk parameter's estimation purposes. Number of pools differs for different products/ segments considering specifics of portfolio and availability of data within each pool. Collective ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate.

The key principles of calculating the credit risk parameters:

Exposure at default (EAD)

The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Group allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments - Namely full prepayment ratio.

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Full Prepayment Rate (FPR) parameter represents the probability that a financial instrument will be fully prepaid during the particular period to maturity. For the purpose of calculating Full Prepayment Ratio, the Group make the analysis of the historical data of the contracts fully prepaid until the maturity. For revolving facilities, the Bank calculates the EAD based on the expected limit utilisation percentage conditional on the default event.

Probability of default (PD)

Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts. Taking into account specific nature of different segments of clients for which the PD is estimated as well as unique characteristics that drive their default propensity, the PD is modelled differently for Retail and Micro segments and Corporate and SME segments. PD assessment approach is also differentiated for different time horizons and is further adjusted due to expected influence of macroeconomic variables as forecasted for the period (see 'Forward Looking Information" section for further details on incorporation of macroeconomic expectations in ECL calculation). FLI adjustment is applied on PD for the three-year period, given the uncertainty involved in the macroeconomic forecasts for the longer time horizon. Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months marginal PDs over the life of the instrument. The Group generally uses number based approach of PD model construction, however for the nonhomogeneous portfolios exposure-weighted approach is utilised. The Group uses different statistical approaches such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data and gradual convergence of long-term PD with the long-term default rate.

Loss given default (LGD)

The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by the type of counterparty, segment, type of product, securitization level and availability of historical observations. The general LGD estimation process employed by the Group is based on the assumption that after the default of the exposure, two mutually exclusive scenarios are possible. The exposure either leaves the default state (cure scenario) or does not leave the default state and will be subject to recovery process (non-cure scenario). The probability that an exposure defaults again in the cure scenario is involved in the estimation process. Risk parameters applicable to both scenarios, i.e. cure rates and recovery rates, are estimated by means of migration matrices approach, where risk groups are defined by consecutive months-in-default. For each LGD portfolio the Group defines the recovery horizon, since the default date after which no material recoveries are assumed. Recovery horizon is defined by data analytics and expert judgment. For certain portfolios based on the limitations of observations alternative versions of the general approach may be applied. For significant corporate exposures, the Group uses the LGD modelling approach that is based on realized recoveries from historical defaults, adjusted with approximation of future recoveries from individually assessed defaulted exposures. In order to model LGD for SME and non-significant corporate borrowers, the Group is estimating recoverable amount from the collateral and assumes that no recoveries from cash is expected. In order to estimate recoverable amount from the collateral the Group is applying respective haircuts defined for different types of collateral and discounts them using effective interest rate over the realization period. In addition, at each reporting date, the Group makes the decision which historical data horizon should be used in order to model recoveries.

Forward-looking information

The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward-looking information purposes the Group defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy. To derive the baseline macro-economic scenario, the Group takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Monetary Fund ("IMF") as well as other International Financial Institutions ("IFI"'s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Group's macroeconomic unit.

The Group uses statistical models and historical relationship between the various macroeconomic factors and default observations to derive forward-looking adjustments. In case these models do not provide reasonable results either from statistical or business perspective, the Group may apply expert judgment or use alternative approach. As at 31 December 2022, The Group employs statistical models to derive forward looking adjustment in all segments except for corporate. In corporate segment, due to the insignificance of the statistical models, the Group does not applies FLI adjustment. The baseline, upside and downside scenarios were assigned probability weighing of 50%, 25% and 25%, respectively.

The forward looking information is incorporated in collective assessment of expected credit losses of Retail and MSME portfolios and individually assessed exposures.

Model maintenance and validation

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual credit loss. Such back-testing is performed at least once a year. As part of the back-testing process, the Group evaluates actual realization of the risk parameters and their consistency with the model estimates. Additionally staging criteria are also analysed within the back-testing process. The results of back-testing the ECL measurement methodology are communicated to the Group Management and further actions for tuning the models and assumptions are defined after discussions between authorised persons.

Risk governance

ECL impairment models were developed by internal credit risk governance division with the involvement of external consultants. The division runs the models to calculate ECL each month. They are also responsible for model back-testing, analytics and governance.

Economic scenarios and probability weights are prepared by macro-financial analysis unit.

All the assumptions, including PMAs and PMOs used in the ECL measurement go through of review and approval process:

- Chief Economist reviews and approves the forward-looking scenarios and respective weights;
- Internal allowance committee reviews and approves appropriateness of the estimates and judgements as well as PMAs and PMOs used in ECL measurement on a regular basis; internal committee includes Head of ERM, Heads of Portfolio Credit Risk Management divisions and CRO, who ultimately approves ECL results as of each reporting date.

Climate risk. The Group's largest operations are located in Georgia hence the climate risk overview is done by the management from Georgian perspective. The Georgia's 2030 Climate Change Strategy and Climate Action Plan lays out different policy measures on which TBC Bank based its identification of the potential impact of the policy measures on different economic sectors. As a summary of the potential impact of the various transition risks and physical risks identified, the transitional risks in Georgia are low, considering, that trade and services dominate the Georgian economy, the policy measures outlined in the Georgia's 2030 Climate Change Strategy will have overall low impact on the economic sectors, especially in short and medium term. The Georgia's 2030 Climate Change Strategy takes into consideration that Georgia is a transitional and growing economy, and therefore the government strategy is not to impede the growth of the GDP with policy measures and rather to support a smooth transition where necessary. It is worth noting, that the economic sectors most affected by transitional risks world-wide such as mining crude petroleum, natural gas and metal ores, manufacturing coke and refined petroleum products are present to the extremely limited extend in Georgia, resulting in a low overall impact of transitional measures on economic growth, if any. In order to increase the understanding of climate-related risks on its loan portfolio, the Bank performed a high-level sectoral risk assessment, as different sectors might be vulnerable to different climate-related risks over different time horizons; furthermore, the Bank performed climate stress testing of the credit portfolio. The maturity structure of the loan portfolio shows that the largest part of assets is distributed in the time horizons that are much shorter than the impacts of climate change, especially of physical risks, can be materialized in Georgia. Therefore, the bank has not

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

made any adjustment to the level of provisions purely related to climate risk. On the other hand, the understanding of climate related risks, which have longer-term impacts need to be increased in coming years, therefore, when the bank has a more definitive analysis, it will further develop the approach, how to consider climate risks in provisioning. No post model adjustments (PMAs) or Post model overlays (PMOs) have been posted for 2022 in this regard.

Geographical risk concentrations

Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

Tables below includes geographical concentration by country of incorporation. Loans and advances to OECD and Non-OECD resident customers, as well as to Georgian customers, are issued to the entities most of which are based and performing in Georgia.

The geographical concentration of the Group's assets and liabilities as of 31 December 2022 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	2,074,615	1,683,849	27,634	3,786,098
Due from other banks	5,001	1,297	-	6,298
Mandatory cash balances with NBG	2,047,564	-	-	2,047,564
Loans and advances to customers	17,094,888	151,750	250,804	17,497,442
Investment securities measured at fair value through OCI	1,712,616	596,009	576,103	2,884,728
Repurchase receivables	-	267,495	-	267,495
Finance lease receivables	282,300	-	6,586	288,886
Other financial assets	246,866	-	132	246,998
Total financial assets	**23,463,850**	**2,700,400**	**861,259**	**27,025,509**
Non-financial assets	1,299,611	257	3,633	1,303,501
Total assets	**24,763,461**	**2,700,657**	**864,892**	**28,329,010**
Liabilities				
Due to credit institutions	1,363,669	1,930,394	591,297	3,885,360
Customer accounts	15,090,636	1,034,409	1,716,312	17,841,357
Debt securities in issue	1,201,666	-	8,147	1,209,813
Other financial liabilities	250,085	433	-	250,518
Lease liabilities	72,219	-	21	72,240
Subordinated debt	98,008	354,336	137,804	590,148
Total financial liabilities	**18,076,283**	**3,319,572**	**2,453,581**	**23,849,436**
Non-financial liabilities	208,519	1,168	4,085	213,772
Total liabilities	**18,284,802**	**3,320,740**	**2,457,666**	**24,063,208**
Net balance sheet position	**6,478,659**	**(620,083)**	**(1,592,774)**	**4,265,802**
Performance guarantees	901,320	565,669	56,881	1,523,870
Credit related commitments	1,670,769	2,898	10,538	1,684,205

