MANAGEMENT REPORT AND FINANCIAL STATEMENTS **2021**

Emerging Stronger – **moving forward**

TBC BANK

2021

TBC Bank[1] is the **largest banking group in Georgia.**

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

MANAGEMENT REPORT

Who We Are

We are the leading universal banking group in Georgia with diversified business across all major market segments.

LEADING UNIVERSAL BANKING FRANCHISE IN GEORGIA[1]

- Retail - 38.6% loan market share, 40.3% deposit market share;
- CIB - 39.1% loan market share, 40.5% deposit market share;
- MSME - 63%[2] of newly registered legal entities chose TBC Bank.

BEST-IN-CLASS DIGITAL CHANNELS AND SUPERIOR CUSTOMER EXPERIENCE

- Award-winning internet and mobile banking applications;
- Space – our scalable fintech platform;
- One of the highest customer satisfaction among service companies in Georgia.

PRIMARY PAYMENTS PROVIDER IN GEORGIA

- 45.1%[1] market share by volume of POS transactions in our terminals;
- Traditional payment channels such as e-commerce, POS and self-service terminals;
- Innovative payment methods comprising Apple Pay, QR payments and e-wallet.

Our Mission

TO MAKE LIFE EASIER

is deeply embedded in TBC's culture and defines everything we do and the way we do it. By combining simplicity with excellence, we strive to create a truly unique experience for our customers.

Our Strategic Priorities

Continue steady growth

Diversify our income streams

Leverage our advanced digital capabilities

Deliver a superior customer experience

For more information, please refer to our strategy and business model sections.

1 Based on data published by the National Bank of Georgia as of 31 December 2021
2 Data is for FY 2021, source: www.napr.gov.ge, the National Agency of Public Registry

Group Highlights 2021[1]

Robust profitability backed by solid capital

Diversified earnings streams

Steady growth

Best in class-digital-channels

Outstanding employee and customer experience

26.3%
+ 13.4pp YoY
RETURN ON EQUITY

3.7%
+ 2.0pp YoY
RETURN ON ASSETS

13.7%
+ 3.3pp YoY
CET 1 CAR

5.0%
+ 0.3pp YoY
NIM

+ 33.2% YoY
GROWTH IN NET F&C INCOME

GEL 16,955 mln
+ 11.5% YoY
TOTAL LOANS

GEL 14,884 mln
+ 17.8% YoY
TOTAL DEPOSITS

38.8%[2]
- 0.2 pp YoY
TOTAL LOANS MARKET SHARE

40.4%[2]
+ 3.2 pp YoY
TOTAL DEPOSITS MARKET SHARE

97%[3]
+ 2 pp YoY
RETAIL OFFLOADING RATIO

44%[3]
+ 3 pp YoY
DAU/MAU

66%[4]
- 2 pp YoY
ENPS

56%[5]
N/A
NPS

1 Definitions of the ratios are given on pages 267-268
2 Based on data published by the National Bank of Georgia as of 31 December 2021
3 These terms are defined in Glossary on pages 266
4 The Employee Net Promoter Score (ENPS) was measured for the Bank's employees by an independent consultant in October 2021
5 The Net Promoter Score (NPS) was measured based on the survey conducted by the independent research company IPM in December 2021

Dear stakeholders,

2021 was a year of strong recovery for TBC. Having successfully adjusted to the post-COVID reality, we concentrated our efforts on increasing and diversifying our income streams. The macroeconomic environment was also supportive throughout the year. As a result, our net income amounted to GEL 843 million and we delivered a record high return on equity of 26.3% in 2021.

The past several weeks have been overshadowed by the Russian-Ukrainian war and the adverse implications of the military actions for the Ukrainian people. We hope that this war will come to an end and the parties will arrive at a peaceful solution in the nearest future. We are closely monitoring the developments in Ukraine and are assessing its possible impacts on the Georgian economy and our operations under different scenarios. The resilience of the Georgian economy and our diversified business model gives me assurance that we will be able to steer the company successfully though these challenging times.

A FIRM MACROECONOMIC RECOVERY, BUT CHALLENGES AHEAD

The Georgian economy demonstrated a firm recovery in 2021. For the full year, real GDP growth reached 10.4%[1], which was an exceptional performance. Importantly, this growth was broad-based and was reflected in almost all sources of inflows as well as in domestic demand, only FDI lagged behind, as investment demand takes longer to recover. Domestic demand was fueled by the normalization of saving levels after pandemic related highs and by low US$ deposit rates, while the appreciation of the GEL in the second half of the year led to improved consumer and business sentiment. Furthermore, the 18% expansion in bank lending also provided much needed support to the economic recovery. While the Georgia economy entered 2022 with strong momentum, the current events in Ukraine and their impact on the global economy are likely to make 2022 a challenging year. However, I remain assured by having confidence in the Georgian economy's historical resilience and proven ability to adapt during difficult times.

STRONG FINANCIAL RESULTS ACROSS THE BOARD BACKED BY THE SOLID CAPITAL

In 2021, our operating income amounted to GEL 1,398 million, up by 25% year-on-year, driven by an increase in both net interest income and non-interest income. The increase in the former was related to a higher net interest margin of 5.0%, compared to 4.7% in 2020, as well as 12% year-on-year growth in our loan book. Over the same period, net fee and commission income grew by an impressive 33%. The increase was broad-based and demonstrated the strength of our business model. In addition, other operating income[2] grew by 49% and made a meaningful contribution to the overall profitability, mainly driven by FX operations and the sale of investment property. Our robust income streams were further supported by strong performance on the asset side across all segments, with the cost of risk standing at minus 0.3% (ie. net recoveries) in 2021. We kept our cost to income ratio at 32.5% in 2021, below the 2020 level of 34.6%. As a result, we recorded a return on equity of 26.3% and return on assets of 3.7% for the full year 2021.

Strong income generation, coupled with prudent management of our capital, allowed us to maintain strong capital positions. Our CET1, Tier 1 and Total Capital ratios stood at 13.7%, 16.7% and 20.3%, respectively, and remained comfortably above the minimum regulatory requirements by 2.0%, 2.7% and 1.9%, respectively. At the same time, we continued to operate at high liquidity with the net stable funding (NSFR) and liquidity coverage (LCR) ratios standing at 127.3% and 115.8%, respectively, as of 31 December 2021.

A STEADY PROGRESS IN OUR CORE BANKING BUSINESS

We continue to be market leaders in total loans and deposits. In 2021, our loan book increased by 17% year-on-year in constant currency terms, in line with the overall growth of the banking sector, which translated into a 39% market share. Importantly, the quality of our loan book improved, with the non-performing loan ratio decreasing to 2.4% by the end of 2021, compared to 4.7% at the end of 2020. Over the same period, our deposit growth significantly outpaced market growth and increased by 23% in constant currency terms. As a result, our market share in total deposits amounted to 40% as of 31 December 2021, up by 3 pp year-on-year.

I am also delighted to report that our digitalization levels continue to increase. In the fourth quarter of 2021, the number of active retail digital users increased by 14% year-on-year and reached 744,000. In addition, we made significant progress in expanding the number of monthly and daily active digital users, which reached 644,000 (up by 16% year-on-year) and 285,000 (up by 24% year-on-year) respectively in December 2021. The proportion of digital sales of our consumer loans amounted to 45%, while the deposit sales offloading ratio stood at 73%.

Furthermore, to ensure the maximum safety of our customers and employees, we ran a wide-scale campaign to encourage our staff to get vaccinated. As a result, around 85% of all our employees were vaccinated, or were scheduled to receive a vaccine, by the end of 2021.

OUTLOOK

Our outstanding results for 2021 provide me with much confidence that we are on the right track and that our strategy is working.

We realize that the current events in Ukraine will have a negative impact on the Georgian economy and impose challenges on our operations. For more information, please refer to our material existing and emerging risks section on pages 79-87.

We will continue to closely monitor the events and take all appropriate measures to make sure that TBC Bank safely goes through these challenges.

THANK YOU

I would like to close my letter by thanking our colleagues for their hard work and dedication and recognizing their individual contributions to our success. We have an exciting journey ahead of us and I am eagerly looking forward to it.

Vakhtang Butskhrikidze
CEO

28 April 2022

1 According to Geostat.
2 Total non-interest income less net fee and commission income.

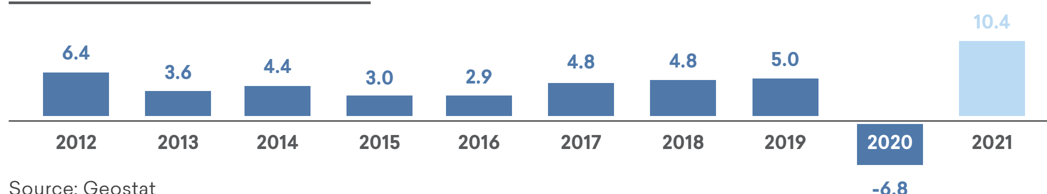
Note: For better presentation purposes, certain financial numbers are rounded the nearest whole number.

Economic Overview

Economic growth

Starting in the second quarter of 2021, the Georgian economy has been rebounding from the pandemic at a remarkable speed. For the full year 2021, according to Geostat, the Georgian economy expanded by 10.4% year-on-year, surpassing the 2019 GDP level by 2.9%.

REAL GDP GROWTH (%)



Source: Geostat

External sector

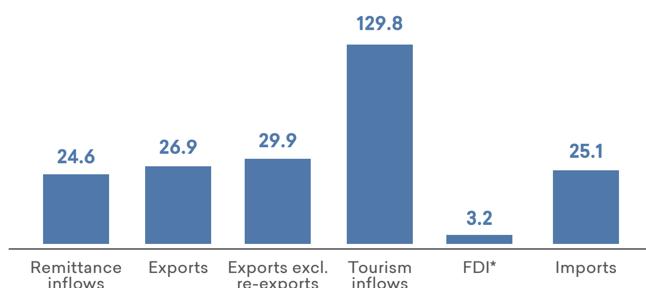
Although the tourism sector is still suffering from the pandemic-related crisis, external inflows recorded a strong performance in 2021. In 2021, exports of goods increased by 26.9% compared to last year and by 11.7% compared to 2019. Notably, despite re-exports having a lower base effect from a year ago, domestic exports still led the recovery with the share of domestic value-added exports in total exports increasing significantly, from 61.3% in 4Q 2019 to 76.2% in 4Q 2021. Despite the continuing recovery in tourism-related imports and re-exports, imports of goods also went up by 25.1% year-on-year in 2021 and by 5.8% compared to 2019. Importantly, the rebound of the trade in goods was broad-based, reflecting overall increased external and domestic demand.

Remittance inflows, which cushioned the pandemic's economic blow in 2020, performed solidly in the last year, increasing by 24.6% year-on-year and by 35.6% when compared to 2019. Although part of the rebound compared to 2019 can be attributed to border closures and the greater transfer of cash remittances through digital channels, overall growth has still been substantial given that the share of cash inflows is only likely to be around 10.0%-15.0%, according to the NBG's estimates.

Tourism inflows recovered moderately throughout the year. Despite the pace of the initial rebound stalling somewhat in August-September, the recovery continued gradually thereafter, with full year inflows amounting to 38.1% of their 2019 level. Annual growth reached a 129.8% year-on-year increase in 2021 on the back of the low base a year ago. Notably, this growth was primarily led by the recovery of high-spending countries.

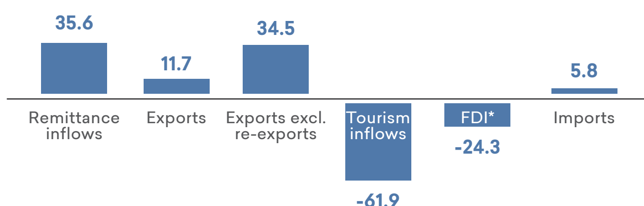
FDI inflows are taking longer to recover. While they increased 3.2% year-on-year for the full year 2021, this was on the back of higher reinvested earnings as equity and FDI-related debt financing declined sharply in the same period.

YOY GROWTH OF INFLOWS AND IMPORT (%)



*Sum of the first three quarters of the year
Source: Geostat, NBG

GROWTH OF INFLOWS AND IMPORTS COMPARED TO 2019 (%)

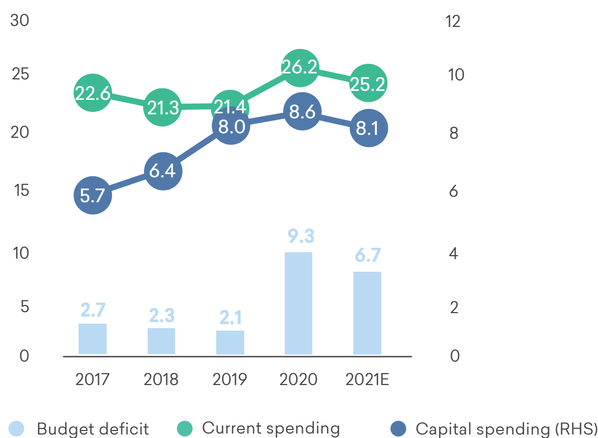


* Sum of the first three quarters of the year
Source: Geostat, NBG

Fiscal stimulus

The fiscal stimulus, although still sizable, negatively affected growth in 2021 as the deficit amounted to around 6.7% of GDP, after an expansionary 9.3% of GDP in 2020. Importantly, the major source of deficit financing in 2020-2021 was external, largely compensating for the pandemic-related drop in net inflows. At the same time, government debt, which reached its mandated ceiling of 60.2% of GDP in 2020, has already normalized at an estimated 51.1% of GDP by the end of 2021.

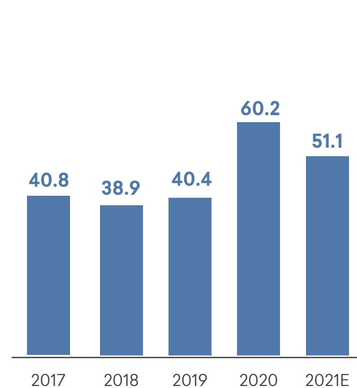
BUDGET DEFICIT AND SPENDING BY TYPES (% OF GDP)



Budget deficit Current spending Capital spending (RHS)

Source: MoF

GOVERNMENT GROSS DEBT (% OF GDP)

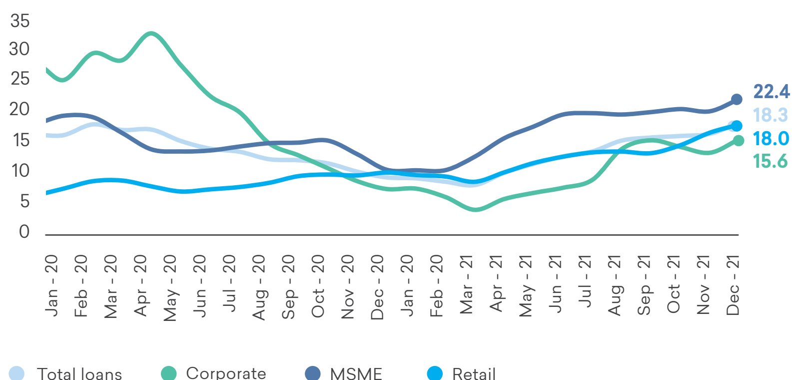


Source: MoF

Credit growth on a constant currency basis

By the end of 2021, bank credit growth increased to 18.3% year-on-year, compared to 9.1% year-on-year growth by the end 2020. In terms of segments, corporate and MSME lending growth increased markedly by 8.4 pp and 12.0 pp from 2020 to 2021 and amounted to 15.6% and 22.4% year-on-year, respectively. Expansion in the retail segment was also highly pronounced, up by 4.8 pp to 18.0% year-on-year growth at the end of 2021, though mostly on the back of stronger non-mortgage credit.

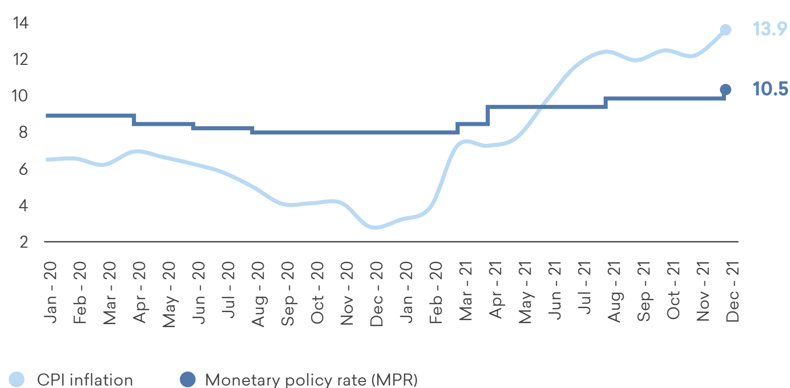
YOY GROWTH OF LOANS BY SEGMENTS EXCLUDING FX EFFECT (%)



Inflation, monetary policy and the exchange rate

Despite challenges such as the unprecedented weakening of the TRY, the GEL gained value in 2021, appreciating by 5.4% against the US$ from 3.28 to 3.10, while the real effective exchange rate appreciated by 20.4%. By the end of 2021, however, annual inflation remained elevated at 13.9%, because of the low base effect a year ago due to the state subsidies on utilities. At the same time, monthly inflation dynamics are already around their target level. However, in December 2021, the NBG increased its policy rate again by 0.5 pp to 10.5%, raising the rate by 2.5 pp in total during the year.

CPI INFLATION AND MPR (%)



Going forward

Before the Russian invasion of Ukraine, TBC Capital estimated that the Georgian economy would grow by around 6.0% in 2022, 5.5% in 2023 and 5.0% in 2024 – close to its trend rate of around 5.2%. According to the World Bank's projections[1] as of January 2022, the Georgian economy was forecast to grow by 5.5% and 5.0% in 2022 and 2023, respectively.

The developments in Ukraine and Russia are expected to have adverse implications for the growth outlook of Georgia. Please refer to the material existing and emerging risks section on pages 79-87 for more details on the risks arising from the Russian invasion of Ukraine.

More information on the Georgian economy and financial sector can be found at www.tbccapital.ge.

1 World Bank, Global Economic Prospects, January 2022

Our Business Model

We have a customer-centric business model focused on providing the best customer experience in servicing the everyday needs of our clients. Our strategy is centered on the core principles of sustainable development, digitalization, innovation and efficiency, and is designed to create value for all our stakeholders.

OUR MARKETS

The leading universal financial institution in Georgia, offering a full suite of financial services:

- Retail banking
- Corporate and investment banking
- MSME banking
- Leasing

OUR APPROACH

- **Strong focus on digitalization and innovation**

  Our best-in-class digital capabilities, built over many years through continuous investment in new technologies, strengthen our ability to grow efficiently.

- **Advanced data analytical capabilities**

  Our advanced data analytical capabilities, embedded into the development of our value proposition, help us to maximize customer value via personalized offerings.

- **Superior customer experience and strong brand awareness**

  Customer satisfaction lies at the heart of everything we do and helps us build long-standing relationships of trust with our customers.

- **Excellent corporate governance and strong corporate culture**

  Our exemplary governance standards set the right tone for every employee and foster responsible behavior in all our undertakings.

WHAT WE DELIVER

- **Strong business growth**
  Supported by our leading Georgian banking franchise.
- **Diversified income streams**
  Driven by solid net interest margin and different sources of non-interest income.
- **Sound asset quality**
  As a result of prudent risk management across all segments.
- **High levels of efficiency**
  On the back of the high level of digitization and automation both in front and back offices.
- **Strong liquidity and a solid capital position**
  Ensuring the stability of our business model and ability to withstand economic headwinds.

HOW WE SHARE VALUE

- **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.
- **Investors**
  Generate sustainable returns for our shareholders and be a reliable partner for our debt holders.
- **Community**
  Support business development and foster job creation, as well as take an active part in CSR activities.

Our Strategic Priorities

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

Each of these priorities has been carefully selected and thought through to ensure that they are interrelated and complementary to each other so that progress in one of them reinforces progress in the others.

In order to achieve growth, we need to develop innovative products and services and create an unparalleled customer experience. This in turn requires building strong digital and data analytical capabilities. At the same time, our growth across different segments and products, supports our income stream diversification and strengthens our resilience. High levels of digitalization also allow us to improve our efficiency levels and reduce costs. This in turn allows us to concentrate our efforts on customer satisfaction and enhancement of our value proposition.

CONTINUE STEADY GROWTH

Our goal is to maintain our leadership position in Georgia and grow in line with the market. Despite the increased penetration level, the Georgian banking sector still offers attractive growth opportunities, especially in certain underpenetrated sub-segments such as mortgages and microloans.

Our strong banking franchise in Georgia, underpinned by a superior customer experience, high brand awareness and advanced digital capabilities, has enabled us to retain our existing clients as well as attract new customers, which led to loan book growth of 11.5% in 2021 or 17.3% on a constant currency basis. This increase was mainly driven by growth in GEL denominated loans. In term of segments, the increase was broad based. The CIB and MSME segments grew by 12.3% (or 19.5% on a constant currency basis) and 17.6% (or 23.3% on a constant currency basis) year-on-year, respectively, while retail grew by 7.2% (or 11.5% on a constant currency basis) over the same period. The growth in the CIB segment was related to acquisition of both large and mid-corporate clients, while on the MSME side, we focused on increasing our presence in the small and micro sub-segments. At the same time, our retail book growth was underpinned by both mortgages and consumer loans.

In 2021, our deposit portfolio increased by 17.8% year-on-year, primarily on the back of growth in retail and CIB deposits, reflecting the strong loyalty and trust of our customers. On a constant currency basis, the growth was 23.1%.

As a result, we retained our market leadership position in both total loans and total deposits, which amounted to 38.8% and 40.4%, respectively, as of 31 December 2021, according to data published by the National Bank of Georgia.

DIVERSIFY OUR INCOME STREAMS

Our business model is diversified in a number of ways. We serve a wide spectrum of individual and business clients in Georgia, offering them a full suite of financial solutions. Our main source of income is net interest income, which represented around 70% of our operating income in 2021 and is primarily driven by our lending operations. Our net fee and commission income is generated through payments, settlement operations, as well as guarantees and letters of credit. As a predominantly cash-based society, Georgia provides an attractive growth opportunity for our payments business, while our digital channels enable us to increase the scale and revenue-generating capacity of our operations in an efficient manner.

LEVERAGE OUR ADVANCED DIGITAL CAPABILITIES

Our digitalization strategy spans the entire company from front to back office processes and encompasses both sales and transactional operations. We constantly invest in technology and develop new digital products to keep abreast of global trends.

A large part of our transactional business in the retail and MSME segments is conducted via remote channels, resulting in a retail offloading ratio above 97%, which means that less than 3% of all transactions are conducted in branches. Mobile and internet banking remains the preferred channel of communication for our customers, with the number of active retail digital users increasing by 14.1% in 2021 and reaching 744,000. At the same time, the daily engagement of our digital users has also increased and in December 2021, our average daily active users reached 285,000, up by 23.9% year-on-year. In parallel, we have been actively developing our digital sales channels for consumer loans and installments. By the end of 2021, the share of consumer loans issued through remote channels increased by 7 pp year-on-year and amounted to 45%. We continued to automate the approval process for smaller MSME loans in order to reduce "the time to yes". For corporate borrowers, within the scope of the commercial excellence transformation project, we significantly sped up the analysis process by utilizing sophisticated IT tools.

Our advanced digital infrastructure also allows the vast majority of our back-office employees to work remotely without any disruption and have safe and real-time access to our IT system.

DELIVER A SUPERIOR CUSTOMER EXPERIENCE

We put customers at the heart of everything we do and strive to develop the most relevant products and services. This requires active engagement with our clients via various channels in order to receive their feedback about our service quality and value proposition, as well as to understand their preferences.

Moreover, we aspire to go one step further, anticipating our customers' needs and surprising them with tailored offerings before they ask for them. This is where our advanced data analytical capabilities come into play, providing an opportunities for creating the right product at the right time and the right price. In our retail business, we rolled out several new projects in this regard, including customer life-time value and loan pricing, while in the CIB segment, we continued to run a commercial excellence transformation project, which helped us better understand and capture the potential of existing and new clients.

During the year, we also strengthened our focus on digital offerings across all segments and created new remote products and services, as well as increased automatization of our internal processes. This not only increased customer satisfaction, but also resulted in improved efficiency.

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, taking 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. Due consideration is also given to the selection of the most relevant KPIs for the executive management's remuneration in order to better align their interests with those of our stakeholders.

Robust profitability

RETURN ON EQUITY

Year	Value
2021	26.3%
2020	12.9%
2019	24.3%

In 2021, we generated a record high return on equity, driven by robust income generation across the board, as well as a strong performance on the asset quality side.

Diversified income streams

NET INTEREST MARGIN

Year	Value
2021	5.0%
2020	4.7%
2019	5.5%

In 2021, the year-on-year increase in net interest margin was driven by a loan composition change and liability structure optimization.

Solid balance sheet

CET 1 CAPITAL RATIO

Year	Value
2021	13.7%
2020	10.4%
2019	12.0%

The increase in Tier 1 CAR in 2021 was mainly attributable to strong income generation during the year, which was partially offset by loan book growth. As a result, Tier 1 CAR remained comfortably above the minimum regulatory requirement of 11.7%.

1 Definitions of the ratios are given on pages 267-268
2 Cost to income ratio for prior periods does not correspond to the ratios disclosed in 2020 as they reflect the reclassifications made by the management between net impairment of non-financial assets and administrative and other operating expenses

FINANCIAL KPIS[1]

RETURN ON ASSETS

2021	3.7%
2020	1.7%
2019	3.3%

In 2021, our return on assets recovered strongly on the back of robust income generation and a strong improvement on asset quality side.

COST TO INCOME RATIO[2]

2021	32.5%
2020	34.6%
2019	37.5%

In 2021, due to our strong income generation, we managed to improve our cost to income ratio compared to the 2020 level.

GROWTH OF NET F&C INCOME

2021	33.2%
2020	5.8%
2019	14.5%

In 2021, our net fee and commission income demonstrated a strong rebound across all major categories.

LIQUIDITY COVERAGE RATIO

2021	115.8%
2020	134.2%
2019	110.1%

In 2021, we utilized the excess liquidity generated in 2020 while ensuring that our liquidity ratio remained above the regulatory minimum requirement of 100%.

NON-PERFORMING LOANS

2021	2.4%
2020	4.7%
2019	2.7%

By the end of 2021, our non-performing ratio improved significantly year-on-year, with a strong performance across all segments.

Steady growth

LOAN BOOK GROWTH AT CONSTANT CURRENCY

Year	Growth
2021	**17.3%**
2020	8.7%
2019	17.9%

In 2021, our loan book grew in line with the market, maintaining our leadership position. Our market share in total loans stood at 38.8% by the end of the year (based on data published by the National Bank of Georgia).

DEPOSIT GROWTH AT CONSTANT CURRENCY

Year	Growth
2021	**23.1%**
2020	13.7%
2019	2.9%

In 2021, our deposit growth outpaced the market growth. As a result, our market share in deposits increased by 3.2 pp and reached 40.4% by the end of the year (based on data published by the National Bank of Georgia).

NON-FINANCIAL KPIS

High employee and customer satisfaction levels

EMPLOYEE NET PROMOTER SCORE[1]

Year	Score
2021	66%
2020	68%
2019	41%

The employee net promoter score measures employee loyalty and reflects the likelihood of our colleagues recommending their workplace to their friends and family. In 2021, our employee satisfaction levels remained high.