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2021 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	987,932	593,004	14,524	1,595,460
Due from other banks	26,174	16,033	30	42,237
Mandatory cash balances with NBG	2,086,113	-	-	2,086,113
Loans and advances to customers	16,104,160	126,415	316,610	16,547,185
Investment securities measured at fair value through OCI	1,440,168	496,377	1,651	1,938,196
Finance lease receivables	246,328	-	6,012	252,340
Other financial assets	439,224	2,749	234	442,207
Total financial assets	**21,330,099**	**1,234,578**	**339,061**	**22,903,738**
Non-financial assets	1,131,337	-	4,437	1,135,774
Total assets	**22,461,436**	**1,234,578**	**343,498**	**24,039,512**
Liabilities				
Due to credit institutions	1,325,363	1,612,336	46,376	2,984,075
Customer accounts	12,805,769	1,029,719	1,048,657	14,884,145
Debt securities in issue	1,578,050	-	5,649	1,583,699
Other financial liabilities	120,343	270	7	120,620
Lease liabilities	56,253	-	269	56,522
Subordinated debt	109,427	357,834	156,386	623,647
Total financial liabilities	**15,995,205**	**3,000,159**	**1,257,344**	**20,252,708**
Non-financial liabilities	194,364	-	2,385	196,749
Total liabilities	**16,189,569**	**3,000,159**	**1,259,729**	**20,449,457**
Net balance sheet position	**6,271,867**	**(1,765,581)**	**(916,231)**	**3,590,055**
Performance guarantees	724,710	675,323	165,661	1,565,694
Credit related commitments	2,178,835	4,197	12,317	2,195,349

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

On 13 August 2018 the NBG introduced new regulation on changes to OCP ("open currency position") calculation method, according to this regulation, from March 2019 special reserves assigned to FC balance-sheet assets were deductible gradually for OCP calculation purposes.

The full application of the regulation was finalized in Q4 2022, following the suspended period due to the COVID-19 pandemic previously.

Currency risk management framework is governed through the Market Risk Management Policy. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers part of the provisions to be denominated in the USD, Euro and other currencies. Gross amount of currency swap deposits is included in Derivatives. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented.

As of 31 December 2022 *in thousands of GEL*	Monetary financial assets	Monetary financial liabilities	Derivatives*	Net position
Georgian Lari	13,454,240	10,906,671	672,019	3,219,588
US Dollar	9,116,276	10,829,585	1,696,253	(17,056)
Euro	4,210,065	1,934,556	(2,322,418)	(46,909)
Other	244,928	198,532	(31,929)	14,467
Total	**27,025,509**	**23,869,344**	**13,925**	**3,170,090**

*Starting from 2022 management presents the undiscounted gross amount of currency derivatives in currency risk management table above as it reflects Bank's actual risk management policy principles. Comparative figures have not been restated due to immateriality. The derivative amounts in the table above do not reconcile to note 39 as that one includes fair values of derivative financial instruments.

As of 31 December 2021 *in thousands of GEL*	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	10,245,525	7,430,412	(339)	2,814,774
US Dollar	8,088,897	10,991,513	2,914,442	11,826
Euro	4,420,441	1,686,875	(2,725,047)	8,519
Other	148,875	143,908	(39)	4,928
Total	**22,903,738**	**20,252,708**	**189,017**	**2,840,047**

US Dollar strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2022 by GEL 3,411 thousand (increase by GEL 3,411 thousand). Euro strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2022 by GEL 9,382 thousand (increase by GEL 9,382 thousand).

US Dollar strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2021 by GEL 2,365 thousand (decrease by GEL 2,365 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2021 by GEL 1,704 thousand (decrease by GEL 1,704 thousand).

Interest rate risk. Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The biggest share of the Bank's deposits and the part of the loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. In case of need, the Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The Group employs an advanced framework for the management of interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts. From September, 2020 the NBG introduced regulation on interest rate risk and set the limit for Economic Value of Equity (EVE) sensitivity at 15% of NBG Tier 1 Capital. The main principles and assumptions of NBG IRR methodology are in line with Basel standards and EBA guidelines developed for IRR management purposes.

According to NBG guidelines the net interest income sensitivity under parallel shifts of interest rate scenarios are maintained for monitoring purposes, while EVE sensitivity is calculated under 6 predefined stress scenarios of interest rate changes and the limit is applied to the worst case scenario result.

Interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the Risk Committee.

Following main assumptions under NBG IRR Regulation and EBA 2018 guidelines, at 31 December, 2022, if interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 84 million higher, mainly as a result of higher interest income on variable interest assets (2021: GEL 129 million). If interest rates at 31 December, 2022 had been 200 basis points lower with all other variables held constant, profit for the year would have been GEL 78 million lower, mainly as a result of lower interest income on variable interest assets (2021: GEL 40 million).

At 31 December, 2022, if interest rates had been 200 basis points lower, with all other variables held constant, other comprehensive income would have been GEL 35.6 million higher (2021: GEL 57 million), as a result of an increase in the fair value of fixed rate financial assets measured at fair value through other comprehensive income and repurchase receivables. If interest rates at 31 December, 2022 had been 200 basis points higher with all other variables held constant, Other comprehensive income would have been GEL 35.6 million lower (2021: GEL 60.8 million), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

The uptrend in downward shift effect is due to the updated IR yields by the regulator, which resulted into the higher downward shifts in FC. While downtrend in upward shift effect is the result of the NBG's new regulation, according to which no positive interest rate is accrued on FC mandatory reserves.

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. TBC Bank closely monitors the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period to ensure compliance with the predefined risk appetite of the Bank.

In order to manage interest rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk, Committee.

Liquidity Risk. The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

The principal objectives of the TBC Bank's liquidity risk management policy are to: (i) ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price; (ii) recognise any structural mismatch existing within TBC Bank's statement of financial position and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an on-going basis to ensure that approved business targets are met without compromising the risk profile of the Bank.

The liquidity risk is categorised into two risk types: the funding liquidity risk and the market liquidity risk.

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

manage funding liquidity risk TBC Bank uses the Liquidity Coverage ratio and the Net Stable Funding ratio set, forth under Basel III, and defined further by the NBG. In addition the Bank performs stress tests and "what-if" scenario analysis. With Liquidity Coverage Ratio ("NBG LCR"), in addition to Basel III guidelines conservative approaches are applied to the deposits' withdrawal rates depending on the clients group's concentration. For NBG LCR the limits are set by currency (GEL, FC, Total). TBC monitors compliance with NBG LCR limits on a daily basis. On a monthly basis the Bank also monitors compliance with the set limit for NBG NSFR.

The Liquidity Coverage Ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time buckets and ensure that NBG LCR limits, are met on a daily basis.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also monitors deposit concentration for large deposits and sets the limits for non-Georgian residents deposits share in total deposit portfolio.

The management believes that a strong and diversified funding structure is one of TBC Bank's differentiators. The Bank relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance the liability structure TBC Bank sets the targets for deposits and IFI funding within the Bank's risk appetite.

The Bank's liquidity position was strong as of 31 December 2022, both LCR and NSFR ratios well above the NBG minimum requirements of 100%.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2022 subject-to-notice repayments are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The maturity analysis of undiscounted financial liabilities as of 31 December 2022 is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	1,814,831	548,857	1,983,019	183,256	4,529,963
Customer accounts – individuals	6,156,427	2,025,734	1,015,495	67,368	9,265,024
Customer accounts – other	6,861,142	683,448	1,008,931	446,341	8,999,862
Other financial liabilities	188,538	51,176	10,804	-	250,518
Lease liabilities	6,297	17,219	63,265	18,526	105,307
Subordinated debt	18,824	111,605	421,704	286,247	838,380
Debt securities in issue	49,511	86,259	1,280,365	-	1,416,135
Gross settled swaps and forwards:					
– Inflows	(2,599,378)	(279,912)	(58,148)	-	(2,937,438)
– Outflows	2,615,037	328,255	67,248	-	3,010,540
Performance guarantees	1,552,134	-	-	-	1,552,134
Financial guarantees	406,456	-	-	-	406,456
Letters of credit	53,556	112,016	90,158	-	255,730
Other credit related commitments	1,051,216	-	-	-	1,051,216
Total potential future payments for financial obligations	**18,174,591**	**3,684,657**	**5,882,841**	**1,001,738**	**28,743,827**

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The maturity analysis of undiscounted financial liabilities as of 31 December 2021 is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	1,439,008	569,512	1,162,095	7,407	3,178,022
Customer accounts – individuals	5,307,483	1,714,014	1,184,616	85,094	8,291,207
Customer accounts – other	5,467,638	330,231	850,626	439,336	7,087,831
Other financial liabilities	118,915	1,658	47	-	120,620
Lease liabilities	3,445	10,329	42,201	5,705	61,680
Subordinated debt	5,331	60,491	338,052	478,851	882,725
Debt securities in issue	6,736	109,343	1,608,370	242,651	1,967,100
Gross settled swaps and forwards:					
– Inflows	(603,531)	(27,350)	(402,077)	-	(1,032,958)
– Outflows	606,431	28,069	408,674	-	1,043,174
Performance guarantees	1,596,458	-	-	-	1,596,458
Financial guarantees	357,896	-	-	-	357,896
Letters of credit	20,619	96,112	64,687	-	181,418
Other credit related commitments	1,672,865	-	-	-	1,672,865
Total potential future payments for financial obligations	**15,999,294**	**2,892,409**	**5,257,291**	**1,259,044**	**25,408,038**

The undiscounted financial liability analysis gap does not reflect the historical stability of the current accounts. Their liquidation has historically taken place over a longer period than the one indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term deposits included in the customer accounts are classified based on remaining contractual maturities, however, according to the Georgian Civil Code, individuals have the right to withdraw their deposits prior to maturity, if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the Management does not expect that many customers will require repayment on the earliest possible date. Accordingly, the table does not reflect the Management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity as it shows contractual terms purely and disregard the actual expected behaviour of the instruments. Instead, the Group monitors the liquidity gap analysis based on the expected maturities. In particular, expected maturities disclosure include customers' deposits and contingent liabilities according to their behavioural analysis, while for undiscounted cash flow disclosure purposes, demand deposits and issued guarantees are put in on demand bucket.

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As at 31 December 2022 the analysis by expected maturities is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	3,786,098	-	-	-	3,786,098
Due from other banks	-	4,326	1,327	645	6,298
Mandatory cash balances with NBG	2,047,564	-	-	-	2,047,564
Loans and advances to customers	1,637,240	3,108,636	7,189,586	5,561,980	17,497,442
Investment securities measures at fair value through OCI	2,884,728	-	-	-	2,884,728
Repurchase receivables	267,495	-	-	-	267,495
Finance lease receivables	32,027	75,455	152,937	28,467	288,886
Other financial assets	186,864	58,326	1,808	-	246,998
Total financial assets	**10,842,016**	**3,246,743**	**7,345,658**	**5,591,092**	**27,025,509**
Due to credit institutions	1,787,320	392,818	1,545,929	159,293	3,885,360
Customer accounts	1,405,899	176,629	-	16,258,829	17,841,357
Debt securities in issue	47,661	81,779	1,080,373	-	1,209,813
Other financial liabilities	188,538	51,176	10,804	-	250,518
Lease liabilities	4,531	11,862	43,259	12,588	72,240
Subordinated debt	16,171	70,244	254,624	249,109	590,148
Total financial liabilities	**3,450,120**	**784,508**	**2,934,989**	**16,679,819**	**23,849,436**
Performance guarantees	7,206	-	-	-	7,206
Financial guarantees	3,177	-	-	-	3,177
Other credit related commitments*	93,839	-	-	-	93,839
Credit related commitments and performance guarantees	**104,222**	**-**	**-**	**-**	**104,222**
Net liquidity gap as of 31 December 2022	**7,287,674**	**2,462,235**	**4,410,669**	**(11,088,727)**	**3,071,851**
Cumulative gap as of 31 December 2022	**7,287,674**	**9,749,909**	**14,160,578**	**3,071,851**	**-**

* Other credit related commitments represent credit line amounts, that is expected to be converted into on balance obligation based on historical expectations.

35. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As at 31 December 2021 the analysis by expected maturities is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	1,595,460	-	-	-	1,595,460
Due from other banks	24,791	723	2,943	13,780	42,237
Mandatory cash balances with NBG	2,086,113	-	-	-	2,086,113
Loans and advances to customers	1,400,962	3,317,830	6,660,667	5,167,726	16,547,185
Investment securities measures at fair value through OCI	1,938,196	-	-	-	1,938,196
Finance lease receivables	28,961	62,684	155,074	5,621	252,340
Other financial assets	435,807	3,021	3,379	-	442,207
Total financial assets	**7,510,290**	**3,384,258**	**6,822,063**	**5,187,127**	**22,903,738**
Due to credit institutions	1,419,171	500,592	1,057,079	7,233	2,984,075
Customer accounts	1,166,917	104,189	-	13,613,039	14,884,145
Debt securities in issue	5,261	100,349	1,328,307	149,782	1,583,699
Other financial liabilities	118,915	1,658	47	-	120,620
Lease liabilities	3,611	9,637	38,130	5,144	56,522
Subordinated debt	2,337	19,042	179,963	422,305	623,647
Total financial liabilities	**2,716,212**	**735,467**	**2,603,526**	**14,197,503**	**20,252,708**
Performance guarantees	4,620	-	-	-	4,620
Financial guarantees	3,624	-	-	-	3,624
Other credit related commitments*	64,196	-	-	-	64,196
Credit related commitments and performance guarantees	**72,440**	**-**	**-**	**-**	**72,440**
Net liquidity gap as of 31 December 2021	**4,721,638**	**2,648,791**	**4,218,537**	**(9,010,376)**	**2,578,590**
Cumulative gap as of 31 December 2021	**4,721,638**	**7,370,429**	**11,588,966**	**2,578,590**	**-**

* Other credit related commitments represent credit line amounts, that is expected to be converted into on balance obligation based on historical expectations.

The Management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

36. CONTINGENCIES AND COMMITMENTS

Legal and regulatory matters. *When determining the level of provision to be set up with regards to such matters, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these consolidated financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as it will not have a material adverse effect on the financial condition or the results of future operations of the Group.*

Tax legislation. Georgian and Azerbaijanian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of the legislation as applied to the Group's transactions and activity may be challenged by the relevant authorities. In Azerbaijan, the tax review periods for the five preceding calendar years remain open to review by authorities. In Georgia, the period of limitation for tax review is three years. To respond to the risks, the Group has engaged external tax specialists to carry out periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate, and the Group's tax and customs positions will be substantially sustained. As of December 31, 2022, the results of the annual tax audit have resulted in the accrual of a total tax liability of 11.6 million GEL. Despite prior knowledge of the controversial tax issues and respective reserves having been established in previous financial reporting periods, a further 2 million GEL in tax reserve expenses has been recorded during the fiscal year of 2022.

Compliance with covenants. The Group is subject to certain financial and non-financial covenants primarily related to its debt. Non-compliance with such covenants may result in negative consequences for the Group including mandatory prepayment and declaration of default. The Group was in compliance with all covenants as of 31 December 2022 and 31 December 2021.

Group's financial covenants mainly consist of three major sub-categories. Key covenants within each category and their compliance status is disclosed below:

Covenant Description	Status
Liquidity	
Net Stable Funding Ratio (NSFR)	Complied
Liquidity Coverage Ratio (LCR)	Complied
Net loan to deposit and funding ratio	Complied
Capital Adequacy	
Tier 1 capital ratio	Complied
Total capital ratio	Complied
Asset Quality	
Net problem loans to total capital	Complied

For all financial covenants the Group has sufficient headroom for any potential violation risks to materialise.

Management of Capital. The Bank manages capital requirements under regulatory rules. The Bank complied with all its imposed capital requirements throughout the reporting period.

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

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially

36. CONTINGENCIES AND COMMITMENTS CONTINUED

exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

As of 31 December 2022, outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	Stage 1	Stage 2	Stage 3
Undrawn credit lines	1,008,262	40,296	2,667
Letters of credit issued	232,066	-	-
Financial guarantees issued	399,820	1,044	50
Total credit related commitments (before provision)	**1,640,148**	**41,340**	**2,717**
Credit loss allowance for credit related commitments			
Undrawn credit lines	(1,531)	(364)	(47)
Letters of credit issued	(436)	-	-
Financial guarantees issued	(799)	-	-
Credit loss allowance for credit related commitments	**(2,766)**	**(364)**	**(47)**
Total credit related commitments	**1,637,382**	**40,976**	**2,670**

As of 31 December 2021, outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	Stage 1	Stage 2	Stage 3
Undrawn credit lines	1,628,437	40,572	3,856
Letters of credit issued	170,174	208	-
Financial guarantees issued	343,536	8,510	56
Total credit related commitments (before provision)	**2,142,147**	**49,290**	**3,912**
Credit loss allowance for credit related commitments			
Undrawn credit lines	(1,961)	(578)	(22)
Letters of credit issued	(320)	-	-
Financial guarantees issued	(734)	(9)	-
Credit loss allowance for credit related commitments	**(3,015)**	**(587)**	**(22)**
Total credit related commitments	**2,139,132**	**48,703**	**3,890**

36. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2022:

	31 December 2022			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
Undrawn credit lines risk category				
– Very low	935,349	870	-	936,219
– Low	68,729	32,329	-	101,058
– Moderate	4,181	6,104	-	10,285
– High	3	993	-	996
– Default	-	-	2,667	2,667
Gross carrying amount	**1,008,262**	**40,296**	**2,667**	**1,051,225**
Credit loss allowance	(1,531)	(364)	(47)	(1,942)
Carrying amount	**1,006,731**	**39,932**	**2,620**	**1,049,283**
Letters of credit issued risk category				
– Very low	232,066	-	-	232,066
– Low	-	-	-	-
– Moderate	-	-	-	-
– High	-	-	-	-
– Default	-	-	-	-
Gross carrying amount	**232,066**	**-**	**-**	**232,066**
Credit loss allowance	(436)	-	-	(436)
Carrying amount	**231,630**	**-**	**-**	**231,630**
Financial guarantees issued risk category				
– Very low	397,358	-	-	397,358
– Low	2,462	1,044	-	3,506
– Moderate	-	-	-	-
– High	-	-	-	-
– Default	-	-	50	50
Gross carrying amount	**399,820**	**1,044**	**50**	**400,914**
Credit loss allowance	(799)	-	-	(799)
Carrying amount	**399,021**	**1,044**	**50**	**400,115**

36. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2021:

	31 December 2021			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
Undrawn credit lines risk category				
– Very low	1,537,915	1,794	-	1,539,709
– Low	86,611	30,143	-	116,754
– Moderate	3,911	7,764	-	11,675
– High	-	871	-	871
– Default	-	-	3,856	3,856
Gross carrying amount	**1,628,437**	**40,572**	**3,856**	**1,672,865**
Credit loss allowance	(1,961)	(578)	(22)	(2,561)
Carrying amount	**1,626,476**	**39,994**	**3,834**	**1,670,304**
Letters of credit issued risk category				
– Very low	167,570	-	-	167,570
– Low	2,604	-	-	2,604
– Moderate	-	208	-	208
– High	-	-	-	-
– Default	-	-	-	-
Gross carrying amount	**170,174**	**208**	**-**	**170,382**
Credit loss allowance	(320)	-	-	(320)
Carrying amount	**169,854**	**208**	**-**	**170,062**
Financial guarantees issued risk category				
– Very low	331,437	1,733	-	333,170
– Low	12,099	1,367	-	13,466
– Moderate	-	5,108	-	5,108
– High	-	302	-	302
– Default	-	-	56	56
Gross carrying amount	**343,536**	**8,510**	**56**	**352,102**
Credit loss allowance	(734)	(9)	-	(743)
Carrying amount	**342,802**	**8,501**	**56**	**351,359**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as of 31 December 2022 were GEL 313,199 thousand (2021: GEL 251,903 thousand).

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

36. CONTINGENCIES AND COMMITMENTS CONTINUED

Outstanding amount of performance guarantees and respective provision by stages as of 31 December 2022 is stage 1 – GEL 1,495,335 thousand and GEL 2,997 thousand (2021: GEL 1,529,851 thousand and GEL 3,239 thousand), stage 2 – GEL 12,704 thousand and GEL 4 thousand (2021: GEL 30,267 thousand and GEL 3 thousand), stage 3 – GEL 15,831 thousand and GEL 4,204 thousand (2021: GEL 5,576 thousand and GEL 1,378 thousand).

The credit quality of performance guarantees is as follows at 31 December 2022:

	31 December 2022			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
Performance guarantees risk category				
– Very low	1,466,676	-	-	1,466,676
– Low	21,143	2,749	-	23,892
– Moderate	7,495	9,955	-	17,450
– High	21	-	-	21
– Default	-	-	15,831	15,831
Gross carrying amount	**1,495,335**	**12,704**	**15,831**	**1,523,870**
Credit loss allowance	(2,997)	(4)	(4,204)	(7,205)
Carrying amount	**1,492,338**	**12,700**	**11,627**	**1,516,665**

The credit quality of performance guarantees is as follows at 31 December 2021:

	31 December 2021			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
Performance guarantees risk category				
– Very low	1,519,935	-	-	1,519,935
– Low	8,733	29,660	-	38,393
– Moderate	1,183	-	-	1,183
– High	-	607	-	607
– Default	-	-	5,576	5,576
Gross carrying amount	**1,529,851**	**30,267**	**5,576**	**1,565,694**
Credit loss allowance	(3,239)	(3)	(1,378)	(4,620)
Carrying amount	**1,526,612**	**30,264**	**4,198**	**1,561,074**

Fair value of credit related commitments were GEL 3,177 thousand as of 31 December 2022 (2021: GEL 3,624 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

in thousands of GEL	**2022**	**2021**
Georgian Lari	1,457,633	898,178
US Dollar	1,195,206	901,092
Euro	484,040	220,068
Other	71,196	68,840
Total	**3,208,075**	**2,088,178**

36. CONTINGENCIES AND COMMITMENTS CONTINUED

Capital expenditure commitments. As of 31 December 2022, the Group has contractual capital expenditure commitments amounting to GEL 131,983 thousand (2021: GEL 104,162 thousand). Out of total amount as at 31 December 2022, contractual commitments related to the head office construction amounted GEL 105,623 thousand (2021: GEL 79,004 thousand).

37. NON-CONTROLLING INTEREST

The following table provides information for each subsidiary with a non-controlling interest as of 31 December 2022:

in thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
United Financial Corporation JSC	0.47%	25	164

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2022:

in thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Net cash flows
United Financial Corporation JSC	2,284	22,314	3,429	1,178	14,886	3,400	3,400	(457)

The following table provides information for each subsidiary with a non-controlling interest as of 31 December 2021:

in thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
United Financial Corporation JSC	0.47%	16	93

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2021:

in thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Net cash flows
United Financial Corporation JSC	4,173	16,352	1,838	3,593	16,691	3,113	3,113	(626)

38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As of 31 December 2022, financial instruments subject to offsetting, enforceable master netting and similar were as follows:

				Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
in thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c)-(d)-(e)
Assets						
Investment securities measured at FVOCI sold under sale and repurchase agreements	267,495	-	267,495	262,415	-	5,080
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	370,022	-	370,022	370,022	-	-
Other financial assets:						
– Receivables on credit card services and money transfers	46,724	-	46,724	-	-	46,724
Assets subject to offsetting, master netting and similar arrangement	**684,241**	**-**	**684,241**	**632,437**	**-**	**51,804**
Liabilities						
Sales and repurchase agreements	262,415	-	262,415	262,415	-	-
Other financial liabilities:						
– Payables on credit card services and money transfers	22,785	-	22,785	-	-	22,785
Liabilities subject to offsetting, master netting and similar arrangement	**285,200**	**-**	**285,200**	**262,415**	**-**	**22,785**

38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

As of 31 December 2021, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

in thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c)-(d)-(e)
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	70,501	7,620	62,881	-	-	62,881
Assets subject to offsetting, master netting and similar arrangement	**70,501**	**7,620**	**62,881**	**-**	**-**	**62,881**
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	36,583	7,620	28,963	-	-	28,963
Liabilities subject to offsetting, master netting and similar arrangement	**36,583**	**7,620**	**28,963**	**-**	**-**	**28,963**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

39. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

in thousands of GEL	2022	2021
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from other banks	69,921	199,233
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(73,102)	(10,216)
Total	**(3,181)**	**189,017**

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments the Group entered are generally traded in an over-the-counter market with professional counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Group entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date.

	2022		2021	
in thousands of GEL	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of				
– USD payable on settlement (-)	(1,043,758)	(103,669)	(412,621)	(528,905)
– USD receivable on settlement (+)	69,042	2,758,993	3,355,801	500,167
– GEL payable on settlement (-)	(53,019)	(408,702)	(115,337)	(485,231)
– GEL receivable on settlement (+)	1,002,936	130,514	394,562	205,667
– EUR payable on settlement (-)	(16,534)	(2,489,689)	(3,096,222)	(9,883)
– EUR receivable on settlement (+)	142,774	39,931	54,955	326,103
– Other payable on settlement (-)	(35,729)	(913)	(1,031)	(19,165)
– Other receivable on settlement (+)	4,209	433	19,126	1,031
Fair value of foreign exchange forwards and gross settled currency swaps	**69,921**	**(73,102)**	**199,233**	**(10,216)**
Net fair value of foreign exchange forwards and gross settled currency swaps		**(3,181)**	**189,017**	