NET PROMOTER SCORE[2]

Year	Score
2021	56%
2020	n/a
2019	n/a

This year, we introduced a new metric to assess our customer satisfaction levels. The Net promoter score (NPS) measures how willing customers are to recommend our products and services to others.

Strong digital engagement with customers[3]

DAILY ACTIVE USERS/ MONTHLY ACTIVE USERS

Year	Ratio
2021	44%
2020	41%
2019	n/a

The proportion of daily active users over monthly active users (DAU/MAU) measures our customers' daily digital engagement with us. In December 2021, the number of daily and monthly active users reached 285,000 (up by 23.9% YoY) and 644,000 (up by 16.0% YoY), respectively.

RETAIL OFFLOADING RATIO

Year	Ratio
2021	97%
2020	95%
2019	93%

The retail offloading ratios measures the share of transactions conducted in our remote channels, that is outside the branches. Our retail offloading ratio continued to grow in 2021, as we further strengthened our digital focus and introduced new digital products and services.

1 The Employee Net Promoter Score (ENPS) was measured for the Bank's employees by an independent consultant in October 2021
2 The Net Promoter Score (NPS) was measured based on survey conducted by the independent research company IPM in December 2021
3 These terms are defined in glossary on page 266

Our Environmental, Social and Governance (ESG) Strategy

Our aspiration to contribute to sustainable development comes from our role as a leading financial institution in Georgia's development. We are aware that we have an impact on the country's economy, business development, employment and the progress of the society, as a whole. This role is connected to our responsibility to contribute to a better future through innovation and technology in order to increase the accessibility of financial services and to enable our customers to be a part of the globalized economic society. While pursuing our aspirations, we guide our activities in line with international sustainability standards and principles, making them a part of the strategy, culture and day-to-day operations of our company.

This year, we took further steps to enhance the Group's environmental, social and governance (ESG) framework through the development of an ESG strategy. The ESG Strategy reaffirms our commitment to make a long-term, sustainable contribution to the country and the region. The ESG Strategy defines several key areas for the coming years: a strong ESG governance structure at the Supervisory Board and executive level; a focus on sustainable financing, services and products; employee diversity, equality and inclusion; green and sustainable funding; and a system and approach for impact measurement and reporting.

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

ESG in TBC's governance and culture: 2021 was a milestone year in the establishment of the ESG governance structure, which spans different organizational levels. Two ESG-related committees were established – one at the Supervisory Board level, another at the executive management level. The ESG Coordination Department was established in TBC Bank to support and coordinate initiatives defined by the ESG strategy. TBC Bank initiated an ESG Ambassadors programme, which aims to strengthen environmental, social and governance structures and increase the involvement of TBC employees as focal points for these areas. Through this initiative, TBC employees will contribute to the quality of sustainability for customers, company, the environment and society as a whole.

Employee diversity: In order to expand our focus on diversity, gender and inclusion issues, we have developed a Diversity, Equality and Inclusion Policy (available at www.tbcbankgroup.com), which sets targets and establishes a methodology to advance diversity, equality and inclusion, integrating its approach into the Group's operations and management processes and focusing on diverse areas including gender, multicultural, multigenerational and disability backgrounds. Gender equality and the empowerment of women and girls are important dimensions of the sustainability of the company and its stakeholders, including customers, employees, suppliers, partners and society as a whole. The policy takes into account the United Nations Women Empowerment Principles (WEPs) – a set of principles offering guidance to businesses on how to promote gender equality and women's empowerment in the workplace, marketplace and community. TBC Bank became a signatory of the UN WEPs in 2021.

Sustainable financing: TBC strives to increase its positive impact on society and the economy through introducing new financial products and services that are designed to deliver a specific social or environmental benefit. The ESG Strategy sets targets for the growth of our total sustainable loan portfolio, including financing energy efficient, renewable energy and resource efficient projects, women-led and women-owned business, startups and rural businesses.

Responsible procurement: Our responsible purchasing practices and relationships with suppliers can have a significant impact on the well-being, financial stability and development of suppliers, as well as on the economy as a whole. We pay special attention to small local suppliers and promote their inclusion in our supply chain. The ESG Strategy sets targets connected to green procurement initiatives, social enterprises, women-owned companies, startups and local business.

OUR ESG TARGETS

2022

- Some ESG KPIs linked to senior management remuneration in the medium term to reflect our mid-term strategy;
- Target volume of our sustainable loan portfolio[1] - GEL 750 million.

2023

- Measure the Group's direct performance towards the Paris Agreement targets for reduction of GHG emissions;
- Target volume of our sustainable loan portfolio[1] - GEL 1 billion;
- Target for women in middle managerial positions at the Bank level - 40%;
- Target for social impact procurement - GEL 5 million.

2025

- Net-zero GHG emissions (direct).

Climate-related Financial Disclosures 2021

In 2020, we made a promise to introduce a Task Force for Climate-related Financial Disclosure (TCFD) framework to demonstrate our commitment towards taking active measures to mitigate the effects of climate change, to assess and mitigate climate risks, and identify climate opportunities.

It should be noted, that the data we have used provides the best available approach to making progress, notwithstanding the challenges that exist in 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 improvements into our reporting as it becomes available.

Below is the first disclosure prepared by the Group considering the implementation of TCFD recommendations.

Recommended disclosure	**Status**	**Reference**
Describe the organisation's governance around climate-related risks and opportunities	Disclosed	1.1
Describe management's role in assessing and managing climate-related risks and opportunities	Disclosed	1.2
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	Disclosed	2.1, 2.2
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Disclosed	2.2
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
Describe the organisation's processes for identifying and assessing climate-related risks	Disclosed	3
Describe the organisation's processes for managing climate-related risks	Disclosed	3
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Disclosed	3
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
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks	Disclosed	4
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Disclosed	4

1 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

1. GOVERNANCE

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

In November 2021, the Supervisory Board approved the Group ESG Strategy in order to address specifically the Group's specific targets and initiatives related to climate change, its direct and indirect environmental impact and sustainable development across the Group. The ESG Strategy also covers customers, employees, suppliers, wider society, financial inclusion, employee relations and talent management, workplace diversity and inclusion. The Supervisory Board retains the primary responsibility for overseeing the implementation of the strategy, as part of its commitment to having direct oversight over the Group's climate-related issues. 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 are overseen by the Risk Committee, which also received updates three times a year through the Chief Risk Officers (CRO) report. In 2022, we will incorporate a Climate Risk Appetite Statement in our Risk Appetite Framework (RAF).

In January 2022, the Group established an Environmental, Social and Governance ("ESG") and Ethics Committee at the Supervisory Board level. This reflects the importance of sustainability in TBC's corporate governance and allows the Supervisory Board members to dedicate more time and focus to ESG topics. The role of the Committee is formalized to support and advise the Supervisory Board in its oversight of the implementation of (i) strategy (ii) policies and (iii) programs of the Company and its subsidiaries in relation to Environmental, Social and Governance matters and ensuring that the ESG strategy is implemented across all relevant businesses of the Group. Furthermore, the ESG and Ethics Committee supports the Supervisory Board in promoting its collective vision of values, conduct and culture and overseeing management's efforts (i) to foster a culture of ethics (ii) appropriate conduct, and (iii) employee ethical engagement within the Group. The Committee will provide strategic guidance on climate-related matters and will report to the Supervisory Board, which has overall oversight. The ESG and Ethics Committee will meet at least four times per year. Under the ESG oversight of the ESG and Ethics Committee are: a) periodical review of the Group's ESG strategy, including climate strategy, as well as implementation plans and monitor its execution; b) oversee Group's disclosures on ESG matters, including reporting in line with the TCFD principles, in the Annual Report and Accounts.

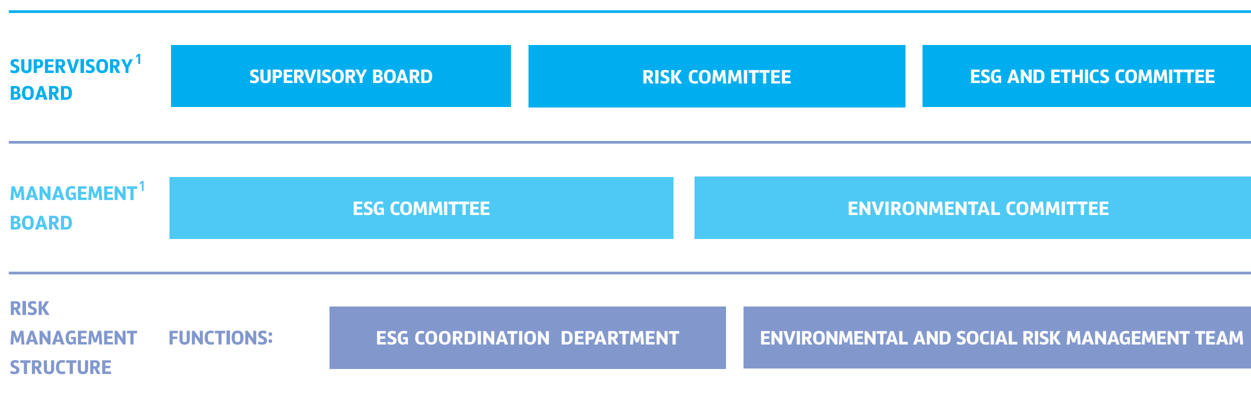
The Supervisory Board of JSC TBC Bank has established a diverse and comprehensive training agenda, which is reviewed annually. The Group's Company Secretarial team creates a general training catalogue at the beginning of each year, which covers all relevant areas of Risk, Audit, Remuneration and Governance. In 2020 and 2021, additional attention was paid to ESG and, in particular climate-related matters, regulatory compliance, reporting, shareholder views and impact. 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 Group's dedicated Supervisory Board platform. In 2022, further topic-specific training sessions on climate-related issues are planned that will equip members of the Supervisory Board as well as the executive management of TBC Bank and other relevant employees with detailed knowledge about the TCFD and climate change-related risks and opportunities and the operative tools available to implement the ESG Strategy.

1.2 Executive management's role in assessing and managing climate-related risks and opportunities

At the executive level, responsibility for climate change-related risks and opportunities is assigned to the ESG Committee, which was established by the Management Board 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. At the first meeting of the ESG Committee in March 2021, the annual action plan covering various ESG matters for 2021 was approved. For major projects, such as the implementation of the recommendations of the TCFD, a separate action plan has been developed and key implementation steps defined. The progress and implementation status of action plans are monitored at the ESG committee's meetings. The implementation of the ESG strategy is supported by the various organizational functions responsible for ESG matters: Environmental and Social Risk Management Team, the ESG Coordinator and the ESG competence center. Among other matters, the ESG Committee's responsibilities 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.

Furthermore, the Environmental Committee meets on a quarterly basis and oversees the implementation and operation of the Environmental Management System, which includes implementing an internal environmental management system and addresses the resource consumption and other environmental impacts of daily operations in TBC Bank. 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



2. STRATEGY

The Group's objective is to act responsibly and manage the environmental and social risks associated with its operations in order to minimize negative impacts on the environment. In order to achieve this, the Group has clearly defined processes in place to identify and assess climate-related risks to our business. This approach enables the Group to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate the effects of climate change. Since banking is not a high-polluting activity, the implementation of an internal Environmental Management System to address the Group's resource consumption might not have a significant impact on the surrounding environment. However, 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 impact for each of the categories, we have developed a comprehensive evaluation methodology and applied it to the whole Group. Based on this, annual goals are defined and specific initiatives and programmes are elaborated to reach them. In 2020, the Bank obtained an ISO 14001:2015 certificate for its environmental management system; in 2021, the Bank completed the re-certification successfully. More information about the environmental management system can be found on pages 67-71.

In 2021, the Group took further steps to enhance its ESG framework and to demonstrate its commitment towards taking active measures to mitigate the effects of climate change. The ESG strategy was developed and approved by the Supervisory Board in November 2021, as described above. Below are the five main pillars of TBC's ESG strategy.

Establish ESG governance framework until the end of 2021

Set-up a system for measuring impacts on sustainability across the group, customers, employees and society

Access to green and other sustainable financing sources

Increase sustainable loan portfolio

Increase customer loyalty and employee motivation

TBC Group's ambition is to be a leading supporter of ESG principles in Georgia and 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 2022 and 2023 are listed below:

- Increase of the sustainable loan portfolio, which largely consists of renewable energy and energy-efficiency loans (please see detailed breakdown of the portfolio on page 70);
- Implementation of the green loan framework which offers a tailored green financing for SMEs;
- Approach and system for data collection, segregation and analysis;
- Elaboration of a methodology to calculate financed emissions;
- Measure the group's direct performance towards the Paris Agreement targets for the reduction of GHG emissions;

1 These terms are defined in the glossary on page 266

- Groups' Policy on Climate Change;
- Incorporation of ESG matters in the risk appetite;
- Excluding/limiting high-carbon activities (Please see our Exclusion List, available at www.tbcbankgroup.com); and
- ESG resource center for employees, customers and wider public in order to increase awareness and knowledge about the risks and opportunities of climate change.

Work is continuing to further embed climate-related risks and opportunities within our business. An ESG Competence Center will be established to help the Bank deliver its strategic objectives and bring all of its climate-related work together.

2.1. Climate-related risks

An overall climate risk profile was assessed based on the first climate risk assessment (please see more about the climate risk assessment in the chapter risk management below). The table below shows a summary of potential transitional and physical risks identified by the Group for the Georgian environment. The time horizons considered in the assessment are short – up to 3 years, medium – up to 8 years and long – above 8 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 compared to other sectors, as well as in comparison with other risk categories. Thus, the assessment results are not comparable with the same impact categories in other countries or regions.

	Transition risks				**Physical risks**	
Risk sources	**Policy and Legal**	**Technology**	**Market**	**Reputation**	**Acute**	**Chronic**
Types of risks	• Increased GHG emissions pricing in order to incentivise movement to renewable energy sources • Enhanced regulatory environment and mandated requirements: may introduce minimum standard or expectations on green credentials of product outputs or business operations, enhanced emissions-reporting obligations • Exposure to litigation resulting in the costs related to the compensations	• Substitution of existing products and services with lower emissions options, including requirements to replace manufacturing technology to cleaner alternatives • Unsuccessful investment in new technologies	• Changing customer behavior including deliberate move to lower carbon footprint products • Uncertainty in market signals • Increased cost of raw materials, increased volatility and costs, sourcing restrictions for carbon heavy raw materials	• Shifts in consumer preferences to green products • Stigmatization 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	Long	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

The Georgia's 2030 Climate Change Strategy[1] 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. 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 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[2] are present to the extremely limited extend in Georgia, resulting in a low overall impact of transitional measures on economic growth, if any.

The overall assessment of the impact of the physical risks

The geographical location and natural conditions of Georgia – 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[3].

The impact of physical risks on economic sectors, which are financed by the TBC Bank, will become material over the time. For the Group, the risks can materialise through the impairment of asset values and the deteriorating creditworthiness of customers, operating in Georgia. Certain geographic areas and economic sectors such as winter resorts, agricultural land are affected partially already and might deteriorate further in the medium time horizon. The overall assessment of the potential impact in Georgia and on the TBC Bank's activities is medium in 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.

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

We are working to incorporate climate and broader ESG considerations in our financial planning process. In 2022, we continue the development of measurement capabilities across the Group's opportunities and the advancement of the scenario analysis framework. Some qualitative considerations related to climate and ESG matters were incorporated in the financial planning cycle for 2022-2023. In 2022, the Group seeks to include considerations linked to business actions identified through scenario analysis as well as progress on climate-related opportunities, including the launch of new products and initiatives.

To encourage customers to invest in green products and services, the Group offers services, financing and funding solutions, as outlined in the table below:

Climate-related opportunities	Customer	Our progress	Impact
Renewable energy financing	Corporate	TBC bank is the leading bank in the local financing of renewable energy project with GEL 554 million	Contributing to Georgia's transition to low-carbon economy
Green Loan Framework - a standardized approach to sustainable finance, including energy efficiency, renewable energy and resource efficiency financing	MSME	In 2021, TBC bank developed the Green Loan Framework with the Green for Growth Fund (GGF) Technical Assistance Facility, represented by Finance in Motion GmbH and financed by the European Union under the EU4Energy Initiative.	Encourage customers to transition to low carbon activities
Long-term business loan for solar panels	MSME	In 2022, TBC launched a special long-term loan for solar power plants. The product considers different financial and non-financial benefits.	Encourage customers to optimize their costs and to support the transition to low carbon activities
Global Climate Fund (GCF) accreditation, enabling the Bank to have direct access to GCF funding GCF accreditation	All	In 2021, TBC Bank became the first commercial bank in the Caucasus region to receive accreditation by the Green Climate Fund (GCF).	The accreditation will enable the Bank to finance projects for adaptation to, and mitigation of, climate change and contribute to combatting climate change in Georgia
Energy efficiency loans	Retail	Financing of hybrid/electric cars, mortgages and energy efficient processing. The portfolio volume equals to GEL 15.5 million	Encourage customers to transition to low carbon activities

1 Georgia's 2030 Climate Change Strategy
2 Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change | Bank of England
3 Georgia's Third National Communication to the UNFCCC

2.3. Climate-related scenarios

TBC Group 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 complex, as climate data and sub-sector information availability, accessibility, and suitability for financial risk analysis, as well as climate-related risk modelling capabilities in Georgia are very limited and still evolving. This section summarises our first-time exercise to undertake climate scenario analysis for the Georgian context and the related qualitative results.

The starting point for the first exercise, which was carried out in 2022, are two climate scenarios - the Orderly scenarios of 1.5°C (Net Zero 2050) and below 2°C, developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Orderly scenarios assume that climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued[1]. Each of the scenarios includes a trajectory of carbon prices and emissions over time. They are drawn from a set of scenarios published by the NGFS. We used country-level downscaled data for Georgia considering the NGFS 1.5°C (Net Zero 2050) and below 2°C scenarios. While analyzing this data, we identified that the scenarios and underlying downscaled data show certain inconsistencies in relation to the local economic environment; some of the sector level downscaled results were implausible, e.g. hydro energy outputs were falling very heavily. However, we stayed within the NGFS scenario framework, adjusting only a few parameters, where reasonable, and after consulting an external knowledgeable consultant. In particular, we used the GCAM (Global Change Assessment Model) model as the main source of data for the scenario analysis. We used data from the model to project how climate change will affect net revenues of the sector for the period of 2020-2050. Certain modifications were applied to the model data in order to reflect the specifics of the country. Third party data was also used to better understand how carbon emissions are allocated to various sectors and subsectors. The major variables used from the model were carbon emissions, carbon price, secondary and final energy prices, and demand on the secondary and final energy. These were the only variables available on the sectoral level for Georgia from NGFS projections.

We examined the impacts of two scenarios on a selected sample from our corporate customers in the carbon-intensive sectors (energy and utilities, oil and gas), as well as in metals and mining. We stressed the latest available financial statements and projection results (where applicable) for the time horizon covering the remaining maturity of the respective exposure. The selected sample of corporate customers included several hydro power plants (HPPs), electricity and gas distribution companies, a thermal power plant (the only TPP in the Group's portfolio) and a company in the metal industry. For the selection, we took companies with different sizes – small, medium and large HPPs and some leading companies in the respective sector. In summary, the results of the first stress scenario exercise showed those sectors had different sensitivity levels towards transitional risks. While the transitional risks for few cases might show negative impacts in accordance with two NGFS scenarios - largely due to the negative impact of the incorporated extremely high carbon taxes, it is understood that significant amendments to the scenario components and analysis need to be performed before the results can be considered in the risk management framework. It is important to consider that the transitional risks in Georgia are low, and policy measures, especially carbon taxes, are not among the measures foreseen by the Georgian government. At the same time, we analyzed the existing mitigation measures for those few cases, and identified a satisfactory level of the financial resilience, considering the publicly available Georgia's 2030 Climate Change Strategy and Climate Action Plan, as well.

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 continue working on the climate scenario framework in order to include other sectors, as well as the impact of physical risks. Furthermore, in 2022, the focus will be on developing of sectoral guidelines for climate related risks and opportunities, where deemed necessary. For more initiatives planned in 2022, please refer to the paragraph 3. Risk management part (p 33).

In addition to exposure sensitivity analysis, the Group has already started work on an aggregated level sensitivity analysis. To this end, we analyzed downscaled estimates for Georgia of two NGFS Climate Scenarios: Net Zero 2050 and below 2°C. The main initial observation appears to be that Georgia is grouped with high-carbon-emission countries under GCAM, MESSAGEix-GLOBIOM[2] as well as REMIND-MAgPIE[3] models. This implies that the downscaled data for Georgia should be used with care. In fact, when looking at downscaled estimates for a number of other countries with economies of a broadly similar structure in the context of climate change, the impact appears to be significantly different. In particular, e.g. in GCAM model, Georgia is grouped together with Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, Uzbekistan, while the deviation in the stress scenario from the baseline scenarios is similar for all

countries in the group. Meanwhile, downscaled estimates for Croatia, which has rather similar characteristics of the economy to Georgia, looks completely different as compared with the group where commodity intensive economies prevail. TBC group has started to conduct research to estimate more relevant downscaled scenario for Georgia. In this regard, the National Bank of Georgia plans to start working on climate scenarios based on the NGFS framework to estimate the potential aggregated impact on the financial sector in Georgia.

3. RISK MANAGEMENT

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 the households and businesses. For the Group, both of these risks can materialise through the impairment of asset values and the deteriorating creditworthiness of customers, which could result in a reduction of the Group's profitability. The Group may also become exposed to reputational risks as a result of its lending to or other business operations with customers deemed to be contributing to climate change.

In order to identify, assess and manage risks associated with climate change, before the undertaking the climate risk assessment, the Group performed a general analysis in order to understand the maturity level of the ESG framework. The general analysis process covered the assessment of the existing policies and procedures, identification of areas for further development and a gap analysis. Furthermore, the gap analysis considered various international standards and concept papers (European Central Bank, European Banking Authority, TCFD, Global Reporting Initiative and the Four accounting firms), reports about climate change in Georgia, criteria of ESG rating agencies and expectations in relevant expert papers. Based on the analysis, the main focus areas were identified and reflected in the ESG strategy, considering the business strategy of the Group.

As mentioned above, climate risks can materialize, first of all, through the impairment of asset values and deteriorating creditworthiness of customers. Therefore, as a first step, we looked at the material subsidiaries of the TBC Group PLC by assets, considering the materiality level of the 1% share in assets. The Group is the only subsidiary, which takes above 1 % of assets - JSC TBC Bank, which is 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[4]. 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. This assessment is the first exercise conducted with regards to overall climate change risks. Therefore, the assessment of levels and impacts might change in the future, based on further review of the methodology, deep dive analysis and increased understanding of the impact of climate change risks.

To define the climate-related economic sectors for the sectoral analysis, a key materiality threshold has been agreed above 1% of the loan portfolio. The sectoral assessment was performed with the involvement of the business and credit risk specialists responsible for the respective economic sectors in the Bank.

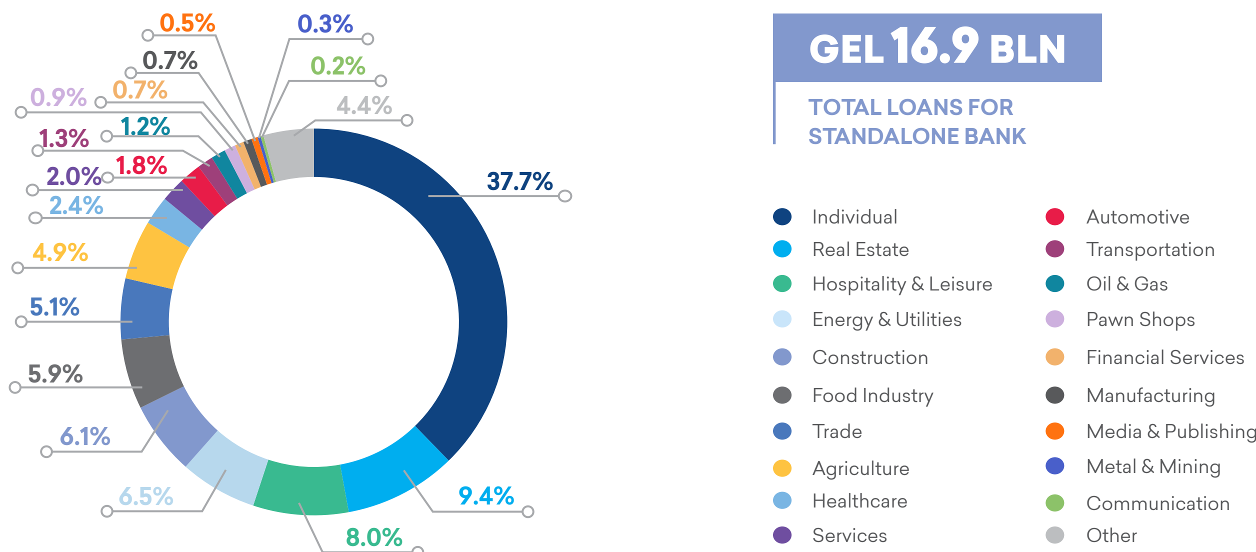
1 Net Zero 2050 is an ambitious scenario that limits global warming to 1.5 °C through stringent climate policies and innovation, reaching net zero CO_2 emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all greenhouse gases by this point. This scenario assumes that ambitious climate policies are introduced immediately. Carbon dioxide removal (CDR) is used to accelerate the de-carbonisation 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. 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 is deployment is relatively low. Net-zero CO_2 emissions are achieved after 2070. Physical and transition risks are both relatively low.

2 The MESSAGEix-GLOBIOM Integrated Assessment Model is based on the MESSAGEix framework, an open- source energy systems optimization modelling environment including macro-economic feedback using a stylized computable general equilibrium model.

3 REMIND (REgional Model of Investment and Development) is a numerical model that 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. REMIND is used in connection with other models to provide a detailed answer. One such model is MAgPIE (Model of Agricultural Production and its Impacts on the Environment).

4 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.

GROSS LOANS BY SECTORS



The sectoral distribution of the loan portfolio for standalone Bank as of the year end 2021 is given in the table above.. The maturity of assets are essential for defining the different time horizons for the analysis and for 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.

Since 2012, TBC Bank has had a process to consider environmental and social risk, which was established in line with industry guidelines that aim to mitigate the effects of 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 categorization 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 categorizing the transaction according to E&S risk category, priority is given to the higher risk. Additionally, external specialized 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 on pages 67-71. It is worth noting that processes related to climate risks will continue to evolve as TBC embeds its approaches further. This process will be supported with the climate-related training to strengthen the Bank's capacity, knowledge and capabilities for managing climate-related risks across the business.

In order to further facilitate the integration of these risk identification processes into the Group's overall risk management, in 2022, the Group will undertake deep dive analyses to understand the extent to which climate-related risks are to be categorized as principal risks. The Group will develop a Policy on Climate Change, a risk appetite statement and risk appetite measures. The high-level sectoral assessment carried out during 2021 has provided insights into the potential impacts on specific sectors. In 2022, the focus will be on developing of sectoral guidelines for climate related risks and opportunities, where deemed necessary. Key initiatives will include further enhancement of the climate risk management framework and the development of ESG profiles for corporate clients covering ESG factors, including relevant climate-related risks and opportunities.

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 damages to 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 related to the Group's own operations are given in the environmental management system section on page 68 and include Scope 1, Scope 2 and Scope 3 GHG emissions.