40. FAIR VALUE DISCLOSURES

(a) Recurring fair value measurements

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

	31-Dec-22					31-Dec-21				
in thousands of GEL	Level 1	Level 2	Level 3	Total fair Value	Carrying value	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets carried at fair value										
Financial assets										
Investment securities measured at fair value through other comprehensive income										
– Corporate Bonds	36,630	1,254,754	-	**1,291,384**	**1,291,384**	-	704,435	-	**704,435**	**704,435**
– Foreign government treasury bills	35,583	-	-	**35,583**	**35,583**	-	1,683	-	**1,683**	**1,683**
– Ministry of Finance of Georgia Treasury Bills	4,421	1,552,675	-	**1,557,096**	**1,557,096**	-	1,231,024	-	**1,231,024**	**1,231,024**
– Repurchase receivables	267,495	-	-	**267,495**	**267,495**	-	-	-	**-**	**-**
– Corporate shares	-	-	665	**665**	**665**	-	-	1,054	**1,054**	**1,054**
Investment securities measured at fair value through profit and loss										
– Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	69,921	-	**69,921**	**69,921**	-	199,233	-	**199,233**	**199,233**
– Investment held at fair value through profit or loss	-	-	9,704	**9,704**	**9,704**	-	-	11,125	**11,125**	**11,125**
Total assets recurring fair value measurements	**344,129**	**2,877,350**	**10,369**	**3,231,848**	**3,231,848**	**-**	**2,136,375**	**12,179**	**2,148,554**	**2,148,554**
Liabilities carried at fair value										
Financial liabilities										
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	73,102	-	**73,102**	**73,102**	-	10,216	-	**10,216**	**10,216**
Total liabilities recurring fair value measurements	**-**	**73,102**	**-**	**73,102**	**73,102**	**-**	**10,216**	**-**	**10,216**	**10,216**

40. FAIR VALUE DISCLOSURES CONTINUED

There were no transfers between levels 1 and 2 during the year ended 31 December 2022 (2021: none).

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

	Fair value at 31 December			
in thousands of GEL	2022	2021	Valuation technique	Inputs used
Assets carried at fair value				
– Ministry of Finance of Georgia Treasury Bills, foreign government treasury bills, corporate bonds	2,807,429	1,937,142	Discounted cash flows ("DCF")	Government bonds yield curve
– Foreign exchange forwards and gross settled currency swaps, included in due from banks	69,921	199,233	Forward pricing using present value calculations	Official exchange rate, risk-free rate
Total assets recurring fair value measurements at level 2	**2,877,350**	**2,136,375**		
Liabilities carried at fair value				
– Foreign exchange forwards included in other financial liabilities	73,102	10,216	Forward pricing using present value calculations	Official exchange rate, risk-free rate
Total liabilities recurring fair value measurements at level 2	**73,102**	**10,216**		

The description of the valuation technique and the description of inputs used in the fair value measurement for level 3 measurements:

	Fair value at 31 December			
in thousands of GEL	2022	2021	Valuation technique	Inputs used
Assets carried at fair value				
– Investment held at fair value through profit or loss	9,704	11,125	Discounted cash flows ("DCF")	Weighted average borrowing interest rate
– Corporate shares	665	1,054	Discounted cash flows ("DCF")	Government bonds yield curve
Total assets recurring fair value measurements at level 3	**10,369**	**12,179**		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the year ended 31 December 2022 (2021: none).

Sensitivity of the input to fair value – increase/(decrease) in projected cash flows by 10% would result in increase/(decrease) in fair value by GEL 291 thousand/ (GEL 291 thousand).

Fair value measurement analysis by level in the fair value hierarchy is disclosed in Note 2.

40. FAIR VALUE DISCLOSURES CONTINUED

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

			31 December 2022		
in thousands of GEL	Level 1	Level 2	Level 3	Total fair Value	Carrying value
Financial assets					
Cash and cash equivalents	1,224,265	2,561,833	-	**3,786,098**	**3,786,098**
Due from other banks	-	6,298	-	**6,298**	**6,298**
Mandatory cash balances with NBG	-	2,047,564	-	**2,047,564**	**2,047,564**
Loans and advances to customers:					
– Corporate loans	-	-	6,336,111	**6,336,111**	**6,236,011**
– Consumer loans	-	-	2,662,334	**2,662,334**	**2,328,868**
– Mortgage loans	-	-	4,863,317	**4,863,317**	**4,219,260**
– Loans to micro, small and medium enterprises	-	-	4,708,953	**4,708,953**	**4,713,303**
Finance lease receivables	-	-	288,852	**288,852**	**288,886**
Other financial assets	-	-	167,373	**167,373**	**167,373**
Non-financial assets					
Investment properties, at cost	-	-	25,683	**25,683**	**22,154**
Total assets	**1,224,265**	**4,615,695**	**19,052,623**	**24,892,583**	**23,815,815**
Financial liabilities					
Customer accounts	-	12,241,574	5,585,966	**17,827,540**	**17,841,357**
Debt securities in issue	1,188,684	-	-	**1,188,684**	**1,209,813**
Due to credit institutions	-	-	3,880,943	**3,880,943**	**3,885,360**
Other financial liabilities	-	-	249,656	**249,656**	**249,656**
Subordinated debt	-	-	587,218	**587,218**	**590,148**
Total liabilities	**1,188,684**	**12,241,574**	**10,303,783**	**23,734,041**	**23,776,334**

40. FAIR VALUE DISCLOSURES CONTINUED

			31 December 2021		
in thousands of GEL	Level 1	Level 2	Level 3	Total fair Value	Carrying value
Financial assets					
Cash and cash equivalents	831,034	764,426	-	**1,595,460**	**1,595,460**
Due from other banks	-	42,237	-	**42,237**	**42,237**
Mandatory cash balances with NBG	-	2,086,113	-	**2,086,113**	**2,086,113**
Loans and advances to customers:					
– Corporate loans	-	-	6,492,668	**6,492,668**	**6,497,010**
– Consumer loans	-	-	2,304,534	**2,304,534**	**1,973,016**
– Mortgage loans	-	-	4,522,528	**4,522,528**	**4,048,955**
– Loans to micro, small and medium enterprises	-	-	4,126,318	**4,126,318**	**4,028,204**
Finance lease receivables	-	-	251,855	**251,855**	**252,340**
Other financial assets	-	-	231,849	**231,849**	**231,849**
Non-financial assets					
Investment properties, at cost	-	-	29,493	**29,493**	**22,892**
Total assets	**831,034**	**2,892,776**	**17,959,245**	**21,683,055**	**20,778,076**
Financial liabilities					
Customer accounts	-	9,888,470	4,966,775	**14,855,245**	**14,884,145**
Debt securities in issue	1,671,435	-	-	**1,671,435**	**1,583,699**
Due to credit institutions	-	-	2,986,631	**2,986,631**	**2,984,075**
Other financial liabilities	-	-	166,926	**166,926**	**166,926**
Subordinated debt	-	-	626,503	**626,503**	**623,647**
Total liabilities	**1,671,435**	**9,888,470**	**8,746,835**	**20,306,740**	**20,242,492**

The fair values in the level 2 and the level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was calculated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives.

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount. Amounts due to credit institutions, subordinated debt and other financial liabilities were moved from level 2 to level 3. There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the year ended 31 December 2022 (2021: none)

41. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2022:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
Assets				
Cash and cash equivalents	3,786,098	-	-	**3,786,098**
Due from other banks	6,298	-	-	**6,298**
Mandatory cash balances with NBG	2,047,564	-	-	**2,047,564**
Loans and advances to customers	17,497,442	-	-	**17,497,442**
Investment securities measured at FVOCI	-	2,884,728	-	**2,884,728**
Repurchase receivable	-	267,495	-	**267,495**
Other financial assets	167,373	-	79,625	**246,998**
Total financial assets subject to IFRS 9 measurement categories	**23,504,775**	**3,152,223**	**79,625**	**26,736,623**
Finance lease receivables	-	-	-	**288,886**
Non-financial assets	**-**	**-**	**-**	**1,303,501**
Total assets	**23,504,775**	**3,152,223**	**79,625**	**28,329,010**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2021:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
Assets				
Cash and cash equivalents	1,595,460	-	-	**1,595,460**
Due from other banks	42,237	-	-	**42,237**
Mandatory cash balances with NBG	2,086,113	-	-	**2,086,113**
Loans and advances to customers	16,547,185	-	-	**16,547,185**
Investment securities measured at FVOCI	-	1,938,196	-	**1,938,196**
Other financial assets	231,849	-	210,358	**442,207**
Total financial assets subject to IFRS 9 measurement categories	**20,502,844**	**1,938,196**	**210,358**	**22,651,398**
Finance lease receivables	-	-	-	**252,340**
Non-financial assets	**-**	**-**	**-**	**1,135,774**
Total assets	**20,502,844**	**1,938,196**	**210,358**	**24,039,512**

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 2.

As of 31 December 2022 and 2021 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets fair value through profit or loss measurement category under IFRS 9.

42. RELATED PARTY TRANSACTIONS

Pursuant to IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form:

- Parties with material ownership stake (more than 5% beneficial ownership stake for 2022 and 2021) in the Group or with representatives in the Board of Directors are considered as Significant Shareholders.
- The key management personnel includes the Management Board of the Bank.
- Related parties not included in significant shareholders and key management personnel are presented in other related parties.

Transactions between Group and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

As at 31 December 2022 and 2021 the Group's outstanding balances with related parties were as follows:

in thousands of GEL	Contractual interest rate	Significant shareholders	Key management personnel	Other related parties	Associates	Immediate parent	Companies under common control
2022							
Gross amount of loans and advances to customers	4.4%-36.0%	-	6,097	1,135	–	–	–
Credit loss allowance for loans and advances to customers	–	-	3	-	–	–	–
Customer accounts	0%-12.5%	1,248	25,106	51,490	4,341	90,358	45,442
Guarantees	–	–	–	–	–	–	357
2021							
Gross amount of loans and advances to customers	4.0%-36.0%	19	6,686	5,713	–	–	–
Credit loss allowance for loans and advances to customers	–	–	5	1	–	–	–
Customer accounts	0%-12.5%	9,663	8,831	20,693	3,893	14,614	38,870
Guarantees	–	–	–	–	–	–	211
Other borrowed funds from EBRD	0.86%-12.85%	360,889	–	–	–	–	–

42. RELATED PARTY TRANSACTIONS CONTINUED

The Group's income and expense items with related parties except from key management compensation for the year 2022 and 2021 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Other related parties	Associates	Immediate parent	Companies under common control
2022						
Interest income - loans and advances to customers	-	287	93	–	–	–
Interest expense	10	359	948	140	2,568	3,691
Fee and commission income	6	21	134	2	482	747
Administrative and other operating expenses (excluding staff costs)	-	443	400	-	–	–
2021						
Interest income - loans and advances to customers	4	264	121	-	-	-
Interest expense	3	330	329	109	1,649	2,324
Interest expense with EBRD	36,819	–	–	-	-	-
Fee and commission income	2	19	76	2	-	407
Administrative and other operating expenses (excluding staff costs)	–	162	269	-	-	-

The aggregate loan amounts disbursed to, and repaid, by related parties during 2022 and 2021 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Other related parties	Associates	Immediate parent	Companies under common control
2022						
Amounts disbursed to related parties during the year	43	2,007	934	-	-	-
Amounts repaid by related parties during the year	(59)	(2,233)	(1,197)	-	-	-
2021						
Amounts disbursed to related parties during the year	-	3,889	1,309	-	-	-
Amounts repaid by related parties during the year	(35)	(2,919)	(2,454)	-	-	-

42. RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2022 and 2021 transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

in thousands of GEL	31 December 2022	31 December 2021
Gross amount of loans and advances granted to subsidiaries	19,492	13,699
Customer accounts of subsidiaries	135,236	48,258
Other Financial Assets	66,276	23,515
Other Financial Liabilities	4,761	10,830
Investment in subsidiaries	31,513	30,020

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

in thousands of GEL	2022	2021
Interest income	3,705	3,880
Interest expense	6,487	5,914
Fee and commission income	8,792	6,572
Fee and commission expense	32,593	25,964
Other operating income	5,876	52,286
Administrative and other operating expense	5,466	7,507

Compensation of the key management personnel and Supervisory Board members is presented below:

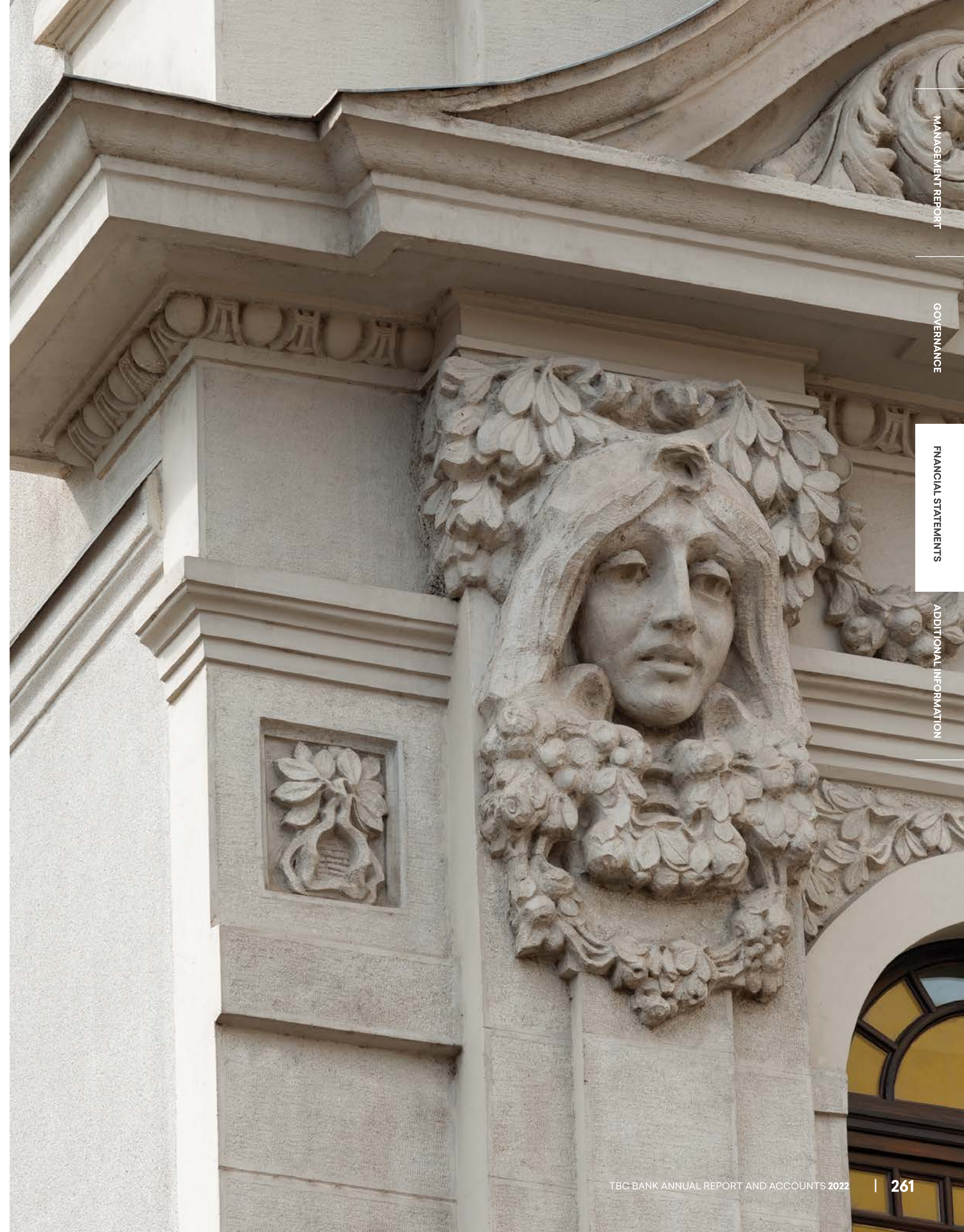
	2022		2021	
in thousands of GEL	Expense	Accrued liability	Expense	Accrued liability
Salaries and short-term bonuses	12,340	-	12,095	-
Equity-settled share-based compensation	16,888	-	11,299	-
Total	**29,228**	**-**	**23,394**	-

43. EVENTS AFTER REPORTING PERIOD

On 20 March 2023, TBC Leasing JSC issued GEL 100 million secured bonds, out of which GEL 80 million was successfully placed while the remaining part is expected to be placed during 2023. Coupon rate of the bond is determined as 3% plus 3-month Tbilisi Interbank Interest Rate.

A FULL LIST OF RELATED UNDERTAKINGS AND THE COUNTRY OF INCORPORATION IS SET OUT BELOW.