In 2022, key initiatives will include further implementation of the TCFD recommendations, the development of the climate-related scenario analysis framework, the development of ESG profiles for corporate clients covering climate-related risks and opportunities and increasing our expertise in climate-related matters. These initiatives will also consider sectoral guidelines for climate related risks and opportunities, where necessary and feasible.

The climate action initiatives are part of the overall ESG strategy, which was approved by the Supervisory Board in November 2021. The ESG strategy sets aspirational targets, such as Net-Zero GHG emissions[1] related to the 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 Q4 2020, the total sustainable portfolio stays at GEL 676.3 million. Please see more details about the sustainable portfolio on page 70. The strategy and targets will be reviewed annually. Starting from 2022, the ESG-related KPIs are included in the long-term incentive plans for executive remuneration.

The following table sets out some key metrics and targets of our ESG strategy. The GHG emissions targets for 2023 will be defined during the annual review of the ESG strategy, as well as the targets of sustainable portfolio for the following years.

Metrics / Targets	2022	2023	2025
Total emissions (own operations)	Annual increase below 3%		**Net-zero GHG emissions** (direct)
Water consumption per employee (m3/pp)	Annual increase below 1.5%		
Sustainable portfolio	**GEL 750 million** – the target volume of the sustainable loan portfolio	**GEL 1 billion** – the target volume of the sustainable loan portfolio	
Management KPI	Long-term incentive plan (LTIP) for management linked to the total portfolio of sustainable assets	Long-term incentive plan (LTIP) for management linked to the total portfolio of sustainable assets	

The ESG strategy of the Group is evolving, therefore, the Group continues to develop additional targets and metrics to measure all identified risks and opportunities of the Group. The current targets and metrics are disclosed above.

1 The Net-Zero GHG commitment refers to the direct impact of Scope 1, Scope 2 and Scope 3, which are defined on the page 68.

Network Georgia

Global Compact Network Georgia Award 2021

TBC Bank has been awarded a special prize for its outstanding efforts to champion Sustainable Development Goals in the country at Corporate Responsibility Award Ceremony 2021 organized by Global Compact Network Georgia.

Retail Banking

OVERVIEW

TBC Bank has established itself as a leading retail bank in Georgia over the past decade, serving around 1.5 million active clients. We have a strong presence across different customer segments, including mass retail and affluent customers, thanks to our customer centric approach and best-in-class omni-channel distribution platform. The latter is comprised of leading digital channels, modern branches, best-in-class call centers, as well as the wide-network of ATMs and self-service terminals, which serve as a strong substitute for bank branches.

MULTI-CHANNEL DISTRIBUTION NETWORK

147
OF BRANCHES

4,205
OF SELF-SERVICE TERMINALS

1,570
OF ATMs[1]

25,990
OF ACTIVE MERCHANT TERMINALS[2]

OUR DIGITAL PLATFORMS

744,000
ACTIVE DIGITAL USERS

44%
DAU/MAU

4.9
MOBILE BANKING APP RATING ON BOTH GOOGLE PLAY STORE AND APPLE APP STORE

Our goal is to be the first choice for individuals living in Georgia and Georgian citizens working aboard, by providing simple, convenient and relevant financial services by leveraging our advanced digital capabilities.

Tornike Gogichaishvili

In 2021, we focused our efforts on further refining our customer journey in digital channels by introducing new products and services, increasing the accessibility of our payments options, as well as upgrading our branches to create a more friendly environment for our clients. In addition, we continued to leverage our data analytical capabilities to generate more tailored offerings and increase our profitability. We also expanded our offerings to the young generation and started to target the Georgian diaspora.

In 2021, our gross retail loan book amounted to GEL 6,266 million, up by 11.5% year-on-year on a constant currency basis, driven by an increase in mortgage and consumer loans, which grew by 12.5% and 9.4% without the FX effect, respectively. Over the same period, our deposit portfolio increased by 19.0% year-on-year on a constant currency basis, reaching GEL 5,630 million. The net profit for the retail segment amounted to GEL 286.3 million. More information about the financial performance of the retail segment is provided in the financial review section on pages 72 to 78.

2021 HIGHLIGHTS

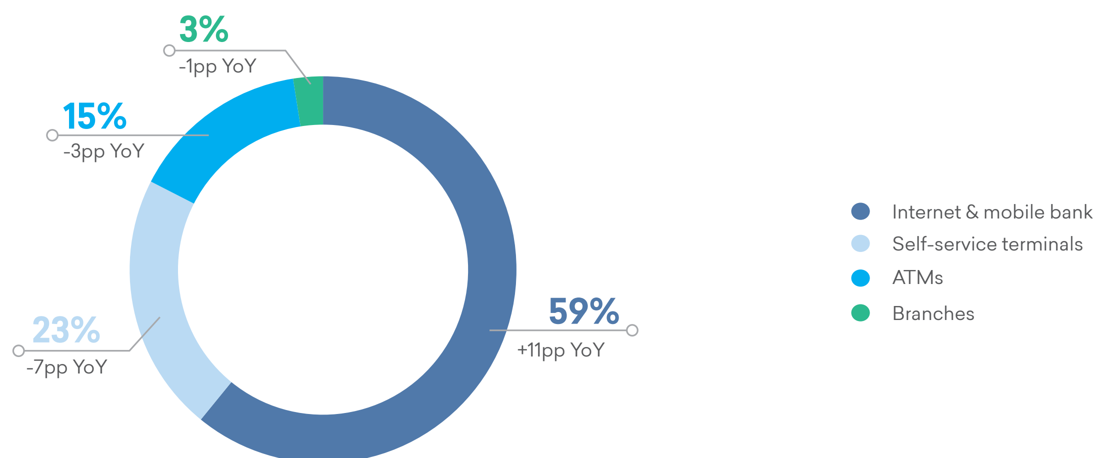
38.6% RETAIL LOAN MARKET SHARE[3]	**40.3%** RETAIL DEPOSITS MARKET SHARE[3]
37.0% RETAIL SHARE IN TOTAL LOAN BOOK	**37.8%** RETAIL SHARE IN TOTAL DEPOSIT PORTFOLIO
97% RETAIL OFFLOADING RATIO	**1.5 mln** NUMBER OF ACTIVE CUSTOMERS
56% NET PROMOTER SCORE (NPS)[4]	

OUR MAIN STRATEGIC PRIORITIES

Continue enhancing our advanced omni-channel platforms

During 2021, customer engagement in remote channels remained high, with 97% of transactions conducted via remote channels by retail customers, including 59% coming from our internet and mobile banking applications.

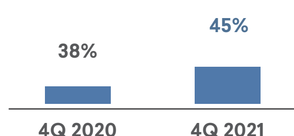
RETAIL OFFLOADING RATIO IN 2021



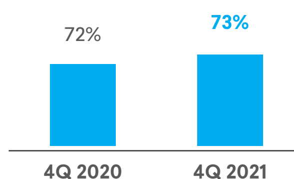
1 Including partner banks
2 Active merchant terminals include POS terminals and ecommerce with at least one transaction conducted during the month.
3 Based on data published by the National Bank of Georgia as of 31 December 2021; in this context retail refers to individual customers.
4 Based on survey conducted by the independent research company IPM in December 2021.

In order to increase the sale of consumer loans via digital sales, in August 2021 we launched an end-to-end lending process in our mobile banking. We also continued to polish our online lending platforms TBC credit (www.tbccredit.ge) and TBC installment platform (www.tbcganvadeba.ge). As a result, the share of consumer loans sold via remote channels grew from 38% in 4Q 2020 to 45% in 4Q 2021. Over the same period, the share of time and savings deposits being opened remotely stood at high 73%.

CONSUMER LOANS OFFLOADING IN DIGITAL CHANNELS



DEPOSITS OFFLOADING IN DIGITAL CHANNELS



In addition, we introduced open banking, which enables our customers to add other Georgian bank accounts to our mobile banking applications and manage their banking operations centrally. Furthermore, we enriched our digital banking with more handy features, including an IBAN scanner, which simplifies money transfers, as well as a transaction filter, which helps customers to quickly sort transactions by different parameters. In recognition of our efforts, we won "Best Integrated Consumer Bank Site in Central and Eastern Europe 2021" award from Global Finance magazine.

While we are driving our transactions and sales towards digital channels, the branches play an important role in nourishing customer relationships and communicating our vision: "to make life easier". Therefore, this year we launched a branch redesign project with the aim of simplifying the customer journey in branches. According to the new concept, the branch is divided into several core zones and is tailored to the needs of different customer segments. By the end of the year, we redesigned 13 branches in the capital city and 5 branches in the regions.

Making payments simpler than ever

After entering Tbilisi's transport payments network in 2020, in 2021 we expanded our presence in three other large cities of Georgia – Kutaisi, Gori and Poti. In these cities, customers can now pay using any of our debit or credit cards, or by dedicated transport cards issued by TBC. Transport cards are very easy to obtain and use. They are nameless cards, which are not tied to any bank account and have no expiration date. The transport card can be purchased in our branches, as well as several store chains. At the end of 2021, the number of our active transport cards amounted to 47,100.

Another initiative on the payments side was the introduction of a simplified dispute process for unauthorized card transactions, which allows us to decrease the review period from 35 to 3 days. Furthermore, we increased the number of cases for which customers could get reimbursement in case of unauthorized card usage. These services are available for all insured cards, TBC Concept and wealth management customers, and they are also included in certain subscription options for our mass retail clients.

Getting closer to our customers

In order to better meet the needs of our customers and allow more flexibility, in the end of 2020 we introduced a subscriptions model for our mass retail. With the help of our advanced analytical capabilities, we have developed carefully selected packages for our customers and are constantly updating them based on customer feedback. We are also actively using various communication channels to explain the benefits of this subscription model to our customers and encourage them to subscribe. As a result, our subscription model has attracted 192,000 users by the end of the year, which represents around 13% of total active retail customers. Going forward, our goal is to shift customers from a classic banking service model to the subscription model, which will help us to provide more tailored offerings to our customers, increase their loyalty, reduce the churn rate, and generate more stable and long-term fee and commission income for the bank.

New Branch Design

Another important initiative during the year was the launch of TBC Z, a new sub-brand of TBC targeting the young generation, in October 2021. Under TBC Z, we offer a set of banking products and services tailored to customers between ages of 6-17 (pupils) and 18-23 (students) via our web platform www.tbcz.ge. Parents of pupils can track their children's accounts via internet and mobile banking, set maximum daily limits for their spending and withdrawals, and receive SMS notifications about transactions made by their child. The platform also offers various discounts and activities to cardholders tailored to their interests regarding education, entertainment, hobbies, transportation and so on. In the last three months of 2021, our youth segment reached 165,000 active customers.

Furthermore, this year we took up a new challenge – to become the number one choice for Georgian citizens working abroad – by providing simple, convenient and relevant financial services. For this purpose, we set up a dedicated team and started to explore the needs of the diaspora in order to create tailored products and services, as well as enhance the existing digital platforms to launch dedicated services for them. Today, there are around 1.3 million emigrants living abroad, which translates into 350 thousand potential clients, further supporting our growth, according to our estimates.

We also continued to run our wide-scale loyalty programme, Ertguli, which is part of our retail customer-centric approach and allows our customers to gather loyalty points by paying with TBC cards at more than 300 partner companies as well as access special offers and discounts. Customers gain more points by paying with credit cards compared to debit cards. This programme both helps us to build customer loyalty and facilitates payment business and card usage.

Continue to leverage our advanced data analytical capabilities

Within the scope of our three-year data analytical roadmap, which was developed in 2018 with the support of a leading global consultancy firm, we have launched and scaled up the following projects in the retail segment, generating an extra GEL 20 million in 2021.

Ongoing projects

- **Consumer and mortgage loan price optimization and process automation** – this is an on-going project, which is continuously fine-tuned. Based on detailed analysis of clients' spending behavior, risk profile and other characteristics, we determine the price sensitivity for each customer and develop tailored offerings for each individual client. The customer level price calculation process is fully automated and integrated into the loan origination system.
- **Customer lifetime value** – this project is another very important step towards customer centricity, as it envisages assessment of such metrics as: customer engagement scores, customer churn, and estimating customer lifetime value.

Launched and scaled projects:

- **Subscriptions model for mass retail customers** – as described in our sub-section "getting closer to our customers" above.
- **TBC Concept service model for affluent customers** – as described in our TBC concept sub-section below.
- **Next best product in retail** – this project aims to increase conversions by developing tailored offers based on a state-of-art system algorithm, which is available in all our sales channels. The project proved to be very successful in increasing customer satisfaction levels and increasing the conversion rate.
- **Deposit pricing and profitability improvement** – this project envisages effective management of our retail deposits via tailored offerings to clients. When opening a term deposit, every single customer receives an alternative offer, which is the best possible proposition for him/her under the given conditions. In 2021, 32% of all newly opened or renewed term deposits were placed with alternative terms.

Further develop our affluent sub-segment, TBC Concept

In 2020, TBC's affluent banking moved from standard banking to an innovative, subscription banking business model, which offers our customers various subscription packages better tailored to their specific needs. Our "fully digital package" became especially relevant during the pandemic, as it allows our customers to manage their daily banking operations and receive financial advice online, while having access to all private banking customer benefits. In 2021, we also launched a new package, which is designed for individuals who need a wider range of financial tools and are interested in brokerage services to better manage their funds. In addition, within this package, we offered our clients two new premium cards: Visa Signature and Mastercard World Elite, which offer its holders a wide range of services, privileges, discounts and VIP services all over the world.

We also continued to successfully operate our TBC Concept Flagship space, which was opened in 2020 and allows us to seamlessly merge banking with lifestyle. As a conceptual space, it was strategically developed to have 80% lifestyle and 20% banking areas. The areas of the Flagship space include self-service and personal banking zones, exhibitions, library and co-working spaces as well as a cafe. As a result, the Flagship space became a favorite spot for banking, recreational activities and co-working for many of our Concept clients.

During 2021, TBC Concept has maintained its strong positioning in lifestyle offerings for its clients. With an increased data-centered approach, TBC Concept has offered its clients over 300 special offers and promotions throughout the year revolving around travel (discovering Georgia during the pandemic), shopping (mainly online), recreational activities, online platforms and much more. Furthermore, we continue to offer our Concept clients concierge services, which cover trip planning, studying abroad, restaurant reservation, flower delivery, dry cleaning, laundry, car service and much more.

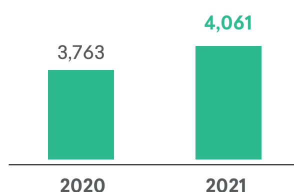
We are also proud that our affluent banking services, together with the wealth management service offered by our CIB segment, won several prestigious awards:

THE BEST PRIVATE BANK IN GEORGIA 2021
from PWM and the Banker magazine

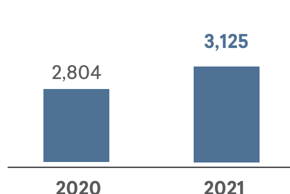
THE BEST PRIVATE BANK IN GEORGIA 2022
from Global Finance magazine

TBC CONCEPT

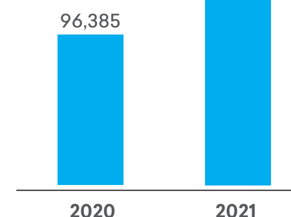
Loan Portfolio
(GEL million)
+7.9%



Deposit Portfolio
(GEL million)
+11.5%



# of Customers
+7.0%



OUTLOOK

Going forward, in line with our aspiration to make life easier for our customers, we will continue to accelerate sales growth in digital channels. Furthermore, our focus is to further strengthen our position in the Georgian regions and increase the number of active clients, as well as increase the non-mortgage share of our total loan portfolio.

MSME Banking

OVERVIEW

Over the years, TBC Bank has established itself as a leading partner for micro, small and medium enterprises (MSMEs) by supporting their growth and development. As a result of our continuous efforts, 63%[1] of all newly-registered businesses in Georgia choose TBC.

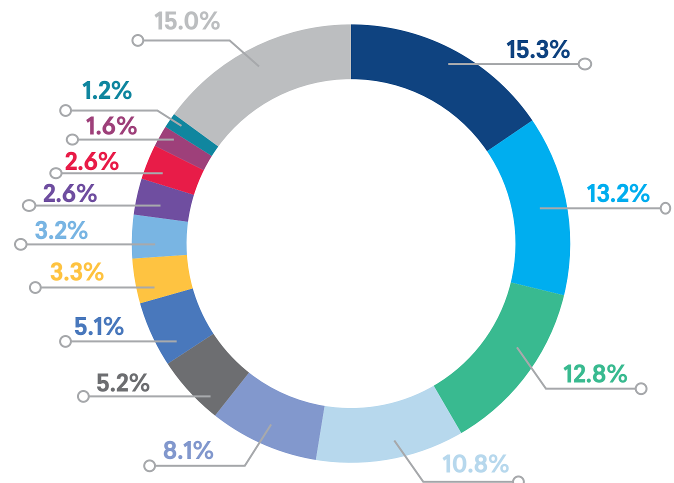
We continue to provide all-round support to businesses by offering them all the necessary tools and services in an environment still widely shaped by the COVID-19 pandemic. Our strategic priorities are expanding to digital and payment solutions, growing our share in the micro sub-segment, and enhancing our renowned business support programme.

Our efforts, combined with the revival of business activities, led to an increase in the MSME loan book of 23.3% to GEL 4,141 million during 2021, on a constant currency basis. Over the same period, the deposit portfolio increased by 19.1% and reached GEL 1,564 million, without the FX effect. In 2021, our net profit in the MSME segment mounted to GEL 165.5 million. More information about the financial performance of the MSME segment is provided in the financial review section on pages 72-78.

Our goal is to be a reliable partner and supporter of Georgian businesses from startups to well established enterprises, by providing a full range of convenient products and solutions at every stage of their development. We are also dedicated to developing a strong local business community by fostering various initiatives and programmes.

Tornike Gogichaishvili

DIVERSIFIED MSME PORTFOLIO WITH A STRONG PRESENCE IN THE AGRICULTURE, TRADE AND HOSPITALITY & LEISURE SECTORS



- Agriculture
- Trade
- Hospitality & Leisure
- Construction
- Food Industry
- Real Estate
- Services
- Transportation
- Healthcare
- Pawn Shops
- Automotive
- Manufacturing
- Oil & Gas
- Other

2021 HIGHLIGHTS

81,000
NUMBER OF ACTIVE CUSTOMERS[1]

63%
OF NEWLY REGISTERED LEGAL ENTITIES CHOSE TBC BANK[2]

24.4%
MSME SHARE IN TOTAL LOAN BOOK

10.5%
MSME SHARE IN TOTAL DEPOSIT PORTFOLIO

98%
OF OUR ACTIVE CUSTOMERS USE BUSINESS INTERNET OR MOBILE BANKING

OUR MAIN STRATEGIC PRIORITIES

Growing our presence in the micro sub-segment, while maintaining leadership in the SME sub-segment

As we strive to support MSME businesses of all sizes, this year we focused on increasing our presence among the smallest MSME clients, the micro sub-segment[3]. In order to increase our presence in this sub-segment, we undertook several initiatives:

- We continued the automatization of the loan approval process in the micro sub-segment, the implementation of which was hindered last year due to the pandemic. In 2021, we successfully launched fully automatic loan approvals so that loans up to GEL 100,000 could be approved automatically using pre-determined rules and a scoring model, thus significantly decreasing the time-to-yes period.
- We also changed the staff motivation system of our front-office employees with a higher focus on rewarding loan issuances with smaller ticket sizes.

As a result, our micro sub-segment loan portfolio grew by 26.9% in 2021.

On the SME side, in order to further streamline our processes, we implemented a financial statement automatization tool, which automatically generates a business entity's financial statements based on inputted data. This tool significantly speeds up the loan approval process, as well as eliminates the possibility of human error. As a result, the time-to-yes decreased by around two days for these loans.

1 Out of which 40,000 are legal entities and 41,000 are individuals with business loans
2 Data is for January-September 2021, source: www.napr.gov.ge, the National Agency of Public Registry
3 Includes business loans up to GEL 1 million

We are pleased that our consistent efforts towards innovation and digitalization have been recognized internationally with multiple awards from Global Finance:

Best Corporate/Institutional Online Portal 2021 in the world;

Best Corporate/Institutional Online Portal 2021 in Central and Eastern Europe;

Best Integrated Corporate/Institutional Banking Site 2021 in Central and Eastern Europe ;

Best Corporate/Institutional Mobile Banking App 2021 in Central and Eastern Europe ;

Most Innovative Corporate/Institutional Digital Bank 2021 in Central and Eastern Europe.

Increasing digitalization

In 2021, our digital services remained in high demand, as the trends set by the pandemic largely continued into this year. Around 98% of our active legal customers use business Internet or mobile banking, with DAU/MAU ratio standing at 26% by the end of 2021.

This year, the most notable innovation among our digital offerings was the introduction of open banking in our mobile banking application. Open banking brings together all the accounts of a client at various Georgian banks and allows them to check their accounts in one place. This functionality was particularly useful for our business clients, as around half of them have accounts in more than one bank. Previously, in order to check their balances and transactions, clients had to log into separate banking apps and switch between them.

We have also been actively upgrading our business app, which was launched in 2020 to make it more convenient for our MSME clients. A number of new features have been added to the app in order to better accommodate our customers' needs, such as implementing a new module for utility payments and automatic payments as well as allowing transfers using any foreign currency.

Fine-tuning our payments solutions

In 2021, we continued to introduce innovative and convenient payment solutions for our customers:

- In e-commerce, we launched an alternative payments method for small businesses, which allows merchants to process e-commerce payments in a simpler and cheaper way than using a traditional e-commerce checkout. After receiving an order from a client, merchants are able to generate a payment link through a dedicated platform and send the link to the customer. Upon clicking the link, the client then chooses a suitable payment option: any bank's mobile or internet banking, QR payment through TBC's mobile bank, Apple Pay, or payment with our loyalty programme Ertguli points.
- Furthermore, in order to facilitate online payments, we launched a new platform, Payments Space (available on www.tbcpayments.ge) for our merchants, which allows them to easily control their daily transactions, receive analytical reports and manage their payments products. The platform is free of charge.
- On the POS side, we introduced Android POS solution, which is a smarter alternative to the traditional POS, aimed primarily at small & medium businesses. Thanks to its operational system (Android), it is more flexible, allowing to add non-payment functionality to POS terminals and offering better customer experience for merchants and customers. As of 31 December 2021, we already had 100 active Android POS terminals.

Enhancing our business support programme

We are committed to facilitating the success of our business clients by providing them with a full-scale business support programme, enriched with extensive educational resources and technological tools, which are accessible from a single platform www.tbcbusiness.ge.

We have the largest business education programme in Georgia, which has attracted over 30,000 attendees through around 1,000 lectures over the past eight years. 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, human resources etc.

In order to help businesses find and utilize the most suitable tools and software, we created an online platform www.businesstools.ge. This platform connects developers with users and offers a convenient way to find, compare and review various programmes created for accounting, IT management, project management and other fields.

We continue to offer our business customers Business Club, a unique subscription model that combines a bundle of financial products and services with extensive non-financial offerings, such as exclusive face-to-face and group meetings, seminars and workshops with market-leading specialists in various areas, as well as special offers from our partners. Around 30% of our MSME legal clients are Business Club members.

In order to reward innovation and creativity, as well as encourage entrepreneurs, we have established several renowned annual events:

- The Annual Business Award Ceremony, established back in 2015, aims to identify outstanding businesses in Georgia, help them develop, gain publicity and recognition and inspire other entrepreneurs. This year, the event was organized in partnership with EFSE and Forbes Georgia and attached 41.3 million views in media, while top of mind awareness reached 70%[1]. Over the years, the ceremony has attracted more than 3,000 businesses from various fields.
- The Annual Apps Challenge, which was first established in 2020. This year, 40 teams entered the competition with unique and innovative app ideas, for the chance to become one of three winners and receive funding to bring their ideas to life.

Additional support for startups and rural enterprises

Since 2017, we have run Startuperi, a start-up oriented project offering full-scale support to companies in an early stage of development. The programme aims to foster entrepreneurship by providing easily accessible funding, media & PR support, free educational programmes and conferences, as well as partnerships with large companies in Georgia. The outstanding portfolio of the programme is comprised of 493 active loans, in the total amount of GEL 196.9 million as of 31 December 2021.

In order to foster business development in rural areas and help to create new job opportunities, we are actively supporting local businesses by providing affordable finance. We partnered with three government programmes, “Produce in Georgia”, “Host in Georgia” and “Preferential Agro Credit”, to support agricultural and hospitality businesses. The programmes offer lowered interest rates through governmental subsidies. In 2021, we disbursed 2,096 loans in the amount of GEL 530.0 million within these programmes.

OUTLOOK

Going forward, we will stay focused on providing our clients with a superior customer experience, simplifying and digitalizing our products, increasing our presence in the small micro sub-segment in the regions, further developing our subscription model, as well as remaining the best business supporter in the country.

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

BEST CORPORATE

INTERNET BANKING PORTAL

თიბისი

GLOBAL FINANCE

Corporate & Investment Banking

OVERVIEW

Over the past decades, TBC Bank's CIB business has been a leading provider of corporate and investment banking solutions in Georgia, helping businesses to optimize their funding structure and effectively manage their risks. We hold the number one market position across all major products including loans, deposits and trade finance products. We offer a full suite of lending and transactional products, advisory services in managing and structuring complex transactions, leading trade finance capabilities, strong sector expertise across all major industries of the economy, as well as additional financial resources via partnerships with International Financial Institutions and government programmes. Since January 2021, we have integrated our wealth management (WM) business into our CIB business in order to better serve our clients with a combined offering, as the majority of our high net worth individuals are shareholders and C-level executives in our CIB clients.

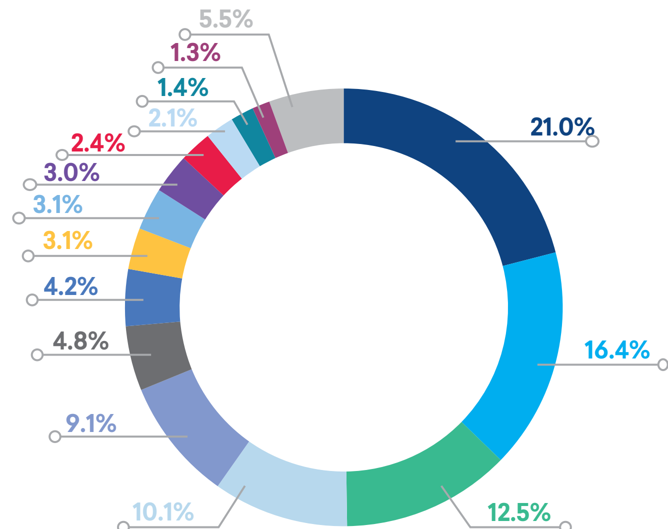
During 2021, we continued to expand our business and attract new large and medium corporate borrowers operating in different industries. As a result, our gross loan book amounted to GEL 6,548 million, up by 19.5% year-on-year on a constant currency basis, while the deposit portfolio stood at GEL 7,379 million, up by 33.1% year-on-year without the FX effect. Over the same period, the corporate guarantees and letters of credit portfolio amounted to GEL 1,939 million, broadly stable at constant currency basis. In terms of profitability, our net profit in the CIB segment amounted to GEL 380.7 million.

More information about the financial performance of the CIB segment is provided in the financial review section on pages 72-78.