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	76 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, , 52520, Tel Aviv, Israel
Index LLC	8 Tetelashvili,0102,, Tbilisi, Georgia
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
CreditInfo Georgia JSC	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
Natural Products of Georgia LLC	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
Mobi Plus JSC	45 Vazha Pshavela Street, 0177, Tbilisi, Georgia
Mineral Oil Distribution Corporation JSC	11 Tskalsadeni Street, 0153, Tbilisi, Georgia
Georgian Card JSC	106 Beliashvili Street, 0159, Tbilisi Georgia
Georgian Central Securities Depositor JSC	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
Givi Zaldastanishvili American Academy In Georgia JSC	37 Chavchavadze Avenue, 0162, Tbilisi Georgia
United Clearing Centre	5 Sulkhan Saba Street, 0105, Tbilisi, Georgia
Banking and Finance Academy of Georgia	123, Agmashenebeli Avenue, 0112, Tbilisi, Georgia
Tbilisi's City JSC	15 Rustaveli Avenue, 0108, Tbilisi Georgia
TBC Trade LLC	11A Chavchavadze Ave, 0179, Tbilisi, Georgia
Tbilisi Stock Exchange JSC	floor 2th block 8, 71 Vazha Pshavela Ave, Tbilisi, Georgia
Georgian Stock Exchange JSC	74a chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia
Kavkasreestri JSC	74a chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia
TBC Asset Management LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Swift	1 Adele Avenue, B-1310, La Hulpe, Belgium
Diversified Credit Portfolio JSC	7 Marjanishvili Street, 0102, Tbilisi, Georgia



Additional Information

GLOSSARY

Bank	Joint Stock Company TBC Bank.
Chairman	Chairman of Supervisory Board of TBC Bank JSC.
Code	The UK Corporate Governance Code.
Company	TBC Bank Group JSC.
Consumer loans offloading	Consumer loans offloading ratios includes the number of consumer loans disbursed via the remote channels divided by total number of such loans issued.
Corporate and Investment Banking (CIB) segment	A legal entity/group of affiliated entities with an annual revenue exceeding GEL 15.0 million or which has been granted facilities of more than GEL 6.0 million. Some other business customers may also be assigned to the CIB segment or transferred to the micro, small and medium enterprises (MSME) segment on a discretionary basis. In addition, CIB includes wealth management (WM) private banking services to high-net-worth individuals (HNWI) with a threshold of US$ 250,000 on assets under management (AUM), as well as on discretionary basis.
DAU/MAU	Average daily active digital users divided by monthly active digital users. DAU/MAU is calculated for the Bank internet and mobile banking only.
Deposit offloading	Deposit offloading ratio includes the number of time and savings deposits opened via remote channels divided by total number of such deposits opened.
Digital daily active users (DAU)	Monthly average number of individual digital users who logged into our digital channels at least once per day.
Digital monthly active users (MAU)	An individual user who logged into the digital application at least once during the month.
ENPS (Employee Net Promoter Score)	The employee net promoter score measures employee loyalty and reflects the likelihood of our colleagues recommending their workplace to their friends and family.
Executive Management	Executive Management of Joint Stock Company TBC Bank.
Group	TBC Bank JSC and its subsidiary companies.
Growth at constant currency basis	Refers to growth at fixed exchange rate of the starting period.
Lead	A potential client who has expressed interest in the product.
Micro loans	Includes collateralised business and agri loans up to GEL 1 million, as well as micro businesses with a maximum turnover of GEL 2 million.
MSME (Micro, Small and Medium) segment	Business customers (legal entities and private individual customers that generate income from business activities) who are not included in the CIB segment.
MSME monthly active customers	MSME legal entity that used Business mBank or iBank at least once, or had at least one active credit product, or performed at least one debit transaction, or had any type of deposit with a balance above a certain threshold.
NPS (Net Promoter Score)	Net promoter score measures how willing customers are to recommend our products and services to others.
Retail monthly active customers	An individual user who has at least one active product as of the reporting date or performed at least one transaction during the past month.
Retail segment	Non-business individual customer.
Supervisory Board	Supervisory Board of Joint Stock Company TBC Bank.
TBC Asset Management	TBC Asset Management JSC.
TBC Bank	TBC Bank Group JSC and its subsidiary companies.
TBC Bank Group PLC	A public limited company registered in England and Wales. It is the parent company of JSC TBC Bank (the Bank) and a group of companies that principally operate in Georgia in the financial sector. It also offers non-financial services via TNET, the largest digital ecosystem in Georgia. Since 2019, It has expanded its operations into Uzbekistan by operating fast growing retail digital financial services in the country. TBC Bank Group PLC is listed on the London Stock Exchange under the symbol TBCG.
TBC Capital	TBC Capital LLC.
TBC Invest	TBC Invest LLC.
TBC JSC	TBC Bank JSC.
TBC Leasing	TBC Leasing JSC.
TBC Pay	TBC Pay LLC.
TBC PLC	TBC Bank Group PLC.
TBCG	TBC Bank Group PLC.

ALTERNATIVE PERFORMANCE MEASURES

The Group utilises a wide range of alternative performance measures (APMs) to assess the Group's performance. These measures can be grouped under the following headings:

- Profitability
- Asset quality & portfolio concentration
- Capital & liquidity positions

The regulatory performance measures are calculated in accordance with NBG's requirements for the Bank only based on local accounting standards.

Term	#	Type	Definition
Profitability			
ROE	1	IFRS based	Return on average total equity (ROE) equals net profit attributable to owners divided by the monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period; annualised where applicable.
ROA	2	IFRS based	Return on average total assets (ROA) equals net profit of the period divided by monthly average total assets for the same period; annualised where applicable.
Cost to income	3	IFRS based	Cost to income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
NIM	4	IFRS based	Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities (excluding CIB shares), net investment in finance lease, net loans, and amounts due from credit institutions.
Loan yields	5	IFRS based	Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
Deposit rates	6	IFRS based	Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
Cost of funding	7	IFRS based	Cost of funding equals sum of the total interest expense and net interest gains on currency swaps (entered for funding management purposes), divided by monthly average interest bearing liabilities; annualised where applicable.
Asset quality & portfolio concetration			
Cost of risk	8	IFRS based	Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
PAR 90 to Gross Loans	9	IFRS based	PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
NPLs to Gross Loans	10	IFRS based	NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
NPL provision coverage	11	IFRS based	NPL provision coverage equals total credit loss allowance for loans to customers divided by the NPL loans.
Total NPL coverage	12	IFRS based	Total NPL coverage equals total credit loss allowance plus the minimum of collateral amount of the respective NPL loan (after applying haircuts in the range of 0%-50% for cash, gold, real estate and PPE) and its gross loan exposure divided by the gross exposure of total NPL loans.
Credit loss level to Gross Loans	13	IFRS based	Credit loss level to gross loans equals credit loss allowance for loans to customers divided by the gross loan portfolio for the same period.
Related Party Loans to Gross Loans	14	IFRS based	Related party loans to total loans equals related party loans divided by the gross loan portfolio.
Top 10 Borrowers to Total Portfolio	15	IFRS based	Top 10 borrowers to total portfolio equals the total loan amount of the top 10 borrowers divided by the gross loan portfolio.
Top 20 Borrowers to Total Portfolio	16	IFRS based	Top 20 borrowers to total portfolio equals the total loan amount of the top 20 borrowers divided by the gross loan portfolio.

Term	#	Type	Definition
Capital & liquidity positions			
Net Loans to Deposits plus IFI Funding	17	IFRS based	Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
Net Stable Funding Ratio		Regulatory based	Net stable funding ratio equals the available amount of stable funding divided by the required amount of stable funding as defined by NBG in line with Basel III guidelines. Calculations are made for the Bank only, based on local standards.
Liquidity Coverage Ratio		Regulatory based	Liquidity coverage ratio equals high-quality liquid assets divided by the total net cash outflow amount as defined by the NBG. Calculations are made for the Bank only, based on local accounting standards.
Leverage	18	IFRS based	Leverage equals total assets to total equity.
CET 1 CAR (Basel III)		Regulatory based	CET 1 CAR equals CET 1 capital divided by total risk weighted assets, both calculated in accordance with requirements of the NBG Basel III standards. Calculations are made for the Bank only, based on local accounting standards.
Tier 1 CAR (Basel III)		Regulatory based	Tier 1 CAR equals tier I capital divided by total risk weighted assets, both calculated in accordance with the requirements of the NBG Basel III standards. Calculations are made for the Bank only, based on local accounting standards.
Total CAR (Basel III)		Regulatory based	Total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the requirements of the NBG Basel III standards. Calculations are made for the Bank only, based on local accounting standards.

These tables provide the reconciliation of the Group's IFRS based alternative performance measures with Financial Statements.