Our goal is to be the number one trusted strategic partner for large enterprises and high net worth clients by helping them to grow and prosper. We distinguish ourselves by sector specific, tailor-made solutions as well as strong industry and product expertise, which are the key value drivers for our clients.

George Tkhelidze

A WELL-DIVERSIFIED LOAN PORTFOLIO WITH A STRONG PRESENCE IN ALL MAJOR SECTORS OF GEORGIAN ECONOMY



- Real Estate
- Energy & Utilities
- Hospitality & Leisure
- Food Industry
- Construction
- Trade
- Healthcare
- Automotive
- Agriculture
- Individual
- Oil & Gas
- Services
- Financial Services
- Transportation
- Other

2021 HIGHLIGHTS

39.1%
CIB LOAN MARKET SHARE[1]

40.5%
CIB DEPOSITS MARKET SHARE[1]

38.6%
CIB LOAN SHARE IN TOTAL PORTFOLIO

49.6%
CIB DEPOSIT SHARE IN TOTAL PORTFOLIO

48.0%
CIB GUARANTEE AND LETTER OF CREDITS MARKET SHARE[1]

7,000
NUMBER OF CUSTOMERS[2]

OUR MAIN STRATEGIC PRIORITIES IN 2021

Corporate banking

Improved client coverage model

In 2021, we revised our business model to ensure more focused coverage of our corporate clients and created three separate, dedicated divisions: strategic clients (top 50 groups of related companies), large and medium sized corporates (industry teams) and vulnerable clients. The new structure enabled us to better tailor our offerings to the needs of different customer groups and proactively manage our credit risk. As a result, the share of large and medium sized customers in our CIB portfolio increased by 5.7 pp to 38.1%, while our NPL ratio in CIB improved by 1.0pp and amounted to 1.4% by the end of 2021.

Increased focus on transaction banking

We also set up a new dedicated team to manage non-lending business covering FX transactions, deposits, cash management solutions and other non-lending products, with specific product expertise and sales capabilities, in order to better serve our CIB customers and diversify our non-interest income streams. One of the initiatives rolled out by this team includes the introduction of new bulk cash deposit machines to our branches, which provide a fast and secure way of depositing large amount of cash to bank accounts. By the end of 2021, we have already installed 38 new machines in our branches and clients' premises. Going forward, we are planning to add 12 more machines and expect to collect at least GEL 500 million in incremental cash from corporate clients per year.

In 2021, the volume of FX transactions from corporate clients amounted to GEL 14,266 million, up by 52% year-on-year, while cash management volumes from corporate clients increased by GEL 934 million or 23.5% year-on-year and amounted to GEL 4,906 million.

Commercial Excellence Transformation Programme

We achieved good progress in our commercial excellence transformation project, which was launched last year. In 2021, the project resulted in an additional c. GEL 10 million net banking income and reduced time spent on back office tasks by 15%.

Within the scope of this project, an advanced IT tool was developed that provides a 360 degree view on each client, based on industry benchmarks, publicly available and internal data. It also calculates customer profitability and conducts simulation analysis. As a result, our bankers are able to better understand and capture the potential of existing and target clients and use this information in account planning, customer profitability management, decision-making, and negotiations with clients.

1 Based on data published by the National Bank of Georgia as of 31 December 2021; in this context, corporate refers to legal entities.
2 Out of which 4,340 are corporate clients and 2,660 Wealth Management clients.

Investment Banking – TBC Capital

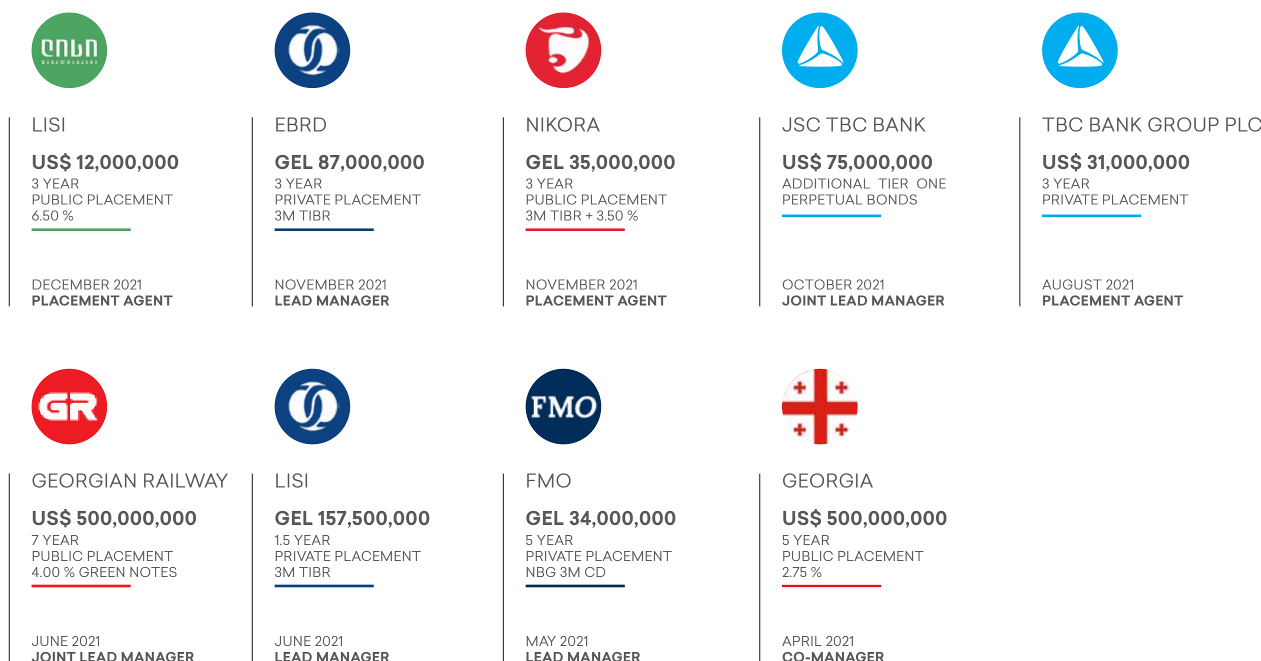
TBC Capital is a wholly-owned investment banking subsidiary of TBC Bank and a licensed brokerage firm. TBC Capital was established in 1999 and has been a leader in investment, brokerage and corporate finance solutions. As a member of TBC Group, the company is uniquely positioned to help clients of all backgrounds meet their financial objectives from structuring to executing deals or advising on complex corporate transactions. TBC Capital is also a shareholder in the Georgian Stock Exchange and contributes to the development of its infrastructure and the integration of the domestic capital market into international markets.

Staying active on bond markets

In 2021, TBC Capital maintained its leadership position in terms of total bonds issued on the Georgian market. As the economy rebounded from the pandemic, we conducted several milestone transactions including acting as a Joint Lead Manager, together with a number of leading international investment banks, on two Eurobond placements: US$ 500 million by Georgian Railway and US$ 75 million Additional Tier-1 Capital Bonds by TBC Bank and as a Co-Manager on US$ 500 million Eurobond issued by Government of Georgia.

On the local market, TBC Capital acted as Sole Arranger for GEL 35 million bond placement by Nikora Trade and as a Joint Lead Manager on US$ 12 million placement by Lisi Lake Development. TBC Capital was also active in private bond placements and acted as Sole Arranger on US$ 31 million private bond placement for TBC PLC as well as three private bond placements for EBRD and FMO. As a result, the public and private corporate, as well as government bonds issued by TBC Capital during the year accounted for 52%[1] of total bonds issued.

In addition, this year, TBC Capital introduced a new real estate advisory service and already closed two deals with the total value of c. US$ 26.4 million.



Enhancing our research services

TBC Capital's research division provides access to comprehensive data and analytical insights for large corporate borrowers and investors. Its coverage comprises regular macro, sectoral, equity market, and fixed income updates as well as in-depth analytical reports on significant developments and events. This year, the research division continued to provide corporate borrowers and investors with regular updates on the recovery of the Georgian economy through its regular, weekly, monthly and quarterly publications and online events. In addition, it successfully launched

coverage of equity markets and provided the audience with weekly updates on developments in global equity markets. Furthermore, our research division closely monitored the recovery of the tourism and real estate sectors through its monthly sector watch series. Overall, in 2021 TBC Capital published more than 200 publications. The full list of reports is available at www.tbccapital.ge.

The coverage of our reports continues to increase both locally and among international investors and analysts. Our macro updates are also broadcast on a regular basis via local business media online channel. Moreover, in 2021 TBC Capital started to produce regular video updates on some of the most important research findings and economic developments to diversify its format of content. In addition, throughout the year we organized several large-scale online conferences for our customers, covering challenges and trends in the Georgian economy from a macro as well as a sectoral perspective. In 2021, TBC Capital became research contributor to Bloomberg and Refinitiv, targeting wider international audience interested in Georgia.

Private Banking - TBC Wealth Management

TBC WM is Georgia's leading wealth management franchise, serving around 2,700 resident and non-resident high net worth clients. We offer a wide range of personalized banking, investment and insurance products that are carefully designed to meet the individual financial goals of our customers and maximize their wealth. In addition, our clients benefit from exclusive lifestyle offerings for major elite events happening 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.

In 2021, we rebranded TBC VIP to TBC Wealth Management and launched a dedicated WM webpage (www.tbcwm.ge) for our existing and potential clients, which provides comprehensive information about our operations. In addition, we introduced a new product – Visa Infinite, Visa's most elite card, exclusively for WM clients. Considered a symbol of recognition, the prestigious Visa Infinite provides clients with comfort and bespoke benefits, both in Georgia and across the world.

- **Best Treasury and Cash Management Bank in Georgia 2022**
- **Best Trade Finance Provider in Georgia 2022**
- **Best Foreign Exchange Provider in Georgia 2022**
- **Best Private Bank in Georgia 2022**
- **Best Investment Bank in Georgia 2021**

Global Finance

- **Best Private Bank in Georgia 2021**

PWM and the Banker magazines

1 Based on internal estimates

ENTRÉE - CASE STUDY

The Georgian bakery network “Entrée” has been present in the Georgian market since 2008 and has emerged as one of the country’s most successful fast casual dining concepts in recent years. We became Entrée’s partner in 2011 and have stood by their side since then. In summer 2021, with our support, Entrée opened a new facility in Notting Hill, London and serves customers with Georgian cuisine along with French dishes. This is our second cooperation with Entrée; the first was in 2015, when Entrée successfully launched its first café abroad in Baku.

Freshly Squeezed Juices 5.50
Coffee
Espresso
Americano
Flat white
Cappuccino
Latte
Iced coffee
Tea
TBILISI BAKERY

TBC Pay

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. TBC Pay offers a wide range of services including utility payments, mobile top-ups, loan repayments and money transfers through its wide and easily accessible distribution network.

TBC Pay mainly services its customers via c. 4,205 self-service terminals conveniently distributed across the country. 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, which offers a simple and engaging interface. In 2021, we also added international cards to our digital payments channels. Overall, in 2021, the number of payments conducted through digital channels increased by 49% year-on-year, while number of active digital users reached c. 51,000.

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

In order to support the increased scale of business, the company is streamlining its processes and implementing new technologies. In 2021, TBC Pay successfully completed agile transformation in its IT department and started to roll it out in other departments as well. In addition, the company began implementing an enterprise-wide software, which is planned to be launched next year.

Over 2021, the volume of transactions conducted through self-service and cash management terminals as well as digital channels grew by 40% to GEL 5,636 million. Over the same period, net commission income reached GEL 38 million, up by 15% year-on-year, while EBITDA amounted to GEL 23 million, up by 8% year-on-year.

We aspire to become the largest payments provider in Georgia by further strengthening our digital capabilities as well as diversifying and fine-tuning our services. Additionally, we plan to become the largest payments aggregator in Georgia by implementing open banking capabilities.

2021 HIGHLIGHTS

c. 4,205

NUMBER OF SELF-SERVICE TERMINALS

+40% YoY

GEL 5.6 bln
VOLUME OF PAYMENT TRANSACTIONS

TBC Leasing

TBC Leasing, a wholly-owned subsidiary of TBC Bank, was established in 2003 and has since become a leading leasing services provider in the Georgian market. TBC Leasing serves both individuals and business clients, offering them a full range of leasing solutions and advisory services, including financial leasing, operating leasing, sale and leasebacks tailored to customers' needs. TBC Leasing serves its retail customers at its service centers and at partner vendors' sales points. As for business clients, TBC Leasing actively leverages TBC Bank's digital channels and branches.

As of 31 December 2021, our leasing portfolio stood at GEL 254 million and remained broadly stable on a constant currency basis. 88% of the portfolio was related to legal entities, with strong positions in the construction, service and manufacturing sectors. The remaining 12% of the portfolio originated from individual clients and consisted of new and used cars, with respective shares in the total retail portfolio of 51% and 49%. In 2021, net profit of TBC Leasing amounted to GEL 11.6 million.

TBC Leasing continues its active engagement in financing of green, renewable and energy efficient assets. Over the past three years, our green leasing portfolio increased by 57% and amounted to GEL 5 million. In 2021, the company launched a PV solar panel grant programme in cooperation with the Green for Growth Fund (GGF), EU4Energy and Finance in Motion, which enables legal entities as well as individuals to significantly decrease the design and installation costs of solar panels.

In January 2021, Fitch credit rating agency maintained TBC Leasing's existing long term credit rating of BB-, which is the highest credit rating among Georgia's non-banking institutions, and, in April 2021, revised the outlook of the credit rating from Negative to Stable. This credit rating will increase TBC Leasing's creditworthiness and helps us to attract new creditors and lower the cost of funding. During 2021, the company successfully raised additional funding of US$ 30 million, in the form of senior loans, from Development Financial Institutions as well as International Financial Institutions.

Finally, we remain dedicated to raising awareness among the Georgian population regarding the benefits of leasing solutions, as the Georgian leasing market is still highly underpenetrated with a leasing to GDP ratio of just 1%[1].

Our aspiration is to further strengthen our leading market position via developing tailored solutions, as well as dedicated digital offerings. In addition, our priority is to increase the share of green/ renewable and energy efficient projects.

2021 HIGHLIGHTS

77%
MARKET SHARE[1]

2,265
NUMBER OF CUSTOMERS

GEL 254 mln
LEASING PORTFOLIO

1 Based on internal estimates

Our Colleagues

OVERVIEW

We aspire to be most desired employer in the country, attracting and developing top talent, nourishing our corporate values and keeping our employees engaged and motivated in order to support the Group in achieving its ambitious strategic goals. We also work closely with each business division in order to better understand their needs and assist them in overcoming their individual challenges.

In the post-pandemic world, more and more companies are moving towards remote or hybrid working conditions. We were one of the first companies in Georgia to allow all our back-office employees to work remotely. Our HR campaign "work from where you want" was very well received by our employees and today the vast majority of our back-office employees work outside the office. Importantly, this initiative not only resulted in improved employee satisfaction levels, but also increased efficiency across the Group. In order to maintain close contact with our employees in this new digital reality, our senior management regularly holds online meetings with employees to update them regarding the Group's achievements and future plans, and address any concerns that they might have.

In addition, we continue to expand our agile working practices to the wider organization in order to become even more flexible and efficient in today's fast changing environment.

For more information about our HR practices, please refer to pages 84-109 of our Sustainability Report, which is available at www.tbcbankgroup.com.

OUR MAIN STRATEGIC PRIORITIES

Talent acquisition and development

Our goal is to attract the best talent on the market, with the support of an extensive selection process, tailored to the specific needs of each position and role. We actively monitor the labour market both in Georgia and abroad, to maintain a pool of prospective qualified talents for key roles including but not limited to: finance, business, tech positions and other.

This year we launched a talent management programme, which aims to identify top talent within the company and support their development. Within the

Engaged and happy colleagues are key to our successful and sustainable development. We are committed to providing a safe and inclusive work environment with equal opportunities for learning and career advancement

2021 HIGHLIGHTS

66%
EMPLOYEE NET PROMOTER SCORE[1]

85%
EMPLOYEE HAPPINESS INDEX[2]

19%
INTERNAL PROMOTIONS

35%
WOMEN IN MIDDLE MANAGERIAL POSITIONS[3]

scope of this programme, we introduced an extensive leadership programme for middle management in partnership with a leading international training company. This programme includes four modules: a strategic mindset, managing change, cross-functional trust, and leadership. Going forward, we plan to introduce tailored development programmes for selected candidates and offer targeted rotations to expand the required skill sets.

In order to support our highly digital business model, we have increased our focus on building strong technical capacity in-house. Currently, around 600 of our workforce at the Bank are IT specialists. Our initiatives in this regard include establishing an IT academy in 2019, which offers courses in front-end and back-end development, Android and IOS mobile development, as well as user experience research and strategy. 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 up to 580 people and recruited 230 people. In addition, we have strengthened our IT team with international expertise by hiring leading specialists from abroad. We also plan to introduce special development programmes and career maps for our IT specialists in order to ensure a high retention rate.

For low-level positions, we run a wide-scale internship programme to attract the best students from Georgia's leading universities. After successful completion of a one-year internship, the brightest candidates are offered employment in various departments, including finance, risks, corporate, marketing, IT and data analytics. Overall, since its establishment back in 2011, we have recruited up to 500 students within this programme.

We offer competitive remuneration packages to our employees, which are comprised of a fixed salary, performance based bonuses and a benefits package, which includes medical insurance, critical disease and life insurance, paid annual and sick leave, as well as six months of fully paid maternity and paternity leave. Additional benefits include monetary gifts in case of marriage and childbirth, as well as extra day-offs for employees with three and more children.

Since 2011, we operate TBC Academy, which provides a wide range of learning programmes to our employees. During 2021, more than 1,000 employees participated in various courses such as business development, banking, change management, leadership, financial analytics and many more. In addition, we provide financial support to our employees to attend various external courses and gain international certifications such as MBA, CFA, FRM, ACCA and others. Furthermore, we run mandatory training for all employees of the bank in the areas such as code of conduct and ethics, information security, environmental issues and operational risks.

Performance management

Through our effective performance management system, we strive to promote a growth mindset, boost employee productivity and reinforce a feedback culture.

Our performance management system 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 are actively engaged in setting their personal goals. Employees are also given appropriate coaching by their supervisors to help them achieve these goals. Regular employee feedback and constructive dialogue are important parts of our performance appraisal system and have been incorporated into middle management's KPIs starting from 2021.

We use different assessment systems for front and back office staff, depending on the positions held. We assess our back office staff with the management by-objectives (MBO) system, a personnel management technique where managers and employees work together to set, record and monitor goals for the financial year. Goals are written down annually and are continually monitored by managers to check progress, including semi-annual direct feedback from supervisors. Rewards are based on the achievement of goals. We have a uniform scoring system for all employees within the MBO, which ensures fairness throughout the organization.

For our middle managers, as well as employees who are part of the agile structure, we also run a 360-degree feedback system that provides each employee with the opportunity to receive performance feedback from his/her supervisor, 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. This year, 360-degree feedback was extended to other roles as well.

For front-office employees we use a target-based performance assessment system, wherein performance is linked to specific KPIs, including quantitative and qualitative components. Within the target-based system, employees are assessed monthly, quarterly or annually depending on their positions.

1 Employee Net Promoter Score was measured in October 2021 by an independent consultant for the Bank's employees.
2 The index was measured in July 2021 for the Bank's employees by an independent consultant.
3 Branch managers, division and department heads, as well as directors of the Group's subsidiaries.

Employee engagement and motivation

Our goal is to create a value driven organization, in which employees share the same values and are led and driven by the common mission "to make life easier" for our customers. We also strive to create a family-friendly environment, in which employees can better balance their family and work.

Our key initiatives in this regard are as follows:

- Our CEO plays an important role in promoting our corporate culture through active, regular communication about our core values in-person and online.
- Top management regularly conducts online meetings with employees to keep them up-to-date on the Group's strategy, performance and recent achievements. Staff have an opportunity to ask questions and share feedback. In addition, we conduct an open dialogue with our staff via a Facebook group, in which we regularly share the Group's achievements, as well as success stories of individual employees.
- We also strive to create a positive and collaborative working environment by offering maximum flexibility to back office employees in terms of working hours and remote working conditions. In addition, our agile structure supports open communication between various teams and encourages employee empowerment.
- We care for our employees' development and encourage them to actively participate in internal selection process for higher grade positions. In 2021, the promotion rate in the bank was around 19%.
- To accurately measure our employee satisfaction and engagement levels, we run an annual feedback survey in partnership with leading international universities and research firms. The results of the survey are thoroughly analyzed and presented to the management board to plan future actions.

Equality and diversity

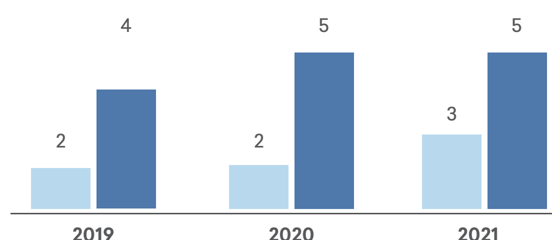
We have created a sustainable and successful business in which all employees are treated equally and fairly and are supported and coached to succeed. We provide a safe work environment free from any kind of discrimination in which each and every employee is valued, respected and treated equally regardless of gender, age, marital status, sexual orientation, race, ethnicity, religious and political beliefs or disability. We take special care of our colleagues with disabilities and strive to improve our workplace to make it more flexible for them. Furthermore, we support them to have the same access to learning, development and job opportunities.

We put a special emphasis on promoting and supporting women in their careers.

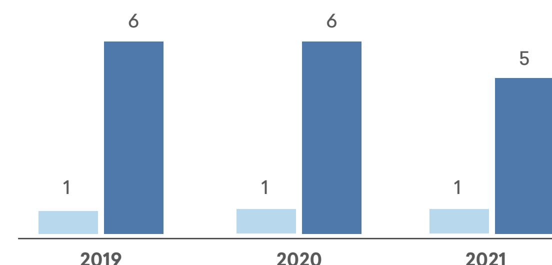
In 2021, we developed a gender policy, which provides clear guidance for ensuring the proactive and consistent integration of gender equality in all aspects of the Group's work, inside the Group, in the marketplace and in the community at large. The ultimate goal is to achieve gender equality, develop TBC's own approach to integrating a gender perspective in company's work and apply gender equality principles when working with stakeholders and partners. The full policy is available at our www.tbcbankgroup.com. We have also developed a KPI and action plan at the Bank level to increase the number of women in middle managerial positions from the current level of 36% to 40% by 2023. In 2022, we will expand our approach to other subsidiaries of the Group and work on elaboration of separate action plans.

To demonstrate our commitment to this course, since August 2021, TBC has become a signatory to the UN Women Empowerment Principles (WEPs)[1].

SUPERVISORY BOARD



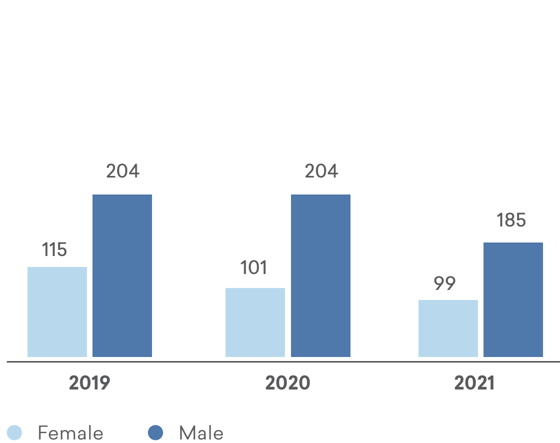
SENIOR MANAGEMENT



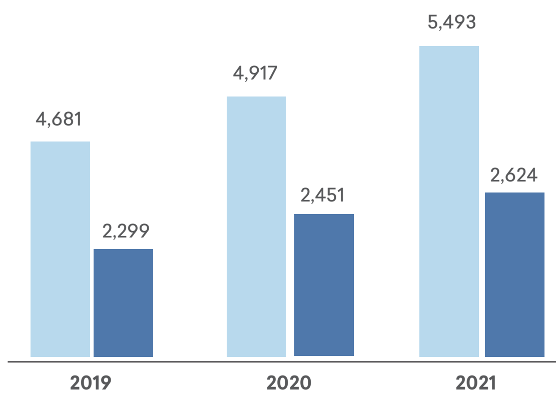
Female Male

1 For more details about these principles please refer to www.weps.org

MIDDLE MANAGERIAL POSITIONS[1]

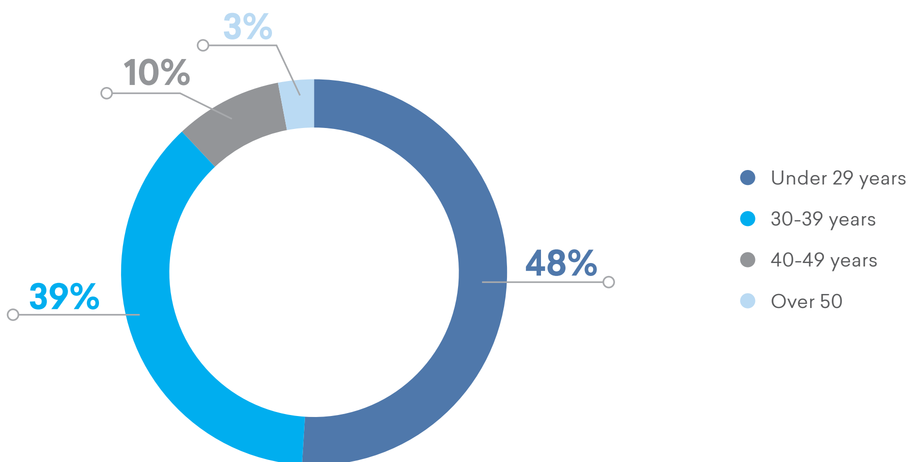


ALL EMPLOYEES



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 that leads to better results.

AGE DIVERSITY STATISTICS OF 2021



1 Branch managers, division and department heads, as well as directors of the Group's subsidiaries

ETHICAL STANDARDS, RESPONSIBLE CONDUCT AND SAFETY AT WORK

In order to gain customers' and partners' trust and successfully do our business, we have to ensure that the behavior of our employees and our business decisions are in line with the highest standards of ethics.

As we are a part of a community and have diverse stakeholders, every decision we make impacts employees, customers, business partners, other stakeholders and society as a whole. The Group's code of ethics is a "moral compass" assisting us with our decision-making framework. It serves as a guidance for our team on ethical conduct and for making the right decisions in specific circumstances.

For many years, TBC has been promoting ethical conduct in all its activities. We have invested time and energy in identifying non-ethical and dishonest behavior risks and creating prevention mechanisms.

We have in place a set of internal policies and procedures and we closely monitor their execution. These policies lead to greater awareness of unacceptable behavior and promote a 'speak up' culture in which all employees feel listened to and protected when reporting any suspected misconduct. These policies and procedures consist of the following:

- Code of Ethics;
- Code of Conduct;
- Anti-Bribery, Anti-Corruption and Prevention of the Facilitation of Tax Evasion Policy;
- Incident response policy;
- Human rights policy.

These policies apply to all employees of the Group and can be found on our IR website at www.tbcbankgroup.com.

The Compliance Department regularly conducts employee training sessions in order to raise awareness and highlight the importance of anti-corruption, anti-bribery and ethical and human rights issues. Periodic audits are also conducted by the Internal Audit Department to identify any violations or inappropriate behavior. No such material instances were identified during 2021.

Our Customers

MEETING THE NEEDS OF OUR CUSTOMERS

We operate an advanced omni-channel distribution model, which allows our customers to conduct their banking operations seamlessly and is comprised of a wide network of modern, customer-centric branches, award-winning internet and mobile banking platforms, contemporary payment infrastructure as well as a call center.

Our services are available even in remote areas of the country through our online banking, which also enables fully digital onboarding for retail and MSME customers. As Georgia is still largely a cash-based society, especially in the regions, the availability of self-service terminals and ATMs is also essential for fostering financial inclusion.

In the post-COVID world, the demand for digital solutions has remained high. Therefore, we have continued to enrich our digital offerings with more innovative products and services. In 2021, we launched an end-to-end fast consumer loans disbursement process in our mobile banking, which allows our customers to receive loans online. In addition, we upgraded our online lending platform www.tbccredit.ge, giving more flexibility to our clients. Furthermore, we implemented "open banking" for both retail and business clients, which enables them to check the balances on accounts opened in other Georgian banks, as well as receive analysis of their income and expenses via our online banking. For more information regarding our new digital services, please see the Business review on pages 36-55.

While digitalization remains one of our top priorities, we also make sure to keep our branches as accommodating and comfortable as possible. For this reason, in 2021 we began remodeling our branches, creating a more open and inviting atmosphere in order to facilitate communication with less formality. More information regarding our new branch concept is given in the retail section of the Business review on pages 36-41.

Equally important is the provision of affordable financing to our clients. For this purpose, we have run a large-scale start-up support programme since 2017. For more information, please refer to our MSME section on pages 42-47. In addition, since September 2021, we have enrolled into the governmental programme of subsidized mortgages. This programme offers interest payment subsidies on mortgages up to GEL 200,000, issued to families with three or more children, or families with a child born between 1 September 2021 and 1 September 2022. As of 31 December 2021, we have disbursed 425 mortgages with a total amount of GEL 49.1 million under this programme.

As a customer-centric company, we strive to provide our customers with a superior experience by offering them relevant, innovative and affordable products and services through our convenient and flexible distribution channels.

In order to ensure the safety and well-being of our customers and employees, our branches and offices are equipped with all the necessary safety measures in line with the recommendations of the World Health Organization and National Center for Disease Control and Public Health of Georgia. In addition, we ran extensive awareness campaigns and introduced various incentives to encourage vaccination among our employees. By the end of the year, around 85% of our employees were vaccinated or were scheduled to get a vaccine.

CUSTOMER SATISFACTION COMES FIRST

Providing an unparalleled customer experience and ensuring the satisfaction of all of our customers is one of our core values. First and foremost, we treat our customers fairly by providing them with full information regarding our products and services, inform them of significant risks and give advice with the client's best interests in mind. Our Code of Ethics, which is available at www.tbcbankgroup.com, defines TBC's expectations in terms of transparency and fairness in our relationships with our customers.

In case our customers are left unsatisfied with any aspect of our service, they may file a complaint through various channels, including call centers, branches, internet bank or the website www.tbcbank.ge. Complaints are discussed and addressed by customer support and complaint management groups, who analyze each complaint, prepare recommendations and

address the people responsible. Clients are notified of the outcome of their complaints in due course.

In order to evaluate the quality of our services, we conduct various external surveys and request feedback from our clients on regular basis. Collecting this data allows us to analyze our performance and set goals for continuous improvement. In addition, we conduct internal surveys of different scopes across various divisions of the Bank. These internal surveys help us to further pinpoint issues on a more detailed level and address them more thoroughly.

In 2021, we launched an innovative Customer Experience Appetite and Pain Management project accross the Bank. This project envisages three-week workshops, in which each team selects the metrics to best evaluate its customer service and rates its performance against these metrics in order to assess their current progress and find further areas of improvement. Furthermore, the project helps to determine problematic or "pain" areas for the customers. Once these problems are identified, they are assigned to the people responsible, who are tasked with resolving them. We believe that this project will bring our customer experience to a new level.

WE TAKE CUSTOMER INFORMATION SECURITY AND DATA PRIVACY SERIOUSLY

With the rise of digitalization, it is more and more crucial for us to ensure that our customers' personal information is well-secured. For this reason, we constantly fine-tune our cyber security measures and procedures in order to stay well ahead of any data security threats and risks. Our cyber security procedures are regulated by an Information Security Policy.

We operate a dedicated Information Security Department, which reports to the Chief Risk Officer and the Information Security Steering Committee. The latter was established in order to improve information security and business continuity management processes as well as minimize information security risks.

In order to prevent and mitigate various cyber security risks, we have several dedicated tools and control mechanisms in place:

- The Security Operations Center continuously monitors unusual occurrences across the organization's network in order to detect potentially negative incidents and respond to them effectively.
- The Data Leak Prevention System automatically identifies data leakage, blocks the process and notifies a responsible person.
- We conduct an annual, full-scale information and cyber security threat assessment against regional and international best practices, and we regularly perform cyber-attack readiness exercises among our employees.
- To further increase our employees' awareness of cyber security risks, we annually conduct mandatory trainings and testing for all employees of the bank. In addition, we run different simulations on regular basis, in order to prepare our employees for various real life situations and threats.
- We operate a 24/7 customer hotline, which addresses our clients' concerns in a timely manner. In addition, we help our customers to develop safe banking habits, by regularly informing them regarding the risks of phishing and other fraudulent activities via social media and digital channels.
- In addition to our layered defense system, we have cyber insurance policy in place, covering all relevant cyber, privacy and multimedia liabilities and expenses of TBC in order to manage contingencies and recover from possible serious disruptions.

TBC Bank has not experienced any material information security breach in the last three years.

We are fully compliant with the National Bank of Georgia's cyber security requirements, such as the Cyber Security Framework Document, which is based on the National Institute of Standards and Technology (NIST) Cyber Security Framework. In 2021 we also adopted Payment Service (PSD2) Directive (EU) 2012/2366, which further aligned our operations with international and local best practices and enabled us to offer open banking capabilities to our clients.

In November 2021, the Bank achieved ISO 27001 certification of our Information Security Management System. Furthermore, in December 2021, Ernst & Young Tbilisi office conducted two audits, assessment against Cyber Security Management Framework and assessment against SWIFT CSCF for the Bank. As a result, no critical findings and major non-compliances were identified during these exercises. Cyber Security Management Framework is defined by National Bank of Georgia.

Equally important is protecting our customers' privacy and data integrity. We only process personal data for specific business purposes and do so lawfully, fairly and in a transparent manner. Our clients are provided with information regarding the processing of their data and are informed of their rights, which they may exercise through defined communication channels. Our Global Data Protection Policy is in line with applicable laws imposed by Georgian government and also meets certain relevant requirements of EU General Data Protection Regulation (GDPR). The full policy is available on our IR website www.tbcbankgroup.com.

Our Community

ENCOURAGING MSME BUSINESS DEVELOPMENT AND ENTREPRENEURSHIP

TBC distinguishes itself through advocacy and support for startups and MSME businesses. In order to address the social and economic challenges in the country, 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: easing access to capital, sharing knowledge and expertise, and developing products and services specially customized for business needs. For this reason, in 2021, TBC partnered with international organizations for the following initiatives:

- TBC Bank has been a crucial contributor to USAID's new initiative of establishing the Grace Hopper Award, which intends to recognize and inspire more Georgian women in the information and communication technology (ICT) industry. This year, several female startup representatives were recognized for their outstanding performance in the ICT field. TBC Bank helped the development of the project via a large scale communications campaign, awarded winners in two categories (emerging leader and tech startup), and provided skills and business development opportunities specifically tailored to the needs of the award winners.
- TBC Bank has signed a memorandum with UNDP Georgia to support early-stage social entrepreneurs, to empower young people and improve access to finance in the regions. This programme focuses on educating students in the field of social entrepreneurship and offers them a ten-month training course to implement their own business ideas. TBC Bank provided monetary awards, as well as media and marketing support.

For more information about our business support programmes, please refer to our MSME section on pages 42-47.

PRIORITIZING LOCAL BUSINESSES AMONG OUR SUPPLIERS

We are committed to responsible purchasing practices and work with companies that uphold our values and comply with our procurement standards and code of ethics. Furthermore, we prioritize local suppliers[1] in order to support Georgian businesses. In 2021, around 90% of the Bank's suppliers were Georgian companies, accounting for around 85% of the total spent during the year. This year, as part of our ESG strategy, we set a specific target for social impact procurement, which should amount to at least GEL 5 million by the end of 2023. For more details, please refer to our ESG strategy on pages 24-35.

We are committed to creating a better future for our community by rolling out large-scale, high impact projects in the following areas: business development, youth support and the preservation of cultural heritage.

For more information about our supply chain management, please refer to pages 148-151 of our Sustainability Report available at www.tbcbankgroup.com.

SUPPORTING THE YOUNG GENERATION

We aspire to support our young generation in their professional development through various initiatives and projects:

- "TBC Scholarship" is one of our largest social responsibility projects, which was introduced in 2018 and aims to discover and support young talents. Since the launch of the project, TBC has supported 350 talented youth in receiving proper education and advancing their professional development. This year, 45 more people joined the programme. The project participants include artists, athletes, scientists and inventors.
- Since 2019, TBC Bank has sponsored the Tbilisi International Book Festival, the largest event in the country in the book sector bringing together writers, publishers and readers. This year, the 23rd Tbilisi International Book Festival was held.
- For the last seven years, TBC Bank has been the main partner of the "Leonardo da Vinci" Young Researchers and Innovators Annual Competition for high school students. The purpose of the compe-

tition is to popularize STEM among students and help them develop creative thinking and practical skills. TBC Bank provides marketing support for the competition, allocates its facilities, and awards the winners. Since the beginning of the partnership, TBC Bank has awarded 24 students.

- Furthermore, we run several academies for students in different fields, such as IT and Risk, in order to help them master professions that are in high demand. All courses are offered free of charge and are run by experienced staff members. 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 in the syllabus of the university's' curriculum and is comprised of intensive online lectures, trainings and the preparation of real investment cases in selected companies, which are presented to a panel of judges. Selected teams are awarded special prizes.
- This year, TBC launched a new subscription model "TBC Z", which is tailored to the specific needs of the young generation and includes student cards with special benefits, cashbacks and various discounts. For more details, please refer to the retail section of our Business review on pages 36-41.

PRESERVING CULTURAL HERITAGE

TBC has always played an active role in preserving Georgian heritage. Our major current projects include the following:

- Since 2003, TBC has been the major sponsor of the Saba Literary award, which is the most important literary event in the country. This year, up to 300 books were reviewed and the winners were revealed in ten categories. We also run www.saba.com.ge, the largest online platform for Georgian electronic and audio books, which was established in 2012 and provides access to over 6,700 audio and electronic books to around 380,000 users.
- Our cooperation with the Georgian National Museum and Vani Archeological Museum, one of the first archeological museums in the Caucasus region, started in 2019. We support the museums in presenting national treasures in modern and digital formats to the public. This year, the Vani Archeological Museum, together with TBC Bank, hosted a unique archeological exhibition from the Pompeii Archeological Park.
- We have been promoting Georgian textile in cooperation with the Art Palace of Georgia since 2020. The project aims to give new life to the traditional and historical textiles of Georgia that were worn centuries ago. This year more than 1,000 items were created by new startups and designers.
- This year we supported a new project, which aims to further promote the Georgian textile, as well as support women in the rural communities. Adjarian embroidery is a part of dowry tradition in the remote mountainous villages of a Georgian region Adjara. This craft was created and mastered by the local women, who have passed it down to generations for centuries. Within the scope of this project, a documentary film was created as well as exhibition and a panel discussion were held to popularize this lesser-known tradition.
- The Georgian Fonts Competition "Georgian -A" was launched in 2017 and aims to adapt the Georgian alphabet to the modern world in order to spread and popularize it both inside the country and abroad. Within the framework of the competition, the participants are requested to develop new Georgian fonts, with the winning fonts being digitalized with TBC's support. Since the launch of the project, about 350 fonts have been developed and 30 have been digitalized.

SUPPORTING UKRAINIAN PEOPLE

We would like to demonstrate our support to the Ukrainian people over the recent events. TBC is involved in a number of initiatives in this regard. We have waived the fees on international bank transfers from TBC Bank to Ukraine. We have also set up a local banking account, which allows our customers to make donations to the Ukrainian charity fund. On its part, TBC has allocated GEL 200,000. In addition, we facilitate delivery of humanitarian aid to Ukraine.

1 Local suppliers include Georgian resident companies that sell locally produced, as well as imported goods or services.

Our Environmental Management System

TBC Bank has a comprehensive Environmental Policy in place, which governs our Environmental Management System ("EMS") within the Group and ensures that we comply with applicable environmental, health and safety and labour regulations, use sound environmental, health and safety, and labour practices, and take reasonable steps to make sure that our customers also fulfill 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 trainings 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 testament that our EMS is in full compliance with international standards.

In 2021, TBC Bank released its second full-scale Sustainability Report, which was prepared in reference to Global Reporting Initiative (GRI) standards and helps the company to understand its role and influence on sustainable development issues such as climate change, human rights and social welfare.

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

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 the 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, analyzed based on a comprehensive scorecard, and managed accordingly.

TBC Bank has established a comprehensive internal environmental system to manage and report its GHG emissions within the Group and is committed to reducing its GHG emissions by closely monitoring its consumption of energy, water and paper. The guidelines for documenting environmental data were developed and responsible staff was assigned in subsidiary companies 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 (CO2) (tonnes) and KPIs	2019*	2020	2021	2022 KPI (increase)
Scope1** Fuel Combustion (heating, vehicles,generators)	1,897	2,970	3,102	Below 4%
Scope2 (Electricity consumption)	1,088	1,524	1,499	Below 2%
Scope3 (International flights)	564	106	18	-
Total emissions (tCO2)	**3,549**	**4,600**	**4,619**	**Below 3%**
Total emission per full time employee (tCO2/pp)	**0.57**	**0.65**	**0.60**	**Below 3%**
Water consumption per employee (m3/pp)	14.40	10.72	9.54	Below 1.5%
Printing paper per person in reams	19.62	13.46	13.50	Below 0.4%

* The data is given for the Bank only

** Scope 1:

a. 1,505 CO2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank) in 2021 compared to 1,609 CO2e in 2020 and 1,318 CO2e in 2019.
b. 1,500 CO2e emissions in tonnes (from owned vehicles of TBC Bank) in 2021 compared to 1,285 tCO2e in 2020 and 491 tCO2e in 2019.
c. 97 CO2e emissions in tonnes (from owned generators of TBC Bank) in 2021 compared to 76 tCO2e in 2020 and 88 tCO2e in 2019.

Scope 1 - In 2021, this indicator increased by 4% compared to 2020 on the Group level (versus the 2021 target level of 6% reduction). On standalone basis, the Bank managed to reduce it by 6% (93,000 CO2kge) year-on-year. However, this positive impact was offset by increase of fuel consumption by the vehicles of our subsidiary companies.

Scope 2 – In 2021, total electricity consumption of the Group remained broadly stable year-on-year (compared to the 2021 target level of 5% reduction), while the Bank managed to reduce it by 7% (around 95,800 CO2kge) over the same period .

Scope 3 - Due to the COVID-19 pandemic, business flights decreased by around 83% compared to 2020.

Overall, total emissions remained broadly stable in 2021 compared to 2020 levels, while total emission per full time employee decreased by 8% over the same period, compared to the 2021 target level of 5% reduction.

In 2021, the water consumption per employee decreased by 11% year-on-year compared to the 2021 target level of 5% reduction, while usage of printing paper remained broadly the same.

Calculation methodology

To calculate the GHG inventory, we took following steps: we set the organizational boundaries, established the operational scope, and developed a structured approach for data collection and the calculation of carbon dioxide (CO2) equivalent. This report describes all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and, additionally, the emissions under Scope 3 that are applicable to the business. In preparing emissions data, the emissions factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2017 and National IPCC emission factors for electricity (tCO2*/ MWhe) were used. The required data was collected and a report was developed for the 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's owned and controlled sites. The combustion of petrol, diesel fuel, natural gas etc. in TBC Bank's 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's owned and controlled sites. To calculate the emissions, the conversion factor for National IPCC emission factors for electricity (tCO2*/MWhe) was used.

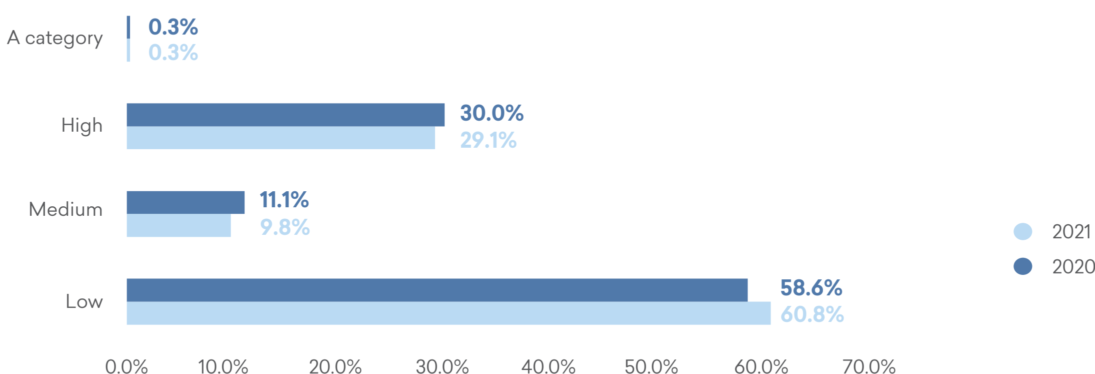
Scope 3 includes emissions from air business travels (a short haul, a medium haul, a long haul and an international haul); it should be noted that information on the travel class was considered and an "economy class" conversion factor has been used for the emissions calculation from the following link: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

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT IN LENDING

We are committed to ensuring that our customers fulfill their environmental and social responsibilities. For this purpose, we have Environmental and Social Risk Management (ESRM) Procedures in place, which are fully integrated into the credit risk management process and ensure that appropriate, risk-based, sector specific, environmental and social risk assessment is 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 effectively manage credit and reputational risks that could arise from the environmental and social non-compliance by our clients.

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 categorizing the transaction according to E&S risk category, priority is given to the higher risk.

BUSINESS LOANS PORTFOLIO BREAKDOWN BY E&S CATEGORIES



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] of 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 addressed through mitigation measures, which typically require a limited or focused environmental and/ or social assessment, or straight-forward 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, which 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 proper management of environmental and social risks related to their business activities. In case we identify any non-compliance with local legislative requirements and/or TBC's standards, we develop an Environmental and Social Action Plans (ESAP) for our clients to assist them in enhancing their environmental performance and closely monitor its implementation.

GREEN LENDING DEVELOPMENT

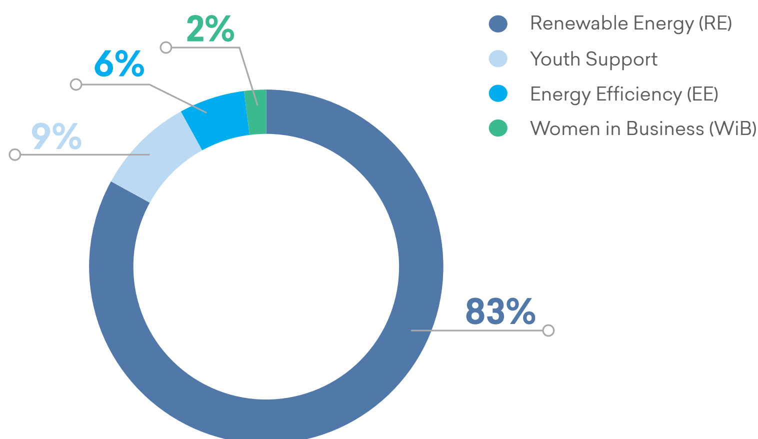
We acknowledge the importance of sustainable lending and are actively involved in developing a standardized approach to sustainable finance, including energy efficiency, renewable energy and resource efficiency financing for our retail and business clients. TBC is a leading partner in Georgia in local renewable energy financing, including hydropower stations.

In 2021, TBC Bank became the first commercial bank in the Caucasus region to receive accreditation by the Green Climate Fund (GCF). The accreditation will enable the Bank to have direct access to GCF funding to finance projects for adaptation to, and mitigation of, climate change and contribute to combatting climate change in Georgia.

This year, we also conducted local market research to determine TBC's green criteria, which have been adapted to the Georgian reality, and developed Green Lending Procedures. This research was done in cooperation with the Green for Growth Fund (GGF) Technical Assistance Facility, represented by Finance in Motion GmbH, and was financed by the European Union under the EU4Energy Initiative. These procedures will help the Bank to identify green and environmentally friendly initiatives and encourage private companies to move to sustainable investment in their businesses, thus contributing to climate change mitigation.

During 2021, our sustainable portfolio achieved 761,446 CO2kg/a in CO2 savings according to the date provided by our green facility fund providers. Over the same period, our renewable energy portfolio impact (avoided GHG emissions) amounted to 9,455 kg/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 include all hydro power plants financed by the Bank

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 as well as our requirements towards suppliers. 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 TBC EMPLOYEES

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

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

- "Welcome" training;
- Training for new employees;
- E&S training for credit staff;
- Annual mandatory online EMS e-learning course for all staff, followed by a self-evaluation test; and
- Mandatory on-boarding training.

In 2021, 95% of all staff, including senior management, successfully passed an online course and a self-evaluation test about TBC's EMS.

To ensure effective communication, video materials were created that briefly describe TBC's environmental management system.

EXTERNAL COMMUNICATION

TBC pays significant attention to external communication about 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 provide complaints with regards to E&S issues via our website www.tbcbank.com.ge. All complaints are thoroughly analysed and addressed in a timely manner. In 2021, no such complaints were received.

TBC Bank also takes an active part in raising awareness of renewable energy, climate change adaptation and green financing opportunities in Georgia. For this purpose, in partnership with the European Bank for Reconstruction and Development (EBRD)'s Green Economy Financing Facility programme (GEFF), we organized a Green Economy forum and also participated in the Annual Sustainable Finance Forum organized by GreenPact, discussing green finance practices with regional and local banks.

Financial Review

Income Statement Highlights

In thousands of GEL	2021	2020 (as restated)	Change YoY
Net interest income	995,792	827,699	20.3%
Net fee and commission income	224,887	168,779	33.2%
Other operating non-interest income	177,229	118,585	49.5%
Total credit loss recovery/(allowance)*	21,034	(356,381)	NMF
Operating income after expected credit and non-financial asset impairment losses	**1,418,942**	**758,682**	**87.0%**
Losses from modifications of financial instrument	(1,726)	(41,015)	-95.8%
Operating expenses	(454,993)	(385,469)	18.0%
Profit before tax	**962,223**	**332,198**	**NMF**
Income tax (expense)/credit	(119,278)	5,062	NMF
Profit for the period	**842,945**	**337,260**	**NMF**

** Certain amounts do not correspond to 2020 Consolidated Statement of Profit or Loss and Other Comprehensive Income as they reflect the re-classification made by the management between net impairment of non-financial assets and administrative and other operating expenses. For more information, please refer to the note 2 of the financial statements.*

Balance sheet and capital highlights

In thousands of GEL	31-Dec-21	31-Dec-20	Change YoY
Total assets	24,039,512	22,398,962	7.3%
Gross loans	16,954,553	15,200,515	11.5%
Customer deposits	14,884,145	12,634,295	17.8%
Total equity	3,590,055	2,830,180	26.8%
CET 1 capital (Basel III)	2,759,894	1,911,233	44.4%
Tier 1 capital (Basel III)	3,379,414	2,385,181	41.7%
Total capital (Basel III)	4,102,927	3,137,912	30.8%
Risk-weighted assets (Basel III)	20,217,629	18,301,477	10.5%

Key Ratios	2021	2020	Change YoY
ROE	26.3%	12.9%	13.4 pp
ROA	3.7%	1.7%	2.0 pp
NIM	5.0%	4.7%	0.3 pp
Cost to income	32.5%	34.6%	-2.1 pp
Cost of risk	-0.3%	2.4%	-2.7 pp
NPL to gross loans	2.4%	4.7%	-2.3 pp
NPL provision coverage ratio	99.2%	85.6%	13.6 pp
Total NPL coverage ratio	174.6%	159.4%	15.2 pp
CET 1 CAR (Basel III)	13.7%	10.4%	3.3 pp
Tier 1 CAR (Basel III)	16.7%	13.0%	3.7 pp
Total CAR (Basel III)	20.3%	17.1%	3.2 pp
Leverage (Times)	6.7x	7.9x	-1.2x

NET INTEREST INCOME

In 2021, net interest income amounted to GEL 995.8 million, up by 20.3% YoY, whereby interest income and interest expense increased by 12.2% and 4.8%, respectively.

The YoY increase in interest income was primarily related to an increase in interest income from loans, which was related both an increase in the gross loan portfolio of GEL 1,754.0 million, or 11.5%, and a rise in loan yield of 0.1 pp. The upper loan rate was due a shift of the portfolio composition towards GEL loans.

The increase in interest expense was primarily related to an increase in interest expense from deposits, which was due to an increase in the respective portfolio of GEL 2,249.9 million, or 17.8%. Over the same period, the cost of deposits declined by 0.2 pp. In addition, the change in the liability structure towards deposits (from 65% as of 31 December 2020 to 73% as of 31 December 2021, as mentioned above) had a positive effect on the cost of funding. As a result, the cost of funding decreased by 0.4 pp YoY and stood at 4.4% in 2021.

In 2021, our NIM stood at 5.0%, up by 0.3 pp YoY.

In thousands of GEL	**2021**	**2020**	**Change YoY**
Interest income	1,863,077	1,660,838	12.2%
Interest expense	(895,428)	(854,089)	4.8%
Net gains from currency swaps	28,143	20,950	34.3%
Net interest income	**995,792**	**827,699**	**20.3%**
NIM	**5.0%**	**4.7%**	**0.3 pp**

NON-INTEREST INCOME

Total other non-interest income increased by 39.9% YoY and amounted to GEL 402.1 million in 2021. The YoY growth was driven by a strong rebound across all categories, further amplified by a gain from sale of one of our investment properties in the amount of GEL 26.3 million in 2Q 2021 (the gain from this transaction is included in other operating income).

In thousands of GEL	**2021**	**2020**	**Change YoY**
Non-interest income			
Net fee and commission income	224,887	168,779	33.2%
Net gains from currency derivatives, foreign currency operations and translation	124,194	105,855	17.3%
Other operating income	53,035	12,730	NMF
Total other non-interest income	**402,116**	**287,364**	**39.9%**

CREDIT LOSS ALLOWANCE

Total credit loss allowance in 2021 amounted to GEL 21.0 million. This significant decrease on a YoY basis was driven by improved performance across all segments in 2021 and by a high base in 2020, due to the reflection of COVID-19 impact on the credit loss allowances.

In thousands of GEL	**2021**	**2020 (as restated)**	**Change YoY**
Credit loss recovery/(allowance) for loans to customers	43,176	(330,811)	NMF
Credit loss recovery/(allowance) for other transactions*	(22,142)	(25,570)	-13.4%
Total credit loss recovery/(allowance)*	**21,034**	**(356,381)**	**NMF**
Operating income after expected credit and non-financial asset impairment losses*	**1,418,942**	**758,682**	**87.0%**
Cost of risk	**-0.3%**	**2.4%**	**-2.7 pp**

** Certain amounts do not correspond to 2020 operating income after expected credit and non-financial asset impairment losses as they reflect the reclassifications made by the management between net impairment of non-financial assets and administrative and other operating expenses. For more information, please refer to the note 2 of the financial statements.*
NMF – no meaningful figures

OPERATING EXPENSES

In 2021, our total operating expenses expanded by 18.0% YoY.