1	Reference to financial statements	FY 2022	FY 2021
Net profit attributable to owners	Consolidated statement of profit and loss and other comprehensive income	1,023,050	842,929
Total shareholders' equity attributable to owners	Consolidated statement of financial position	4,265,638	3,589,962
Adjusted to arrive at monthly balances		*(328,851(*	*(380,050)*
Monthly averages of total shareholders' equity attributable to owners		3,936,787	3,209,912
Return on average total equity (ROE)		**26.0%**	**26.3%**

2	Reference to financial statements	FY 2022	FY 2021
Net profit attributable to owners	Consolidated statement of profit and loss and other comprehensive income	1,023,050	842,929
Total assets	Consolidated statement of financial position	28,329,010	24,039,512
Adjusted to arrive at monthly balances		*(2,903,705)*	*(1,034,585)*
Monthly averages of total assets		25,425,305	23,004,927
Return on average total assets (ROA)		**4.0%**	**3.7%**

3	Reference to financial statements	FY 2022	FY 2021
Total operating expenses	Consolidated statement of profit and loss and other comprehensive income	560,982	454,993
Total revenue	Consolidated statement of profit and loss and other comprehensive income	1,946,389	1,397,908
Cost to income		**28.8%**	**32.5%**

4	Reference to financial statements	FY 2022	FY 2021
Net interest income	Consolidated statement of profit and loss and other comprehensive income	1,243,095	995,792
Total interest earning assets	Consolidated statement of financial position	22,724,918	20,866,071
– Investment securities measured at fair value through other comprehensive income		*2,884,728*	*1,938,196*
– Bonds carried at amortised cost		-	-
– Net investment in finance lease		*288,886*	*252,340*
– Net loans		*17,497,442*	*16,547,185*
– Mandatory cash balances with National Bank of Georgia		*2,047,564*	*2,086,113*
– Due from other banks		*6,298*	*42,237*
Adjusted to arrive at monthly balances		*(1,607,434)*	*(1,115,522)*
Monthly average interest earning assets		21,117,484	19,750,549
Net intrest margin (NIM)		**5.9%**	**5.0%**

5	Reference to financial statements	FY 2022	FY 2021
Interest income from loans	Note 28. Interest income and expense	1,911,782	1,601,966
Total loan portfolio	Note 9. Loans and advances to customers	17,857,276	16,954,553
Adjusted to arrive at monthly balances		*(771,572)*	*(1,314,893)*
Total monthly average loan portfolio		17,085,704	15,639,660
Loan yields		**11.2%**	**10.2%**

6 Returns	Reference to financial statements	FY 2022	FY 2021
Interest expense from customer accounts	Note 28. Interest income and expense	(571,575)	(469,873)
Total deposits portfolio	Note 19. Customer accounts	17,841,357	14,884,145
Adjusted to arrive at monthly balances		*2,096,195*	*972,237*
Total monthly average deposits portfolio		15,745,162	13,911,908
Deposit rates		**3.6%**	**3.4%**

7	Reference to financial statements	FY 2022	FY 2021
Total Interest expense	Consolidated statement of profit and loss and other comprehensive income	(976,686)	(867,285)
Total interest bearing liabilities	Consolidated statement of financial position	*23,598,918*	*20,132,088*
– Customer accounts		*17,841,357*	*14,884,145*
– Due to credit institutions		3,885,360	2,984,075
– Subordinated Debt		*590,148*	*623,647*
– Debt securities in issue		*1,209,813*	*1,583,699*
– Lease Liabilities		*72,240*	*56,522*
Adjusted to arrive at monthly balances		*(2,472,069)*	*(618,927)*
Monthly average interest bearing liabilities		21,126,849	19,513,161
Cost of fund		**4.6%**	**4.4%**

8	Reference to financial statements	FY 2022	FY 2021
Credit loss allowance for loans	Consolidated statement of profit and loss and other comprehensive income	(105,247)	43,176
Total loan portfolio	Note 9. Loans and advances to customers	17,857,276	16,954,553
Adjusted to arrive at monthly balances		*(771,572)*	*(1,314,893)*
Total monthly average loan portfolio		17,085,704	15,639,660
Cost of risks		**0.6%**	**-0.3%**

9	Reference to financial statements	FY 2022	FY 2021
Total principal or interest repayment is overdue for more than 90 days	Not available	217,596	195,857
Total gross loan portfolio	Note 9. Loans and advances to customers	17,857,276	16,954,553
Par 90 to gross loans		**1.2%**	**1.2%**

10	Reference to financial statements	FY 2022	FY 2021
NPLs to gross loans equals loans with 90 days past due on principal	Not available	390,651	410,853
Total gross loan portfolio	Note 9. Loans and advances to customers	17,857,276	16,954,553
NPLs to gross loans		**2.2%**	**2.4%**

11	Reference to financial statements	FY 2022	FY 2021
Total credit loss allowance for loans to customers	Note 9. Loans and advances to customers	359,834	407,368
NPL provision coverage	Not available	390,651	410,853
NPL provision coverage		**92.1%**	**99.2%**

12	Reference to financial statements	FY 2022	FY 2021
NPL collatetal	*Not available*	*246,242*	*309,979*
NPL provision coverage	*Note 9. Loans and advances to customers*	*359,834*	*407,368*
Total		606,077	717,347
Total NPL exposure	Not available	390,651	410,853
Total NPL Coverage		**155.1%**	**174.6%**

13	Reference to financial statements	FY 2022	FY 2021
Total credit loss allowance for loans to customers	Note 9. Loans and advances to customers	359,834	407,368
Total gross loan portfolio	Note 9. Loans and advances to customers	17,857,276	16,954,553
Credit loss level to Gross Loans		**2.0%**	**2.4%**

14	Reference to financial statements	FY 2022	FY 2021
Related party loans	Note 42. Related party transactions	26,717	12,015
Total gross loan portfolio	Note 9. Loans and advances to customers	17,857,276	16,954,553
Related party loans to gross loans		**0.1%**	**0.1%**

15	Reference to financial statements	FY 2022	FY 2021
Top 10 borrowers	Not available	967,960	1,165,425
Total gross loan portfolio	Note 9. Loans and advances to customers	17,857,276	16,954,553
Top 10 borrowers		**5.4%**	**6.9%**

16	Reference to financial statements	FY 2022	FY 2021
Top 20 borrowers	Not available	1,511,447	1,796,675
Total gross loan portfolio	Note 9. Loans and advances to customers	17,857,276	16,954,553
Top 20 borrowers		**8.5%**	**10.6%**

17	Reference to financial statements	FY 2022	FY 2021
Net loans	Consolidated statement of financial position	17,497,442	16,547,185
Total Deposits portfolio	*Note 19. Customer accounts*	*17,841,357*	*14,884,145*
IFI funding	*Not available*	*2,115,335*	*1,455,723*
Deposits + IFI Funding		19,956,692	16,339,868
Net loans to deposits + IFI Funding		**87.7%**	**101.3%**

18	Reference to financial statements	FY 2022	FY 2021
Total assets	Consolidated statement of financial position	28,329,010	24,039,512
Total equity	Consolidated statement of financial position	4,265,802	3,590,055
Leverage		**6.6x**	**6.7x**

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AGM	Annual general meeting
ALCO	Asset-liability management committee
APM	Alternative performance measure
ATM	Automated teller machine
CAGR	Compounded annual growth rate
CAR	Capital adequacy ratio
CEE	Central and Eastern Europe
CEO	Chief executive officer
CFA	Chartered Financial Analyst
CFO	Chief financial officer
CGU	Cash generating unit
CIB	Corporate investment banking
CIS	The Commonwealth of Independent States
COR	Cost of risk
CRO	Chief risk officer
CSR	Corporate social responsibility
DCF	Discounted cash flows
EBRD	European Bank for Reconstruction and Development
ECL	Expected credit losses
EMEA	Europe, Middle East and Africa
EMS	Environmental management system
ENPS	Employee Net Promoter Score
EPS	Earnings per share
ERM	Enterprise risk management
ESG	Environmental, social and governance
ESRM	Environmental and social risk management
EU	European Union
EUR	Euro
FC	Foreign currency
FDI	Foreign direct investment
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
GBP	Great British pound, national currency of the UK
GDP	Gross domestic product
GDR	Global depositary receipt
GEL	Georgian lari, national currency of Georgia
GHG	Greenhouse gas
HNWI	High-net-worth individuals
HR	Human resources
IAS	International Accounting Standards
IDR	Issuer default rating
IFC	International Finance Corporation
IFI	International financial institution
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial public offering
IT	Information technology
JSC	Joint stock company
KPI	Key performance indicators
LSE	London Stock Exchange
LTIP	Long-term incentive plan
LTV	Loan to value
MBA	Master of Business Administration
MSME	Micro, small and medium-sized enterprises
NBG	National Bank of Georgia
NCI	Non-controlling interest
NIM	Net interest margin
NMF	Not meaningful figure
NPL	Non-performing loans
NPS	Net promoter score
OCI	Other comprehensive income
OECD	Organisation for Economic Cooperation and Development
PLC	Public limited company
POS	Point of sale
P2P	Peer-to-peer
PTI	Payment to income
PWC	PricewaterhouseCoopers
ROA	Return on average assets
ROE	Return on average equity
SME	Small and medium-sized enterprises
SPPI	Solely payments of principal and interest
STEM	Science, technology, engineering and mathematics
TCFD	Force on climate-related financial disclosures
TOM	Top of mind score
UK	United Kingdom of Great Britain and Northern Ireland
US$	The US dollar, national currency of the United States
VAR	Value-at-risk
WM	Wealth management