In 2021, the increase in our operating expenses was mainly driven by staff costs, due to higher performance related costs, including management's variable compensation. At the same time, the increase in administrative and other expenses across the board was due to low base in 2020 and increased business activities.

The cost to income ratio stood at 32.5%, down by 2.1 pp YoY.

In thousands of GEL	2021	2020 (as restated)	Change YoY
Operating expenses			
Staff costs	(255,747)	(206,887)	23.6%
Provisions for liabilities and charges	-	(2,600)	-100.0%
Depreciation and amortization	(70,622)	(64,068)	10.2%
Administrative & other operating expenses*	**(128,624)**	**(111,914)**	**14.9%**
Total operating expenses*	**(454,993)**	**(385,469)**	**18.0%**
Cost to income	**32.5%**	**34.6%**	**-2.1 pp**

** Certain amounts do not correspond to 2020 operating expense figures as they reflect the reclassifications made by the management between net impairment of non-financial assets and administrative and other operating expenses. For more information, please refer to the note 2 of the financial statements.*

NET INCOME

In 2021, our record high profitability was driven by strong income generation across all categories, as well as strong performance on asset quality side.

As a result, our ROE stood at 26.3%, ROA stood at 3.7%.

In thousands of GEL	2021	2020	Change YoY
Losses from modifications of financial instruments	**(1,726)**	**(41,015)**	**-95.8%**
Profit before tax	**962,223**	**332,198**	**NMF**
Income tax (expense)/credit	(119,278)	5,062	NMF
Profit for the year	**842,945**	**337,260**	**NMF**
ROE	**26.3%**	**12.9%**	**13.4 pp**
ROA	**3.7%**	**1.70%**	**2.0 pp**

FUNDING AND LIQUIDITY

In 2021, we utilized excess liquidity generated in 2020 and our liquidity coverage ratio, as defined by the NBG was 115.8%, above the 100% limit, while the LCR in GEL and FC stood at 107.7% and 120.8% respectively, above the respective limits of 75% and 100%.

As of 31 December 2021, NSFR stood at 127.3%, compared to the regulatory limit of 100%.

	31-Dec-21	31-Dec-20	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	127.3%	126.0%	1.3 pp
Net loans to deposits + IFI funding	101.3%	100.7%	0.6 pp
Leverage (Times)	6.7x	7.9x	-1.2x
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%**	*n/a*	*NMF*
Minimum LCR in FC, as defined by the NBG	*100.00%*	*100.0%*	*0.0 pp*
Total liquidity coverage ratio, as defined by the NBG	115.8%	134.2%	-18.4 pp
LCR in GEL, as defined by the NBG	107.7%	132.2%	-24.5 pp
LCR in FC, as defined by the NBG	120.8%	134.9%	-14.1 pp

** In May 2021, NBG restored the NBG GEL LCR limit, which was temporarily removed for one year*

REGULATORY CAPITAL

On a YoY basis, the Bank's CET1, Tier 1 and Total capital adequacy ratios increased by 3.3 pp, 3.7 pp and 3.2 pp, respectively. This increase was mainly driven by strong net income generation, the issuance of an AT1 Bond in November 2021 in the amount of USD 75 million, and by local currency appreciation, which was partially offset by an increase in the loan book.

In thousands of GEL	**31-Dec-21**	**31-Dec-20**	**Change YoY**
CET 1 Capital	2,759,894	1,911,233	44.4%
Tier 1 Capital	3,379,414	2,385,181	41.7%
Total Capital	4,102,927	3,137,912	30.8%
Total Risk-weighted Exposures	20,217,629	18,301,477	10.5%
Minimum CET 1 ratio	*11.7%*	*7.4%*	*4.3 pp*
CET 1 Capital adequacy ratio	13.7%	10.4%	3.3 pp
Minimum Tier 1 ratio	*14.0%*	*9.2%*	*4.8 pp*
Tier 1 Capital adequacy ratio	16.7%	13.0%	3.7 pp
Minimum total capital adequacy ratio	*18.4%*	*13.7%*	*4.7 pp*
Total Capital adequacy ratio	20.3%	17.1%	3.2 pp

LOAN PORTFOLIO

As of 31 December 2021, the gross loan portfolio reached GEL 16,954.6 million, up by 11.5% YoY or by 17.3% on a constant currency basis. The proportion of gross loans denominated in foreign currency decreased by 5.7 pp YoY and accounted for 53.7% of total loans, while on a constant currency basis the proportion of gross loans denominated in foreign currency was down by 3.4 pp YoY and stood at 56.0%.

As of 31 December 2021, our market share in total loans stood at 38.8%, down by 0.2 pp YoY, while our loan market share in legal entities was 39.1%, up by 0.5 pp over the same period, and our loan market share in individuals stood at 38.6%, down by 0.8 pp YoY.

In thousands of GEL	**31-Dec-21**	**31-Dec-20**	**Change YoY**
Loans and advances to customers			
Retail	**6,265,507**	**5,846,274**	**7.2%**
– Retail loans GEL	3,580,468	3,007,482	19.1%
– Retail loans FC	2,685,039	2,838,792	-5.4%
CIB	**6,547,741**	**5,831,871**	**12.3%**
– CIB loans GEL	2,188,776	1,599,857	36.8%
– CIB loans FC	4,358,965	4,232,014	3.0%
MSME	**4,141,305**	**3,522,370**	**17.6%**
– MSME loans GEL	2,082,204	1,559,127	33.5%
– MSME loans FC	2,059,101	1,963,243	4.9%
Total loans and advances to customers	**16,954,553**	**15,200,515**	**11.5%**

The comparative numbers for 2020 do not correspond with the numbers disclosed in 2020 report, since they include re-segmentation effects as described in note 28 of the financial statements, with the exception of standard annual re-segmentation.

	2021	2020	Change YoY
Loan yield	**10.2%**	**10.1%**	**0.1 pp**
– Loan yield GEL	15.1%	15.2%	-0.1 pp
– Loan yield FC	6.5%	6.7%	-0.2 pp
Retail Loan Yield	**11.5%**	**11.5%**	**0.0 pp**
– Retail loan yield GEL	16.1%	16.5%	-0.4 pp
– Retail loan yield FC	6.1%	6.6%	-0.5 pp
CIB Loan Yield	**9.0%**	**8.6%**	**0.4 pp**
– CIB loan yield GEL	13.7%	13.2%	0.5 pp
– CIB loan yield FC	7.0%	7.0%	0.0 pp
MSME Loan Yield	**10.2%**	**10.2%**	**0.0 pp**
– MSME loan yield GEL	14.9%	14.9%	0.0 pp
– MSME loan yield FC	6.0%	6.3%	-0.3 pp

The comparative ratios for 2020 do not correspond with the ratios disclosed in 2020 report, since they include re-segmentation effects as described in note 28 of the financial statements, with the exception of standard annual re-segmentation.

LOAN PORTFOLIO QUALITY

On a YoY basis, total par 30 improved by 0.6 pp. The decrease was mainly driven by the Retail segment on the back of write-offs of the unsecured loans and strong performance of the mortgage portfolio.

Our NPL ratio improved by 2.3 pp YoY and amounted to 2.4%. The recovery was observed in all segments, mainly driven by resumed repayments on COVID-19 restructured loans.

Par 30	31-Dec-21	31-Dec-20	Change YoY
Retail	2.2%	3.5%	-1.3 pp
CIB	0.6%	1.0%	-0.4 pp
MSME	4.0%	3.7%	0.3 pp
Total loans	**2.0%**	**2.6%**	**-0.6 pp**

The comparative ratios for 2020 do not correspond with the ratios disclosed in 2020 report, since they include re-segmentation effects as described in note 28 of the financial statements, with the exception of standard annual re-segmentation.

Non-performing Loans	31-Dec-21	31-Dec-20	Change YoY
Retail	2.5%	5.8%	-3.3 pp
CIB	1.4%	2.4%	-1.0 pp
MSME	4.0%	6.5%	-2.5 pp
Total loans	**2.4%**	**4.7%**	**-2.3 pp**

The comparative ratios for 2020 do not correspond with the ratios disclosed in 2020 report, since they include re-segmentation effects as described in note 28 of the financial statements, with the exception of standard annual re-segmentation.

NPL coverage	31-Dec-21		31-Dec-20	
	Provision Coverage	Total Coverage	Provision Coverage	Total Coverage
Retail	157.0%	222.7%	102.4%	170.3%
CIB	56.8%	126.4%	77.1%	148.0%
MSME	68.0%	155.5%	66.4%	150.5%
Total	**99.2%**	**174.6%**	**85.6%**	**159.4%**

The comparative ratios for 2020 do not correspond with the ratios disclosed in 2020 report, since they include re-segmentation effects as described in note 28 of the financial statements, with the exception of standard annual re-segmentation. In addition, in 2021 the management changed collateral coverage methodology and applied a more conservative approach. The total NPL coverages for 2020 have been recalculated per updated methodology.

COST OF RISK

The total cost of risk for 2021 stood at -0.3%, driven by improved performance across all segments in 2021 and by a high base in 2020 due to the reflection of COVID-19 impact on the credit loss allowances.

Cost of risk	2021	2020	Change YoY
Retail	**0.4%**	3.8%	-3.4 pp
CIB	**-1.0%**	0.6%	-1.6 pp
MSME	**-0.2%**	3.0%	-3.2 pp
Total	**-0.3%**	**2.4%**	**-2.7 pp**

The comparative ratios for 2020 do not correspond with the ratios disclosed in 2020 report, since they include re-segmentation effects as described in note 28 of the financial statements, with the exception of standard annual re-segmentation.

DEPOSIT PORTFOLIO

The total deposits portfolio increased by 17.8% YoY across all segments and amounted to GEL 14,884.1 million, while on a constant currency basis the total deposit portfolio increased by 23.1% over the same period. The proportion of deposits denominated in foreign currency was down by 3.2 pp YoY and accounted for 62.8% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency decreased by 1.6 pp YoY and stood at 64.4%.

As of 31 December 2021, our market share in deposits amounted to 40.4%, up by 3.2 pp YoY, and our market share in deposits to legal entities stood at 40.5%, up by 6.0 pp over the same period. Our market share in deposits to individuals stood at 40.3%, up by 0.8 pp YoY.

In thousands of GEL	31-Dec-21	31-Dec-20	Change YoY
Customer Accounts			
Retail	**5,629,823**	**4,975,661**	**13.1%**
– Retail deposits GEL	1,492,325	1,236,594	20.7%
– Retail deposits FC	4,137,498	3,739,067	10.7%
CIB	**7,378,552**	**5,778,914**	**27.7%**
– CIB deposits GEL	2,970,310	1,890,889	57.1%
– CIB deposits FC	4,408,242	3,888,025	13.4%
MSME	**1,564,150**	**1,368,490**	**14.3%**
– MSME deposits GEL	761,493	661,941	15.0%
– MSME deposits FC	802,657	706,549	13.6%
Total Customer Accounts*	**14,884,145**	**12,634,295**	**17.8%**

** Total deposit portfolio includes Ministry of Finance deposits in the amount of GEL 511 million and GEL 312 million as of 31 December 2020 and 31 December 2021, respectively.*
The comparative numbers for 2020 do not correspond with the numbers disclosed in 2020 report, since they include re-segmentation effects as described in note 28 of the financial statements, with the exception of standard annual re-segmentation.

	2021	2020	Change YoY
Deposit rate	**3.4%**	**3.6%**	**-0.2 pp**
– Deposit rate GEL	*6.7%*	*6.5%*	*0.2 pp*
– Deposit rate FC	*1.5%*	*2.0%*	*-0.5 pp*
Retail Deposit Yield	**2.2%**	**2.6%**	**-0.4 pp**
– Retail deposit rate GEL	4.9%	5.3%	-0.4 pp
– Retail deposit rate FC	1.3%	1.7%	-0.4 pp
CIB Deposit Yield	**4.3%**	**4.4%**	**-0.1 pp**
– CIB deposit rate GEL	8.5%	8.1%	0.4 pp
– CIB deposit rate FC	2.0%	2.5%	-0.5 pp
MSME Deposit Yield	**0.8%**	**0.9%**	**-0.1 pp**
– MSME deposit rate GEL	1.4%	1.6%	-0.2 pp
– MSME deposit rate FC	0.2%	0.3%	-0.1 pp

The comparative ratios for 2020 do not correspond with the ratios disclosed in 2020 report, since they include re-segmentation effects as described in note 28 of the financial statements, with the exception of standard annual re-segmentation.

RATIOS

Ratios (based on monthly averages, where applicable)	2021	2020
Profitability ratios:		
ROE	26.3%	12.9%
ROA	3.7%	1.7%
Cost to income	32.5%	34.6%
NIM	5.0%	4.7%
Loan yield	10.2%	10.1%
Deposit rate	3.4%	3.6%
Cost of funding	4.4%	4.8%*
Asset quality & portfolio concentration:		
Cost of risk	-0.3%	2.4%
PAR 90 to Gross Loans	1.2%	1.5%
NPLs to Gross Loans	2.4%	4.7%
NPL provision coverage	99.2%	85.6%
Total NPL coverage**	174.6%	159.4%
Credit loss level to Gross Loans	2.4%	4.0%
Related Party Loans to Gross Loans	0.1%	0.0%
Top 10 Borrowers to Total Portfolio	6.9%	7.9%
Top 20 Borrowers to Total Portfolio	10.6%	12.1%
Capital & liquidity positions:		
Net Loans to Deposits plus IFI*** Funding	101.3%	100.7%
Net Stable Funding Ratio	127.3%	126.0%
Liquidity Coverage Ratio	115.8%	134.2%
Leverage	6.7x	7.9x
CET 1 CAR (Basel III)	13.7%	10.4%
Tier 1 CAR (Basel III)	16.7%	13.0%
Total 1 CAR (Basel III)	20.3%	17.1%

**The Group enters into swap agreements denominated in foreign currencies with a view to decrease cost of funding. Respective interest effect is presented within net interest income, but has not been previously included in the cost of funding ratio calculation. As the contracts reached significant volume, the Group revisited the presentation of effects in the cost of funding ratio and decided to include interest effect from swap agreements in the calculation of cost of funding. The change was made retrospectively and ratios of previous periods have also been restated.*

*** In 2021 the management changed collateral coverage methodology and applied a more conservative approach. The total NPL coverage for 2020 have been recalculated per updated methodology.*

**** International Financial Institutions*

The ratio definitions are given on pages 267-268.

Material Existing and Emerging Risks

The emergence of the COVID-19 pandemic has enhanced the critical importance of risk management to the Group's strategy. During the COVID-19 era, it is even more 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 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. More details regarding risk management practices can be found on pages 88-103. At the time of writing this report, there is uncertainty around the war in Ukraine, its potential impact is summarized 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. Based on the review and analysis the Supervisory Board confirmed that they have a reasonable expectation of the Group's viability over the next three years up to 1 January 2025 and that the Group will be able to continue its operations and meet its liabilities as they fall due over the three year period from 1 January 2022 to 1 January 2025.

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 the Group is engaged principally in traditional lending activities. The Group's customers include legal entities as well as individual borrowers.

Due to the high level of dollarization 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 unfavorable macroeconomic conditions. These risks are described in more detail as a separate principal risk.

COVID-19 has increased uncertainty and caused significant economic disruptions in many sectors, particularly in the hospitality & leisure, real estate management and development sectors. Such economic disruptions run the risk of deteriorating the financial standing of borrowers and increase the Group's credit risk.

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 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. The rules for manual and automated underwriting are developed by units within the risk function, which are independent from the origination and business development units. The credit scoring and underwriting models are developed by an independent Credit Modelling team, within the risk function and the developed models are then validated as well by another independent Model Risk Management team, also from the risk function. In the case of corporate and medium-sized business borrowers, the loan review process is conducted within specific sectoral teams, which accumulate deep knowledge of the corresponding sectoral developments.

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, as well as 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 minimizes credit risk at the Group level. As of 31 December 2021, the retail segment represented 37.0% of the total portfolio, which was comprised of 65.6% mortgage and 34.4% non-mortgage exposures. No single business sector represented more than 9.4% of the total portfolio at the end of 2021.

Collateral represents the most significant credit risk mitigation tool for the Group, making effective collateral management one of the key risk management components. Collateral on loans extended by the Group may include, but is not limited to, real estate, cash deposits, vehicles, equipment, inventory, precious metals, securities and third party guarantees.

The Group has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. As of 31 December 2021, 77.3% of the Group's portfolio was secured by cash, real estate or gold. A sound collateral management framework ensures that collateral serves as an adequate mitigating factor for credit risk management purposes.

Additionally, the Bank actively performs stress testing and scenario analysis in order to check the resilience of borrowers under various stress conditions. The stress tests entail assumptions about the depreciation of the local currency, GDP growth, sectoral growth, unemployment, inflation, changes in real estate and commodity prices, changes in interest rates, and loan and deposit portfolio developments. The Bank carries out intensive financial monitoring to identify borrowers' weakened financial and business prospects in order to offer them a restructuring plan that is tailored to their individual needs.

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

Risk description

A potential material GEL depreciation is one of the most significant risks that could negatively impact portfolio quality, due to the large presence of foreign currencies on the Group's balance sheet. As of 31 December 2021, 53.7% 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 2021, with the average currency exchange rate of GEL weakening by 3.6% year-on-year. The GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in 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 Group'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 into the credit underwriting standards, which also include significant currency depreciation buffers for unhedged borrowers. In addition, the Group holds significant capital against currency-induced credit risk.

Given the experience and knowledge built through recent currency volatility, the Group is in a good position to promptly mitigate exchange rate depreciation risks. In January 2019, 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 much 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 total portfolio. Annual targets have been defined in the medium-term strategy, gradually decreasing the foreign currency share. The Assets and Liabilities Committee (ALCO) is closely monitoring the achievement of these targets.

3. 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. These occurrences would be reflected in the Group's portfolio quality and profitability, and would also impede portfolio growth rates. 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 collateralization, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in neighboring countries and its main trading/economic partners could negatively affect Georgia's 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 exogenous nature of the COVID-19 shock implies the potential for a quick recovery compared to conventional business cycles. While the observed restart

was certainly expected, the Georgian economy has rebounded at a speed that exceeded initial expectations, with real GDP increasing by 10.4% year-on-year, according to the preliminary data of the National Statistics Office of Georgia (Geostat), as opposed to 4.7% - estimated at the beginning of the year. Economic growth was also up by 2.9% compared to the 2019 level.

Importantly, this growth was broad based and was reflected in all sources of inflows as well as in domestic demand. The latter was fueled by a reversal of the shock amplifier (low credit and high savings of foreign currency in 2020), pent-up demand coupled with low US$ deposit yields, a stronger GEL, and the impact of eased lockdowns. Stronger domestic demand was also reflected in higher imports of goods.

By the end of 2021, annual inflation remained elevated at 13.9%, because of a low base effect a year ago, due to state subsidies on utilities.

In 2021, the NBG again intervened significantly on the FX market, mostly in the first half of the year. Over the course of the year, the NBG increased its policy rate from 8.0% to 10.5%.

For more details on the developments in the Georgian economy in 2021, please refer to the economic overview section on pages 12-15.

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 neighboring countries to identify early warning signals indicating imminent economic risks. This system allows the Group to promptly assess significant economic and political occurrences and analyze 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 applied 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 impact of the COVID-19 crisis on Georgia's economy, the Group has adjusted its risk management framework leveraging its already 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.

4. The Group faces the risk of not meeting the minimum regulatory requirements under the increasing capital requirement framework, which may compromise growth and strategic targets. Additionally, adverse changes in FX rates may impact capital adequacy ratios

Risk description

In December 2017, the NBG introduced a new capital adequacy framework. Under the updated regulation, capital requirements consist of a Pillar 1 minimum requirement, combined buffers (systemic, countercyclical and conservation buffers) and Pillar 2 buffers.

The initial regulation included a phase-in schedule that gradually introduced the buffer over a four-year period. In response to the COVID-19 pandemic, the NBG implemented certain countercyclical measures related to capital adequacy requirements, temporarily decreasing conservation and two-thirds of CICR buffers and postponing the phase-in schedule for pillar 2 buffers. The Bank has restored all released buffers since July 2021, lifting any restrictions on capital distribution.

The NBG outlined a new schedule for the gradual introduction of pillar 2 buffers, with the phase-in of concentration risk and Net GRAPE buffers beginning in March 2021 and due to be fully introduced by March 2023.

In December 2021, the systemic buffer increased from 2.0% to 2.5%, as previously planned. The Bank's capitalization as of December 2021 stood at:

- 13.7% for CET 1 with an updated regulatory minimum requirement of 11.7%;
- 16.7% for Tier 1 with an updated regulatory minimum requirement of 14.0%; and
- 20.3% for Total capital with an updated regulatory minimum requirement of 18.4%.

The ratios were well above the respective regulatory minimums.

In 2021, the NBG proposed amendments in the CICR buffer calculation methodology. According to the new methodology, which will be effective from March of 2023, current fixed CICR rate (75%) will be flexible in the range of 40% to 100% depending on the share of foreign currency loans in total portfolio: the lower is the share, the lower will be the CICR buffer requirement.

GEL volatility has been and remains a significant risk to the Bank's capital adequacy. A 10% GEL depreciation would translate into a 0.8pp, 0.7pp and 0.6 pp drop in the Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

Risk mitigation

The Group undertakes stress testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Such analyses indicate that the Group holds sufficient capital to meet the current minimum regulatory requirements. 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 Board and Risk Committee to ensure prudent management and timely action, when needed.

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

Risk description

The Bank's activities are highly regulated and thus face regulatory risk. The NBG can increase prudential requirements across the whole sector as well as for specific institutions within it. Therefore, the Group's profitability and performance may be compromised by an increased regulatory burden.

The NBG sets lending limits and other economic ratios (including, inter alia, lending, liquidity and investment ratios) in addition to mandatory capital adequacy ratios.

Under Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios, and to regularly file periodic reports. The Bank is also regulated by the tax code and other relevant laws in Georgia. Following the parent 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 and brokerage services.

The Group takes all necessary steps with the intention of ensuring compliance with relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see pages 245-250 in 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 dedicated compliance department reports directly to the Chief Executive Officer and has a primary role in the management of regulatory compliance risk. The Group's Risk Committee is responsible for regulatory compliance at the Supervisory Board level. In terms of banking regulations and Georgia's taxation system, the Group is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation. Although the decisions made by regulators are beyond the Group's control, significant regulatory changes are usually preceded by a consultation period that allows all lending institutions to provide feedback and adjust their business practices.

6. The Group is exposed to concentration risk

Risk description

The Group has large individual exposures to single-name borrowers whose potential default would entail increased credit losses and higher impairment charges. The Group'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.

The Group's maximum exposure to the single largest industry (Real Estate) stood at 9.4% of the loan portfolio as of 31 December 2021. At the end of 2021, exposure to the 20 largest borrowers stood at 10.6% of the loan portfolio.

Risk mitigation

The Group 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 Group limits both single-name and sector concentrations. Any considerable change in the economic or political environment in Georgia or in neighbouring countries would trigger the Group to review of the risk appetite criteria to mitigate the emerging risk of concentration. Stringent monitoring tools are in place to ensure compliance with the established limits. Due to the increased uncertainty caused by the COVID-19 pandemic, close monitoring was carried out consistently, based on macro expectations, to estimate the performance of our top 20 corporate borrowers.

In addition, the Bank has dedicated restructuring teams to manage borrowers who face financial difficulties. When deemed necessary, clients are transferred to such teams for more efficient handling and, ultimately, to limit any resulting credit risk losses. The NBG's new capital framework introduced a concentration buffer under Pillar 2 that helps to ensure that the Group remains adequately capitalised to mitigate concentration risks.

7. 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, such as the global financial crisis that took place in 2007. 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 the availability of funding for companies operating in any of these markets.

The Group was 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 2021, the net loan to deposits plus international financial institution funding ratio stood at 101.3%, the liquidity coverage ratio at 115.8%, and the net stable funding ratio at 127.3%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

In May 2021, the NBG restored the NBG GEL LCR limit (>=75%), which had been removed for one year as one of countercyclical measures implemented in relation to liquidity requirements as a result of COVID-19.

Risk mitigation

To mitigate this risk, the Group holds a solid liquidity position and performs an outflow scenario analysis 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.

As part of its liquidity risk management framework, the Group has a liquidity contingency plan in place outlining the risk indicators for different stress scenarios and respective action plans. The liquidity risk position and compliance with internal limits are closely monitored by the Assets and Liabilities Management Committee (ALCO).

Due to its high liquidity position in foreign currency, the Bank made prepayments of some IFI resources in the amount of US$ 237.4 million in late 2020 and throughout 2021. In addition, over the same period the Bank performed a cost-optimization process and attracted cheaper resources from FIs.

8. Group's income is heavily reliant on Net Interest Income

Risk description

Net interest income accounts for the majority of the Group's total income. Consequently, fluctuations in its NIM affect the results of operations. The new regulations as well as high 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 2021, the NIM increased by 0.3pp year-on-year to 5.0%, driven by an increase in loan yields, a decrease in the foreign currency (FC) cost of fund and optimizations in wholesale funding, further accompanied by increased loan larisation.

The Bank manages its exposure to interest rate risk, following the NBG IRR regulation introduced in September 2020. As of 31 December 2021, GEL 4,148 million in assets (18%) and GEL 2,180 million in liabilities (11%) were floating in GEL currency, whereas GEL 8,054 million of assets (34%) and GEL 761 million of liabilities (4%) were floating, related to the LIBOR/Euribor/FED/ECB rates. The Bank was in compliance with the Economic Value of Equity (EVE) sensitivity limit set by the NBG at 15% of Tier 1 capital, with the ratio standing at 2.9% by 31 December 2021.

Risk mitigation

In 2021 the Bank used excess liquidity to redeem costly institutional funding and negotiated the reduction of long-term funding margins, thereby aiding the gains in NIM. The Bank continues to focus on fee and commission income growth to safeguard from possible margin compressions on lending and deposit products in the future.

To meet the asset-liability objectives and manage the interest rate risk, the Bank uses the high quality investment securities portfolio, long-term funding and derivative contracts.

9. The threat posed by cyber-attacks has increased in recent years and continues to grow. The risk of potential cyber-attacks, which have become more sophisticated, may lead to significant security breaches. Such risks change rapidly and require continued focus and investment

Risk description

No 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.

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, which covers multiple preventive and detective controls ranging from the data and end-point computers to edge firewalls.

A Security Operations Center has been built, which monitors every possible anomaly that is identified across the organization'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. Also at least once a year, a presentation is given to the Risk Committee of the Supervisory Board, with a deep dive into the information security matters. 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.

Our employees play a crucial role in information security. As a result, annual mandatory training sessions are conducted for all employees, which are comprised of remote learning courses on security issues, fraud and phishing simulations as well as 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 continuous improvement of the management processes are achieved.

Disaster recovery plans are in place to ensure business continuity in case of need.

Since the beginning of the COVID-19 pandemic, the Group has activated secure remote working policies, which ensure that homeworking environments are protected against relevant cyber-threats while the security team provides effective oversight of teleworking channels. Although there has been a noticeable increase in phishing attempts against employees, there have been no major incidents. The Security Operation Center and Threat Hunting teams have successfully adopted effective remote collaboration and communication tools and practices.

In 2021, the Bank achieved ISO 27001 certification of its information security management system. That 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. TBC Bank has not experienced any material information security breach in the last three years.

In December 2021, Ernst & Young Tbilisi office conducted two audits, assessment against Cyber Security Management Framework and assessment against SWIFT CSCF for the Bank. As a result, no critical findings and major non-compliances were identified during these exercises. Cyber Security Management Framework is defined by National Bank of Georgia, which is based on NIST Cyber Security Management Framework.

10. External and internal fraud risks are part of the operational risk inherent in the Group's business. Considering the increased complexity and diversification of operations, together with the digitalisation of the banking sector, fraud risks are evolving. Unless proactively managed, fraud events may materially impact the Group's profitability and reputation

Risk description

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 frauds arise from actions committed by the Group's employees, and 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. As a result of the COVID-19 pandemic, the threat of fraud and the rapid growth in digital crime has been exacerbated and fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain funds. Therefore, unless properly monitored and managed, the potential impact can become substantial.

Risk mitigation

The Group actively monitors, detects and prevents risks arising from fraud events and permanent monitoring processes are 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. Given our continuous efforts to monitor and mitigate fraud risks, together with the high sophistication of our internal processes, the Group ensures the timely identification and control of fraud-related activities.

11. 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 anti-banking cam-

paigns, increased cases of phishing and other cybercrimes, as well as risks associated with the digitalization process, such as digital service interruptions affecting digital bank, ATM and payment terminal operations. However, none of the aforementioned 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 internal policies and procedures to minimize the impact of direct/indirect reputational risks. The Group monitors its brand value through public opinion studies/surveys and by receiving feedback from stakeholders on an ongoing basis.

Dedicated internal and external marketing and communications teams are in place, which actively monitor 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 both mitigate and elevate it to the attention of the Supervisory Board before it escalates.

The 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 in-house financial education platform) aimed at mitigating and preventing cyber threats and phishing cases.

12. 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, competitive environment and regulatory restrictions.

In addition, increased uncertainty together with the major economic and social disruptions caused by the COVID-19 pandemic 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 business strategy and key performance indicators section on pages 18-23.

Risk Mitigation

The Group conducts annual strategic review sessions involving the Bank's top and 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.

Further, 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.

13. 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 of key personnel or the failure to attract, develop and retain skilled or qualified employees. In particular, the strategic decision to transform into a digital company entails increased demands on high calibre IT professionals across the Group. In addition, in order to adapt to the fast changing business environment, the Group needs to foster an "Agile" culture and equip employees with the necessary skills. In addition, the COVID-19 pandemic has created additional HR challenges in relation to safeguarding employees' health and wellbeing, maintaining high efficiency levels, strong internal communication and a strong corporate culture.

Risk Mitigation

The Group pays significant attention to human capital management strategies and policies, which include approaches to the recruitment, retention and development of talent, and offers competitive reward packages to its employees. The Group has also developed and implemented an "Agile" framework that aims to increase employee engagement and satisfaction. Moreover, the Bank set up an IT and Risk academy to attract and train young professionals. The best students are offered employment at the Bank. In addition, the Bank has an in-house academy that provides a range of courses for employees in different fields.

To ensure the maintenance of an effective internal communication system whilst working from home, we enhanced different digital channels to engage with our employees. Regular management meetings are conducted with staff in order to keep them updated with the Group's strategic initiatives and financial position as well as address their concerns during this highly uncertain period. In order to further promote and enhance our corporate culture, the Bank's internal Facebook group has become more active by, for example, posting employee profiles and sharing success stories. Additionally, the new remote working policy adopted by the Bank gives the possibility to attract new talent from beyond Georgia.

EMERGING RISKS

Emerging risks are those that have large unknown components and may affect the performance of the Group over a longer time 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

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 and the consequent sanctions imposed on Russia have an adverse impact on the Georgian economy.

As of 2021, Ukraine and Russia's share of Georgia's exports, remittances, tourism, and FDI inflows amounted to around 21%. Specifically, Ukraine and Russia accounted for 7% and 14% of exports, 4% and 18% of remittance inflows, and 15% and 12% of total tourism inflows, respectively. Ukraine and Russia's share of FDI exposure was lower at 1% and 6%, respectively, mainly comprised of reinvested earnings from previous waves of FDI. Importantly, over half of Georgia's exports to Russia and Ukraine are re-exports, while around 50% of tourism and remittance inflows from these countries are spent on imports. These factors decrease the overall net negative impact from lost inflows. At the same time, the adverse spillover effect from Georgia's other economic partners should also be taken into account.

Before the Russian invasion of Ukraine, TBC Capital estimated that the Georgian economy would grow by around 6.0% in 2022, 5.5% in 2023 and 5.0% in 2024 – close to its trend rate of around 5.2%. According to the World Bank's projections[1] as of January 2022, the Georgian economy was forecast to grow by 5.5% and 5.0% in 2022 and 2023, respectively. In fact, the January growth data released by Geostat shows a very strong growth momentum. Although the 18.0% real YoY expansion was mainly on the back of a low base effect, growth was also strong at 4.4% when compared to January 2020, before the pandemic started, and much higher than in prior months when looking at the same, consistent measurement. However, taking into account Georgia's vulnerability to developments in Ukraine and Russia, there will be adverse implications for the growth outlook, as well as for the other macro variables, which may also negatively affect the Bank's capital adequacy, liquidity and credit risk.

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 minimize 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 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 of these risks could materialize through the impairment of asset values and 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 as a result 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 minimize 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 the effects of 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 and 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 the detailed information on the Environmental Management System, please refer to pages 67-71.

To extend the Group's positive impact on the environment and climate change mitigation, by the end of 2021, the Bank introduced the Green Lending Framework within the organization, which will encourage private companies, as well as individuals to run their businesses energy and resource-efficiently and more eco-friendly.

In order to increase the understanding of climate-related risks on the Bank's loan portfolio, 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 focuses on economic sectors such as energy, oil and gas, metals and mining, tourism, agriculture, food industry, healthcare, construction and real estate. According to the maturity structure of the loan portfolio, the largest part of assets is distributed in the time horizons that are much shorter that the impacts of climate change, especially of physical risks, can be materialized in Georgia. On the other hand, the understanding of climate related risks, which have longer-term impacts need to be increased in coming years, therefore, if the bank will have a plausible findings and conclusions, it will further develop the approach, how to consider climate risks in mitigation. Furthermore, the Group's portfolio has a strong collateral coverage with around 77% of the loan book, collateralized with cash, real estate or gold. The collateral evaluation procedure covers monitoring approach, therefore, the necessity of changes in collateral values is identified based on the regular collateral monitoring process. For more details, please see our ESG strategy section on pages 24-35.

In June 2021, the Group released its full-scale sustainability report for the year 2020 in reference to Global Reporting Initiative (GRI) standards. The Global Reporting Initiative (GRI) helps the private sector to realize and understand 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 as well as abroad and aims to give them clear, fact-based information about the social, economic and environmental impact of our activities in 2020. It presents our endeavours for creating value for our employees, clients, suppliers, partners and society as a whole. The Sustainability Report 2020 is available at www.tbcbankgroup.com.

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

Risk description

There are a number of different types of financial instruments on the Group's balance sheet, each of which carries interest rates benchmarked to the London Interbank Offered Rate ("LIBOR"). LIBOR is also used by the Group in its risk measurement, accounting and valuation processes. In 2017, the UK's Financial Conduct Authority (FCA) announced that it has agreed with LIBOR panel banks to sustain LIBOR until the end of 2021 and called upon financial sector participants to start working towards a transition to other reference rates. On 5 March 2021, the FCA announced the dates that panel bank submissions for all LIBOR setting will cease, after which representative LIBOR rates will no longer be available:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

The majority of the Bank's US$ floating portfolio is linked to 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 process of transition 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 impact 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 SOFR Rates 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. The interest rate alternatives to US$ LIBOR recommended previously were backward looking and have met with tepid acceptance.

The Group formed a steering committee to ensure a smooth transition away from LIBOR including the efforts to introduce forward-looking term rates linked to SOFR. The steering committee raises awareness of the transition, both internally and externally, to ensure that staff have the necessary knowledge and tools to facilitate the transition and that all of the Group's customers are treated fairly.

1 World Bank, Global Economic Prospects, January 2022.

Risk Management

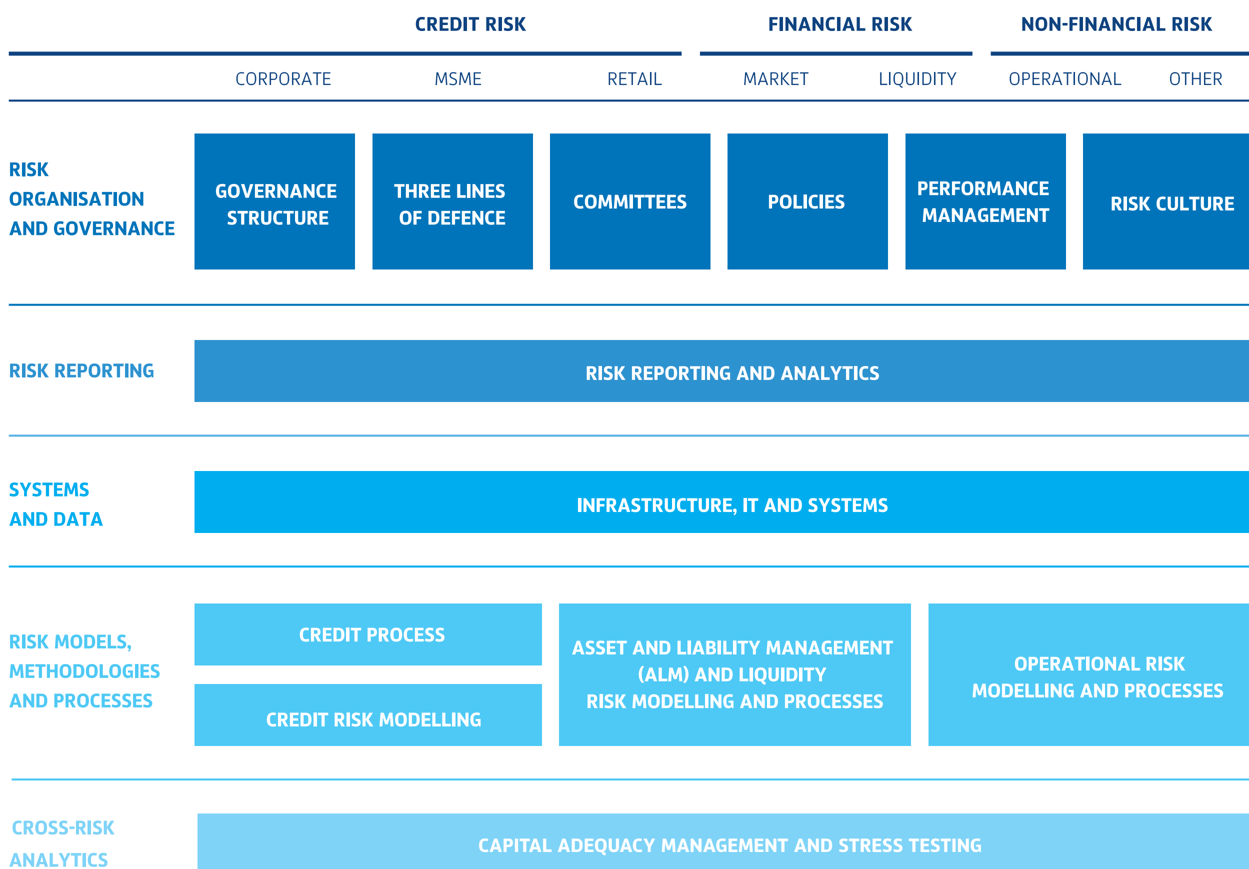
OVERVIEW

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 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 and risk based decision making 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.

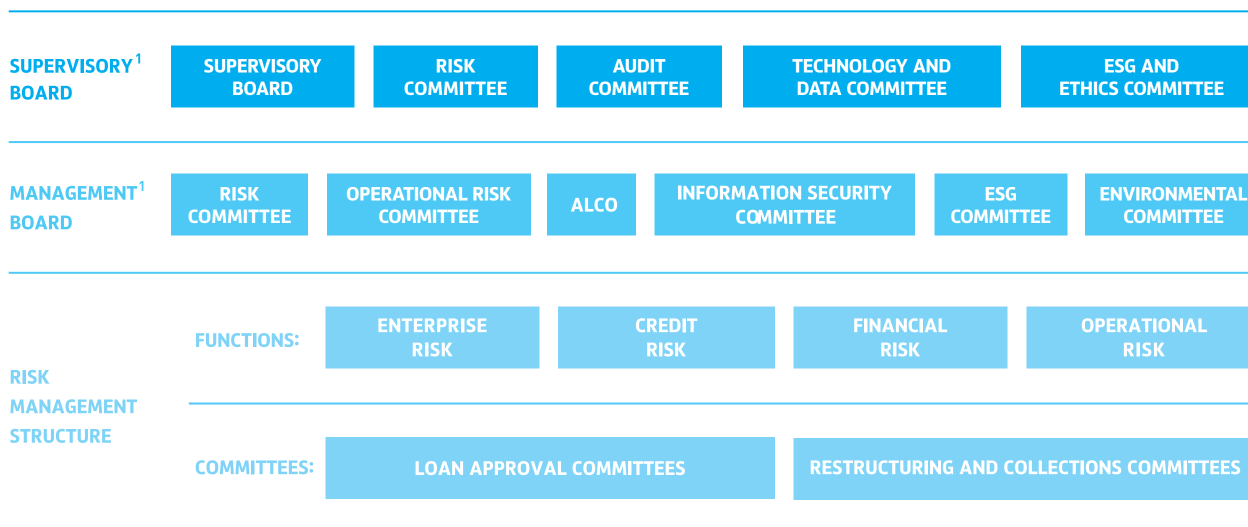
Risk management framework

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 overall responsibility to set the tone at the top of the Group and monitor compliance with the established objectives, while the Management Board governs and directs the Group's daily activities.



The risk governance structure consists of two board levels, including the Supervisory Board and the Management Board 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 auditor 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 Management Board's Risk Committee was established to guide Group-wide risk management activities and monitor major risk trends to ensure that the risk profile complies with the established risk appetite. The Management Board's Operational Risk Committee makes decisions related to operational risk governance, while the Assets and Liabilities Management Committee (ALCO) is responsible for the implementation of asset-liability management policies. The Management Boards' 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 Management Board 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 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.

1 These terms are defined in the glossary on page 266

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 allow the Group to make informed decisions that are adequately priced and not to take any risks exceeding the Group's established targets. 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 Chief Risk Officer, the compliance department reports directly to the CEO and is specifically in charge of anti-money laundering and compliance 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.

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;
- Long term capital planning and continuous work on capital optimisation and analytics are also key aspects of the Bank's risk management procedures;
- Development and update of Internal Capital Adequacy Assessment Procedure (ICAAP);
- 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 Management Board and to the Supervisory Board's Risk Committee.

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 a 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 differentiat-

ed 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 regulatory 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 utilized. Different scorecard models are developed based on the type of product and the borrowers' segment, taking into consideration various 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 the developed models are then validated as well by an independent Model Risk Management team, also from the risk function.

Currency-induced credit risk

The Group 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 Group 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 the exposure to currency induced credit risk. Whilst the PTI and LTV thresholds remain conservative for unhedged borrowers, in April 2020, the NBG eased the regulations for hedged borrowers.

The Group 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 Group 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 portfolio. Annual targets have been defined in the medium-term strategy, gradually decreasing the foreign currency share. The Assets and Liabilities Committee (ALCO) is closely monitoring the achievement of these targets.

Credit concentration risk

The Group 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 Group 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 Group imposes limits on individual sectors with more conservative caps applied for high-risk sectors, which are defined based on comprehensive analysis of industry cycles and outlook. 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 Group 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 Group, making effective collateral management one of the key risk management components. Collateral on loans extended by the Group 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 Group 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 Group'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 Collateral Management and Appraisal Department (CMAD) defines Collateral Management Policy & Collateral Management Procedures (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.), authorizes appraisal reports, and manages the collateral monitoring process (assets with 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 Group's risk management policies and processes are designed to identify and analyse risk in a timely manner and to monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. 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, as well as encompassing individual credit exposure, overall portfolio performance and external trends that may impact on 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 Group 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 jeopardizing 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 is done across 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 Group'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 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, whereas for unsecured loans the Bank also collaborates with external collection agencies. The forms of collaboration normally include outsourcing of agencies' collection services - when they act on behalf of the bank while dealing with borrowers, or selling of specific part of unsecured portfolios to external companies in order to secure immediate cash recoveries.

To recover collateralized 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 is transferred to the recovery unit, if the Group is unable to negotiate acceptable terms with the borrower, the Group 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.

Measurement of Expected Credit Losses

Since January 2018, the Group has been using a provisioning methodology that is in line with IFRS 9 requirements. The methodology makes it possible to assess loan-loss provisions and allowances accurately with the incorporation of forward-looking information. The methodology, along with a corresponding IT provisioning tool, was developed with support from Deloitte and representatives of the Group'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) discount rate. The Group uses a three-stage model for the ECL measurement and classifies its borrowers across three stages:

- Stage I – the Group 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 the 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 Group 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 Group 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.

Liquidity risk is managed by the Financial Risk Management and Treasury departments and is monitored by the Management Board and the Assets and Liabilities Management Committee (ALCO), within their predefined 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 Management Board 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 Group 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 larization in the country of 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, NBG lowered FC mandatory reserves requirements from 30% to 25%. Since July 2021, the NBG regulation on mandatory FC reserve requirement has been further adjusted, to reflect the decreased share of FC deposits in total deposits. The FC mandatory reserve requirement 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 longer 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 2021, the ratios were well above the prudential limits set by the NBG, as follows:

	31-Dec-21	31-Dec-20	31-Dec-19
Minimum net stable funding ratio, as defined by the NBG	*100%*	*100%*	*100%*
Net stable funding ratio as defined by the NBG	127.3%	126.0%	126.7%
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%*	*n/a*	*75.0%*
Minimum LCR in FC, as defined by the NBG	*100.0%*	*100.0%*	*100.0%*
Total liquidity coverage ratio, as defined by the NBG	115.8%	134.2%	110.1%
LCR in GEL, as defined by the NBG	107.7%	132.2%	83.7%
LCR in FC, as defined by the NBG	120.8%	134.9%	128.4%

Market liquidity risk is the risk that the Group 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 Group follows the Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Group's high-quality liquid assets can be sold without causing a significant movement in price, and with minimum loss of value. In addition, the Group has a liquidity contingency plan, which forms part of its overall prudential liquidity policy. The plan is designed to ensure that the Group can meet its funding and liquidity requirements and maintain its core business operations in any deteriorating liquidity conditions that could arise outside the ordinary course of business.

Funding and maturity analysis

The Group'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 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 Group's differentiators. The Group relies on relatively stable deposits from Georgia as the main source of funding. The Group 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 Group 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 total value of deposits and funds received from international financial institutions) stood at 101.3%, 100.7% and 104.3%, as at 31 December 2021, 2020 and 2019, 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 Group's past experience, would indicate that these customer accounts provide a long-term and stable source of funding for the Group. 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 Group 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 Group.

The Group's strategy is not to be involved in trading financial instruments or investments in commodities. Accordingly, the Group'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 2021, the Bank maintained an aggregate balance open currency position of 0.5%.

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 Management Board 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 Group'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 2021, 2020 and 2019, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	31-Dec-21	31-Dec-20	31-Dec-19
Maximum loss (VAR, 99% confidence level)	(1,496)	(1,806)	(1,234)
Maximum loss (VAR, 95% confidence level)	**(1,030)**	**(1,315)**	**(852)**

Interest rate risk management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the Group'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 Group, 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 con-

tain 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 Group employs an advanced framework to manage interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts.

The Group 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 Group 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 Supervisory Board.

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 2021, 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.

CAPITAL RISK MANAGEMENT

Capital risk is the risk that the Group 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 2021, 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.

Pillar 2 requirements. In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pil-

lar 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 are required to fully restore the CICR buffer by the end of 2022 and the conservation buffer by the end of 2023. As of 30 June 2021, TBC Bank was in full compliance with the fully restored minimum requirements and confirmed to the NBG that it would fully restore temporarily released capital buffers by July 2021, which lifted regulatory restrictions on capital distributions.

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

In thousands of GEL	31-Dec-21	31-Dec-20	31-Dec-19
CET 1 capital	2,759,894	1,911,233	1,871,892
Tier 1 capital	3,379,414	2,385,181	2,281,706
Tier 2 capital	723,513	752,731	692,323
Total regulatory capital	**4,102,927**	**3,137,912**	**2,974,029**
Risk-weighted exposures			
Credit Risk-weighted exposures	18,091,753	16,322,524	13,825,677
Risk-weighted exposures for Market Risk	21,981	106,379	15,429
Risk-weighted exposures for Operational Risk	2,103,895	1,872,574	1,749,821
Total Risk-weighted exposures	**20,217,629**	**18,301,477**	**15,590,927**
Minimum CET 1 ratio	*11.73%*	*7.40%*	*10.40%*
CET 1 capital adequacy ratio	13.65%	10.40%	12.00%
Minimum Tier 1 ratio	13.99%	9.20%	12.50%
Tier 1 capital adequacy ratio	16.72%	13.00%	14.60%
Minimum total capital adequacy ratio	*18.38%*	*13.70%*	*17.50%*
Total capital adequacy ratio	20.29%	17.10%	19.10%

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 process 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 jeopardize 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 Management Board 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 the Operational Risk Committee oversees compliance with the limits. The Operational Risk Committee discusses the Group's operational risk profile and risk mitigation recommendations on a regular basis.

The operational risk management department 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;
- analyzing 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 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 directed to homogenise operational risk management processes throughout the Group's member companies. The 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 New Risk Assessment Policy, which enables thorough risk evaluation prior to the adoption of new products, services, or procedures;
- the Outsourcing Risk Management Policy, which enables the Group 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 reoccurrence 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 compliance department as the second line of defense. The Chief Compliance Officer oversees compliance activities and reports quarterly to the relevant committee of the Supervisory Board, with a disciplinary reporting line to the CEO. The Bank's Compliance Programme provides

Compliance Policies, trainings, risk-based oversight and ensures compliance with regulatory requirements.

The 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 risk and control self-assessment (RCSA) of the internal processes.

The Compliance Department ensures that all outcomes of the above mentioned analysis and processes are addressed in a timely and appropriate manner.

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 comply with applicable EU, UK, Georgian laws and regulations related to financial crime. 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 and specially designated nationalities relevant financial and other sanctions lists; regular staff training and awareness raising; and procedures for monitoring and reporting suspicious activities of the Bank's customers.

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

The Group has a sophisticated, artificial intelligence-based AML solution in place to enable the AML unit to comply with the Sanctions Policy, monitor clients' transactions and identify suspicious behavior. The 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 2021 were assessed as medium. The compliance department addresses areas of attention in a timely and proper manner.

As part of its ongoing supervision in 2021, the National Bank of Georgia (NBG) conducted a complex inspection of the Bank, covering the period from January 2018 to June 2019. The NBG assessed the Bank's AML/CTF measures with regard to client risk classification and risk-related due diligence measures; the UBO (Ultimate Beneficial Owner) identification process of entities with complex ownership structures; the Bank's awareness of international transactions; the detection of suspicious transactions and other processes. The NBG's overall assessment of these processes was adequate or mainly adequate and effective. As part of its findings, the NBG classified two clients as not properly identified and applied the relevant regulatory penalty in relation to those two clients.

Information Security

In order to manage the risks associated with cyber-attacks and ensure the security of clients, the Group continuously updates and enhances its in-depth security strategy, which covers multiple preventive and detective controls ranging from the data and end-point computers to edge firewalls.

A newly built Security Operations Center monitors any anomaly that is identified across the organization'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. Also at least once a year, a presentation is given to the Risk Committee of the Supervisory Board, with a deep dive into the information security matters. 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 detailed review and insight, which helps to further enhance the 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.

An Information Security Steering Committee has been established to continuously improve information security and business continuity management processes and minimise information security risks. The committee has been formed to centralise the information security function, including physical security, HR security, data security, IT security and business continuity.

The Group invests in effective information security risk management, incident management and awareness programmes, which are enhanced with automated tools that ensure acceptable levels of information security risk within the organisation. Whenever preventive controls are not applicable, comprehensive business continuity and incident response plans ensure the Group's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption. Since employees play a crucial role in information security, regular 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 this training as part of the induction process. These measures ensure that employees are fully aware of their responsibilities and are prepared for various security threats.

In 2021, the Bank achieved ISO 27001 certification of its information security management system. That 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. TBC Bank has not experienced any material information security breach in the last three years.

In December 2021, Ernst & Young Tbilisi office conducted two audits, assessment against Cyber Security Management Framework and assessment against SWIFT CSCF. As a result no critical findings and major non-compliances were identified during these exercises. Cyber Security Management Framework is defined by National Bank of Georgia, which is based on NIST Cyber Security Management Framework.

Model Risk Management

In line with the NBG's requirements, international regulatory guidance and best practices, TBC 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.

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

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 through 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 to 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 Bank's legal department manages all legal and related matters concerning the activities of the Bank. In accomplishing its mission to ensure that such activities fully conform with all applicable laws and regulations, the legal team delivers a wide array of professional legal services: it (i) interacts with internal and external clients, outside counsels, government and regulatory entities; (ii) issues memos and opinions; (iii) drafts standardized and individual contracts; (iv) prepares corporate resolutions; (v) provides regulatory updates; and (vi) represents the Bank in courts, other dispute resolution venues and before other third parties. The legal team, which comprises lawyers with diverse backgrounds and experience, consists of the following key divisions: regulatory and legal compliance, corporate, dispute resolution, legal support and corporate governance teams. Each division functions within clear and distinct job descriptions corresponding to the relevant knowledge, skill and capabilities of its members. As part of the Bank's agile transformation effort, several lawyers are working within and/or in close cooperation with teams in charge of specific commercial projects. The department ensures effective execution of its duties through different processes and procedures.

The Bank's General Counsel manages the legal department. S/he determines key business objectives for all legal teams, introduces the policies and vision, and ensures the effective performance of their duties. The General Counsel reports to the Management Board, the Supervisory Board, and their respective committees on existing legal risks, their mitigation strategies and the vision for their effective management in the future.

Sustainability Risks

Sustainability risk management is done within a framework of established processes for risk management. According to our 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 develop-

ment 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 digitalization, 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 environmental 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 sustainability management, please see our ESG strategy section on pages 24-35.

Conduct risk

Conduct risk is defined as the risk to the delivery of fair outcomes for customers and other stakeholders.

The Group'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 Group'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 Group's management understands that it bears responsibility for a diversified group of domestic and international investors, and needs to embrace the rules and mechanisms of protecting customers and maintaining 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 Group entrusts different departments and divisions with carrying out the task of managing, mitigating and eliminating conduct risk across all of the Group'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 the respective departments and individual employees comply with the provisions set out by regulatory provisions, best practices, the Code of Conduct and the Code of Ethics;
2. maintaining liaison with the compliance department regarding the administration of policies and procedures and the investigation of complaints regarding the conduct of the department, its manager and/ or its employees;
3. ensuring that the product information provided to clients by front-line employees is accurate and complete, and is conveyed (both in written and oral form) in a simple and understandable way, regardless of the level of sophistication of a given client;
4. maintaining records of client conversations and emails that contain sensitive and sales-related information, including information pertaining to the acquisition of new clients and making complex product offers to existing and prospective clients;
5. delivering timely, on-going training for new employees regarding proper conduct and ensuring that all employees stay up to date on evolving compliance standards within the Group through periodic training;
6. developing an open culture that encourages employees to speak up without fear of punishment. Specifically, this means setting up processes for the prevention and detection of conflicts of interest, creating ethical incentives and bonus formulas, and aligning incentives and disciplinary practices to the Group's risk appetite; and
7. employing qualified staff and sufficient human and technological resources to investigate, analyse, implement and monitor sales and after-sales activities. This approach ensures that the management of conduct risk is not limited to risk management units, including the compliance department, but is fully embraced by front-line departments and that proper conduct is fully integrated into the required job skills.

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 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 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 (the "Supervisory Board") of the Bank. 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 NBG Code, the Supervisory Board comprises comprised of eight independent, non-executive members: Arne Berggren (Chairman), Tsira Kemularia (Senior Independent member), Maria Luisa Cicognani, Per Anders Fasth, Thymios P. Kyriakopoulos, Eran Klein, Nino Suknidze and Rajeev Sawhney.

The Supervisory Board has established four principal 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.

Two new committees, established in 2021, provide further support the Supervisory Board in three key strate-

gic areas – technology, ESG Strategy and climate change. The Technology and Data Committee supports the Supervisory Board in its oversight of key enablers of the strategy, data and cyber issues, and the Company IT resources. The ESG and Ethics Committee ensures that the Bank stays focused on the ESG issues that are key for all our stakeholders. Both committees started operating in 2022.

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.

There are three female members on the Supervisory Board. In addition, 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. As at 31 December 2021, 17% of Group's top management and 35% of Group's middle management roles were performed by females. Moreover, 68% of employees across the Group's entire workforce were female.

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 (the Bank together with its subsidiaries) 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

28 April 2022

Arne Berggren
Chairman

28 April 2022

SUPERVISORY BOARD BIOGRAPHIES

ARNE BERGGREN

Chairman

Joined the Bank in August 2019; Appointed as Chairman on 1 March 2021

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

Arne has worked in the financial services industry for more than 25 years. He has held several senior leadership and advisory roles at prominent financial intuitions including the IMF, World Bank, Swedbank, Carnegie Investment Bank AB and the Swedish Ministry of Finance and Bank Support Authority. Arne had a leading role in the handling of the Swedish banking crisis in 1991-93. During the Asian crisis, he assisted the FRA in Thailand and FSC/ KAMCO in South Korea with the handling of problem assets. During his career, Arne has also served as the CEO of entities outside the financial industry and as an independent non-executive director at the Turkish asset management company, LBT Varlik Yonetim and Slovenian bank asset management company, DUBT Ltd.

Current External non-executive appointments

- Board member of Bank of Cyprus
- Board member of Piraeus Bank

Committee membership

- Chair of the Corporate Governance and Nomination Committee
- Member of the Remuneration Committee

TSIRA KEMULARIA, CDir

Senior Independent Non-Executive Supervisory Board Member

Joined the Bank in September 2018; Appointed as SID on 15 September 2021

Experience

- Deep experience with more than 23 years' experience across the energy and petrochemicals industries including regulated commodity trading and financial services
- Chartered Director 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

Tsira 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. She served in different managerial roles in M&A and Commercial Finance, Group Treasury and Trading and Supply in the UK, Moscow and Barbados between 2005 and 2016. From 2016 to 2019, Tsira was the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London. Since 2019, Tsira is the Head of Internal Audit and Investigations for Shell's global Trading and Supply organization, which is the world's biggest commodity trading and supply business.

Current External non-executive appointments

- Trustee Director of the British Gas Trustee Solutions Ltd, a closed pension fund (post British Gas acquisition by Shell)
- Trustee Director, Shell Trustee Solutions Ltd
- Board member of FaRiG (Friends of Academic Research in Georgia)

Committee membership

- Member of the Audit Committee
- Member of the ESG and Ethics Committee
- Senior Independent Director
- Designated Non-Executive Director for Workforce Engagement

MARIA LUISA CICOGNANI

Independent Non-Executive Supervisory Board Member

Joined the Bank in September 2018

Experience

- Extensive experience in international banking, financial institutions and corporate governance
- Deep understanding of the UK Corporate Governance and directors' remuneration framework
- Strong leadership skills through significant board membership and chairing experience
- Extensive international strategic advisory experience in emerging and growth economies

Maria Luisa has extensive experience in the field of banking, financial institutions and corporate governance. She worked at the European Bank for Reconstruction and Development (London) between 1993 and 2005. Subsequently, she was a director of Financial Institutions at Merrill Lynch and Head of Financial Institutions at Renaissance Capital in London and Moscow, as well as a Managing Director of Mediobanca (London). During 2014-16, Maria Luisa served as a non-executive member of the board of Azimut Global Counseling Srl (Italy) and Azimut International Holding SA (Luxemburg). She has previously served as a Chairperson of Moneta Money Bank (listed on the Prague Stock Exchange), and in 2020-21 she was an independent non-executive director of UBI Banca (Italy).

Current External non-executive appointments

- Chairperson of Mobius Investment Trust, an LSE-listed company
- Chairperson of Arafa Holding, listed on the Cairo Stock Exchange

Committee membership

- Chair of the Remuneration Committee
- Member of the Risk Committee
- Member of the Corporate Governance and Nomination Committee

ERAN KLEIN

Independent Non-Executive Supervisory Board Member

Joined the Bank in July 2021

Experience

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

Eran is an experienced international banker and lawyer who held senior roles over two decades in leading financial institutions such as Commerzbank, Citibank, ING Financial Markets and Deutsche Bank across both developed and emerging markets. Eran 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. Currently, he also serves as a non-executive director and risk committee chair at Privatbank, the largest bank in Ukraine.

Current External non-executive appointments

- Non-Executive Director and Chair of the Risk Committee at Privatbank, Ukraine.

Committee membership

- Chair of the ESG and Ethics Committee
- Member of the Technology and Data Committee
- Member of the Risk Committee

PER ANDERS FASTH

Independent Non-Executive Supervisory Board Member

Joined the Bank in July 2021

Experience

- Extensive experience as CEO and senior executive with more than 20 years at leading financial institutions
- More than 30 years of accumulated experience as an independent non-executive director
- Strong listed company governance, leadership and strategic advisory skills
- Relevant experience in the financial information technologies (Fintech) and credit management industries across Europe
- Relevant experience and expertise in information security risk management

Per Anders served as a senior executive for 20 years, at the leading North-European bank SEB and as a CEO at SBAB Bank, Hoist Finance and European Resolution Capital. Per Anders has deep strategic consulting experience from 10 years at top-tier consultancies McKinsey & Company and QVARTZ (now Bain & Company). He has been a non-executive director of several financial institutions in Scandinavia and Greece where was a board member of Piraeus Bank S.A., a leading listed Greek Bank. In addition, he has extensive professional experience from having worked in the Nordic and Baltic countries, Germany, Luxembourg, Slovenia, the UK and Ukraine where he was an advisor to the World Bank and the Ministry of Finance.

Current External non-executive appointments

- Chairman of Lyra Financial Wealth, a wealth management company
- Chairman of Pepins Group, listed on Nordic GM for SMEs
- Board member of Atle Investment Management/Services

Committee membership

- Chair of the Audit Committee
- Member of the Risk Committee
- Member of the Remuneration Committee

RAJEEV SAWHNEY

Independent Non-Executive Supervisory Board Member

Joined the Bank in November 2021

Experience

- Strong global corporate leadership experience of more than 40 years
- Significant advisory and executive experience with technology and cybersecurity companies
- Extensive expertise in personnel management
- Relevant experience and expertise in information security risk management

Rajeev is a corporate growth executive with 40 years' global experience in digital technologies, serving across various industry sectors in Europe, North America and Asia. Currently, Rajeev serves as Executive Chairman and a non-executive director of OXSIGHT Ltd, a medical equipment developer 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 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 Mphasis, a Hewlett Packard company.

Current External non-executive appointments

- Executive Chairman and board member of OXSIGHT Ltd

Committee membership

- Chair of the Technology and Data Committee
- Member of the ESG and Ethics Committee
- Member of the Corporate Governance and Nomination Committee

NINO SUKNIDZE

Independent Non-Executaive Supervisory Board Member

Joined the Bank in November 2021

Experience

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

Nino is a business lawyer, with 19 years experience in the Georgian market and deep expertise in various areas of practice including banking, finance, corporate, regulatory, 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 for more than 11 years.

Current External non-executive appointments

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

Committee membership

- Member of the Audit Committee
- Member of the Remuneration Committee
- Member of the Corporate Governance and Nomination Committee

THYMIOS P. KYRIAKOPOULOS

Independent Non-Executaive Supervisory Board Member

Joined the Bank in July 2021

Experience

- Extensive experience as an investor, portfolio manager, risk taker and balance sheet planner
- Experience in balance sheet de-risking and deep operational and governance restructuring
- Transformation leadership and crisis management spanning across systemic banks and Fintech
- Strong financial, risk and asset management advisory skills to companies and government entities

Thymios is an internationally experienced banking executive specialising in operational transformation, balance sheet and 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 an 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 management consulting companies.

Current External non-executive appointments

- Board member of the Hellenic Corporation Of Assets And Participations

Committee membership

- Chair of the Risk Committee
- Member of the Audit Committee
- Member of the Technology and Data Committee

THE BANK'S MANAGEMENT BOARD BIOGRAPHIES

VAKHTANG BUTSKHRIKIDZE

CEO

Experience

- Leading banker in the Caucasus and Eastern European region
- Extensive strategic and financial leadership experience of over 25 years
- Robust knowledge and expertise of strategic planning and development, startup and fintech management, mergers and acquisitions, and equity and debt capital debt raising and investor relations

Vakhtang has more than 30 years of banking and financial industry experience. He led the Group from its founding in Georgia in 1992 as a start up to the current market-leading financial technologies institution. He joined TBC Bank as a Senior Manager in 1993 and became Chairman of the Management Board in 1996. Since 1998, he has held the position of Chief Executive Officer of JSC TBC Bank .

Vakhtang is a prominent banker in the Caucasus and Easter European region and has received several prestigious awards, including the Best Banker 2011 award from the GUAM Organization for Democracy and Economic Developmentand was named CEO of the Year 2014 for Central and Eastern Europe and the CIS by EMEA Finance magazine. In March 2019, he won the Special Award for Responsible Capitalism in Adversity from the prestigious FIRST organisation - a multidisciplinary international affairs organization, which aims to enhance dialogue between leaders in industry, finance and government.

Current External non-executive appointments

- Board member of the Association of Banks of Georgia
- Board member of the Business Association of Georgia
- Member of the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council

GIORGI MEGRELISHVILI

Deputy CEO
Chief Financial Officer

Giorgi was appointed as Deputy CEO and CFO of JSC TBC Bank in October 2020. He joined the Bank as a Deputy CFO in March 2020.

Giorgi has 25 years global leadership experience in financial services. Before joining TBC, Giorgi was a Director and Head of Capital Risk and Stress Testing at Natwest Markets N.V. in Amsterdam. Prior to that, Giorgi held a number of key leadership positions at Barclays Bank in London between 2008 and 2019, including as a Director at Barclays Treasury, the Head of Barclays Internal Large Exposure and the Head of Barclays Central Planning. During his work at Barclays, Giorgi also served as Barclays Bank PLC Solo Capital and Leverage Management Lead and the Head of Strategic Planning at Barclaycard UK. In his earlier career, Giorgi held various senior managerial positions at several Georgian organisations.

Giorgi holds an MBA from the Judge Business School at the University of Cambridge.

TORNIKE GOGICHAISHVILI

Deputy CEO
Retail & MSME Banking

Tornike was appointed to his current role as Deputy CEO of JSC TBC Bank and Head of Retail in January 2020. Additionally, Tornike is leading the MSME banking since January 2021. He joined TBC in 2018 as Chief Operating Officer (COO).

Tornike has more than 20 years' financial services and operations management experience in Georgia and Central and Eastern Europe. Prior to joining TBC, he has served as a Deputy CEO and Chief Operating Officer at the Bank of Georgia Group and served at various other key positions at the same institution before that. During 2008-2010, Tornike held the position of CFO at BG Bank Ukraine (a subsidiary of Bank of Georgia). Earlier in his career, Tornike held the position of the CEO of Aldagi, an insurance company in Georgia, served as the chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance.

Tornike holds an MBA from the Caucasus School of Business and an executive diploma from Said Business School in Oxford.

NINO MASURASHVILI

Deputy CEO
Chief Risk Officer

Nino was appointed to her current role as Chief Risk Office of JSC TBC Bank in 2020. Prior to that, Nino held progressively senior positions at TBC after she first joined the Bank in 2000. Nino was appointed as Deputy CEO of the Bank in 2006, leading TBC's retail and MSME businesses at various times. Nino also serves on the supervisory board of TBC's key subsidiary TBC Leasing.

Nino has more than 25 years' financial services and banking experience in Georgia. In her earlier career, Nino held various leadership and managerial positions at JSC TbilCom Bank and the Barents Group.

Nino holds an MBA from the European School of Management in Tbilisi.

GEORGE TKHELIDZE

Deputy CEO
Corporate & Investment Banking
Wealth Management

George was appointed to his current role at the Bank in November 2016, leading the Corporate and Investment Banking businesses. George is also responsible for the Bank's Wealth Management and leasing businesses since January 2021. George first joined TBC in 2014 as Deputy CEO and the Chief Risk Officer.

George has more than 20 years of experience in global financial services. Prior to joining TBC, he worked for Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA. Before that, he was an Associate Director in the Barclays Bank Debt Finance and Restructuring teams. During his career at Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions. In his earlier career in Georgia, George served as the Chief Executive Officer at Aldagi, the leading insurance company in Georgia and held progressively senior positions at the same company prior to that.

George is Stanford Executive Program (SEP) graduate, holds an MBA from the London Business School and a Master of Laws degree (LLM) in International Commercial Law from the University of Nottingham.

NIKOLOZ KURDIANI

Deputy CEO
Brand Experience
Marketing & Payments

Nikoloz was appointed to his current role as Deputy CEO of JSC TBC Bank in January 2021, leading Brand Experience, Marketing and Payments. He joined the Bank in 2014 as the Deputy CEO in charge of Marketing and MSME banking. Additionally, Nikoloz has been leading TBC's digital banking platform, Space, since 2018.

Nikoloz has more than 15 years' experience in the banking industry in Central Asia, CEE and Europe. Prior to joining TBC Bank, Nikoloz was the managing director at Kaspi Bank, a leading retail bank in Kazakhstan. At Bank of Austria, UniCredit Group, he served as the senior sales support expert in the CEE retail division, responsible for Turkey, Kazakhstan, Ukraine and Serbia. At ATF Bank, UniCredit Group in Kazakhstan, he was in charge of the retail banking division. Earlier in his career in Georgia, Nikoloz served as the head of the retail banking division of Bank Republic Georgia, Société Générale Group, and held several leadership and managerial positions at Bank of Georgia.

Nikoloz holds an MBA from IE Business School in Spain and a masters degree in International Economics from Georgian Technical University.

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 2021, 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 2021;
- 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.

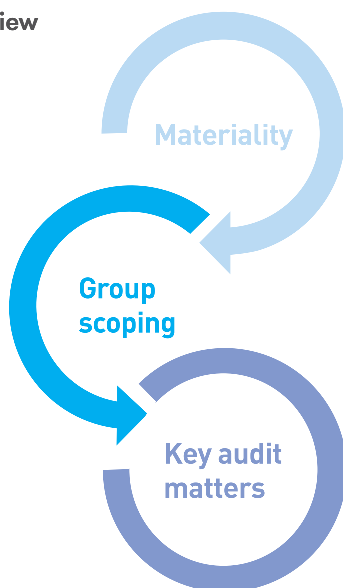
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

OUR AUDIT APPROACH

Overview



- Overall Group materiality: GEL 48.1 million, which represents 5% of the Group's actual profit before tax.
- Overall Bank materiality: GEL 48.7 million, which represents 5% of Bank's actual profit before tax.
- Our scoping was driven by legal entity contribution to profit before tax and other key financial metrics. We also considered overall coverage in assessing the appropriateness of our scoping.
- Audit matter which was of most significance in the audit of the consolidated and separate financial statements is:
  - Expected credit loss allowance for 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 48.1 million (2020: GEL 23.8. million) Bank: GEL 48.7 million (2020: GEL 22.7 million)
How we determined it	5% of annual profit before tax (2020: 5% of the average profit before tax for the last three years).
Rationale for the materiality benchmark applied	Profit before tax is a primary measure used by the shareholders in assessing the performance of the Group and the Bank and is a generally accepted benchmark for determining audit materiality.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 for loans and advances to customer Refer to pages 134 to 150 (Significant Accounting Policies), pages 150 to 154 (Critical accounting estimates and judgements in applying accounting policies), and pages 162 to 185 (Note 9 - Loans and advances to customers). We focused on this area as the management estimates regarding the material financial statement line item of expected credit loss ('ECL') allowance are complex and require a significant degree of judgement Under IFRS 9 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 judgemental and involve qualitative assessment of borrowers' creditworthiness. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. There is an increased level of uncertainty in the macroeconomic forecasts due to the impact of COVID-19 on the economy. Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement to the models in situations where past experience was not considered to be reflective of future outcomes due to limited or incomplete data. Management has also considered the need for incorporating post-model adjustments which would cover the aspects not fully captured by existing models. We have considered the following to be significant for the determination of ECL. – The appropriateness of model methodologies (including their ability to reflect the ongoing impact of COVID-19 through appropriate calibration of existing assumptions) and critical judgements and estimates used to determine the expected credit losses; – 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 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 judgemental 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 and critically assessed the monitoring results. The results were interpreted in the context of COVID-19 circumstances and explanations were obtained for deviations from the expectation. Where relevant, particular assumptions made in the ECL estimation process 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 checked that macroeconomic assumptions and scenario weightings used by the Bank are reasonable. We challenged management in respect of the completeness and ongoing appropriateness of PMAs recognised. We assessed the PMAs applied including judgements and assumptions used and calculations involved. As a result, we checked that the PMAs were recognised where existing models were not able to capture the emerging risks, and 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 99% of profit before tax. 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.

Our audit approach and team was also designed to reflect the structure of the group. We did not use component auditors for audit of in-scope areas. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 98% of revenue and 99% of total assets of the group.

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 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 judgement 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 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)

Tbilisi, Georgia
28 April 2022

PricewaterhouseCoopers Georgia LLC, I/C 405220611
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#12 M. Aleksidze Street, Tbilisi 0171, Georgia
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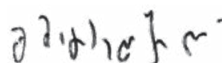
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of GEL	Note	31 December 2021	31 December 2020	31 December 2019
ASSETS				
Cash and cash equivalents	6	1,595,460	1,601,599	994,479
Due from other banks	7	42,237	19,690	15,597
Mandatory cash balances with National Bank of Georgia	8	2,086,113	2,098,506	1,591,829
Loans and advances to customers	9	16,547,185	14,594,269	12,349,399
Investment securities measured at fair value through other comprehensive income	10	1,938,196	1,527,268	985,293
Bonds carried at amortised cost	11	-	1,059,946	1,021,568
Finance lease receivables	13	252,340	270,978	256,660
Investment properties	17	22,892	68,689	72,667
Current income tax prepayment	35	84	69,762	25,695
Deferred income tax asset	35	2,056	2,134	2,173
Other financial assets	12	442,207	161,002	115,211
Other assets	14	373,892	256,646	247,201
Premises and equipment	15	378,657	362,863	329,529
Right of use assets	16	58,001	49,746	57,086
Intangible assets	15	267,406	223,577	159,109
Goodwill	18	28,197	28,197	29,459
Investments in associates		4,589	4,090	2,655
TOTAL ASSETS		**24,039,512**	**22,398,962**	**18,255,610**
LIABILITIES				
Due to credit institutions	19	2,984,075	4,485,873	3,593,901
Customer accounts	20	14,884,145	12,634,295	10,112,002
Other financial liabilities	23	120,620	211,242	95,643
Current income tax liability	35	86,302	27	818
Deferred income tax liability	35	10,979	13,084	18,806
Debt securities in issue	21	1,583,699	1,419,513	1,213,598
Provision for liabilities and charges	22	15,845	17,451	16,979
Other liabilities	24	83,623	59,969	70,366
Lease liabilities	36	56,522	54,588	59,316
Subordinated debt	25	623,647	672,740	591,035
TOTAL LIABILITIES		**20,449,457**	**19,568,782**	**15,772,464**
EQUITY				
Share capital	26	21,014	21,014	21,014
Share premium		521,190	521,190	521,190
Retained earnings		3,117,079	2,355,105	2,016,119
Share based payment reserve	27	(52,521)	(73,130)	(62,669)
Fair value reserve of investment securities measured at fair value through other comprehensive income		(10,862)	11,157	(6,399)
Cumulative currency translation reserve		(5,938)	(5,261)	(6,691)
Net assets attributable to owners		**3,589,962**	**2,830,075**	**2,482,564**
Non-controlling interest	39	93	105	582
TOTAL EQUITY		**3,590,055**	**2,830,180**	**2,483,146**
TOTAL LIABILITIES AND EQUITY		**24,039,512**	**22,398,962**	**18,255,610**

The consolidated and the separate financial statements on pages 123 to 263 were approved by the Supervisory Board on 28 April 2022 and signed on its behalf by:



Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Megrelishvili
Chief Financial Officer

The notes set out on pages 131 to 263 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	31 December 2021	31 December 2020 (restated)	31 December 2019 (restated)
Interest income	29	1,863,077	1,660,838	1,435,106
Interest income calculated using effective interest method	29	1,805,196	1,608,751	1,387,172
Other interest income	29	57,881	52,087	47,934
Interest expense	29	(895,428)	(854,089)	(670,422)
Net interest gains on currency swaps	29	28,143	20,950	28,556
Net interest income		**995,792**	**827,699**	**793,240**
Fee and commission income	30	378,160	290,496*	280,618*
Fee and commission expense	30	(153,273)	(121,717)*	(101,492)*
Net fee and commission income		**224,887**	**168,779**	**179,126**
Net gains from currency derivatives, foreign currency operations and translation	32	124,194	105,855	102,435
Net gains/(losses) from disposal of investment securities measured at fair value through other comprehensive income		11,156	(624)	169
Other operating income	31	41,042	13,354	17,576
Share of profit of associates		837	–	632
Other operating non-interest income		**177,229**	**118,585**	**120,812**
Credit loss recovery/(allowance) for loans to customers	9	43,176	(330,811)	(82,030)
Credit loss recovery/(allowance) for finance lease receivables	13	236	(7,760)	582
Credit loss recovery/(allowance) for performance guarantees and credit related commitments	22	1,204	3,238	(2,156)
Credit loss allowance for other financial assets	12	(14,461)	(13,408)	(7,717)
Credit loss recovery/(allowance) for financial assets measured at fair value through other comprehensive income		2,594	(1,810)	(291)
Net impairment of non-financial assets		(11,715)	(5,830)*	(2,743)*
Operating income after expected credit and non-financial asset impairment losses		**1,418,942**	**758,682***	**998,823***
Staff costs	33	(255,747)	(206,887)	(226,008)
Depreciation and amortization	15,16,17	(70,622)	(64,068)	(57,319)
Provision for liabilities and charges	22	-	(2,600)	(2,105)
Administrative and other operating expenses	34	(128,624)	(111,914)*	(124,184)*
Operating expenses		**(454,993)**	**(385,469)***	**(409,616)***
Losses from modifications of financial instruments		(1,726)	(41,015)	–
Profit before tax		**962,223**	**332,198**	**589,207**
Income tax (expense)/credit	35	(119,278)	5,062	(43,522)
Profit for the year		**842,945**	**337,260**	**545,685**
Other comprehensive (expense)/income for the year				
Items that may be reclassified subsequently to profit or loss:				
Movements in fair value reserve for investment securities measured at fair value through other comprehensive income	10	(22,020)	17,633	(15,175)
Exchange differences on translation to presentation currency		(677)	1,588	241
Other comprehensive (expense)/income for the year		**(22,697)**	**19,221**	**(14,934)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**820,248**	**356,481**	**530,751**
Profit is attributable to:				
– Shareholders of the Group		842,929	337,238	545,612
– Non-controlling interest		16	22	73
Profit for the year		**842,945**	**337,260**	**545,685**
Total comprehensive income is attributable to:				
– Shareholders of the Group		820,232	356,459	530,678
– Non-controlling interest		16	22	73
Total comprehensive income for the year		**820,248**	**356,481**	**530,751**

** Certain amounts do not correspond to the 2020 and 2019 financial statements as they reflect the certain restatements as described in Note 2.*

The notes set out on pages 131 to 263 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 pay-ments reserve**	**Fair value reserve for investment securities at FVTOCI**	**Cumu-lative currency trans-lation reserve**	**Retained earnings**	**Total equity excluding non-con-trolling interests**	**Non-con-trolling interest**	**Total Equity**
Balance as of 1 January 2019		**21,014**	**521,190**	**(33,591)**	**8,775**	**(6,933)**	**1,551,176**	**2,061,631**	**568**	**2,062,199**
Profit for the year		–	–	–	-	-	545,612	545,612	73	**545,685**
Other comprehensive (loss)/income		–	–	–	(15,175)	241	-	(14,934)	-	**(14,934)**
Total comprehensive (loss)/income for 2019		**–**	**–**	**–**	**(15,175)**	**241**	**545,612**	**530,678**	**73**	**530,751**
Share based payment expense	27	-	-	33,762	-	-	-	33,762	-	**33,762**
Share based payment recharge by parent company		-	-	(62,840)	-	-	-	(62,840)	-	**(62,840)**
Purchase of additional interest from NCI		-	-	–	-	-	-	-	(19)	**(19)**
Dividends declared		-	-	–	-	-	(80,911)	(80,911)	-	**(80,911)**
Other movements		-	-	-	1	1	242	244	(40)	**204**
Balance as of 31 December 2019		**21,014**	**521,190**	**(62,669)**	**(6,399)**	**(6,691)**	**2,016,119**	**2,482,564**	**582**	**2,483,146**
Profit for the year		–	–	–	–	–	337,238	337,238	22	**337,260**
Other comprehensive income		–	–	–	17,633	1,588	–	19,221	-	**19,221**
Total comprehensive income for 2020		**–**	**–**	**–**	**17,633**	**1,588**	**337,238**	**356,459**	**22**	**356,481**
Share based payment expense	27	–	–	17,472	–	–	–	17,472	–	**17,472**
Share based payment recharge by parent company		–	–	(27,932)	–	–	–	(27,932)	–	**(27,932)**
Other movements		–	–	(1)	(77)	(158)	1,748	1,512	(499)	**1,013**
Balance as of 31 December 2020		**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	2	–	–	–	26,062	–	–	26,062	-	**26,062**
Other effects during the period		–	–	–	(48,082)	(677)	–	(48,759)	-	**(48,759)**
Total comprehensive (loss)/income for 2021		**–**	**–**	**–**	**(22,020)**	**(677)**	**842,929**	**820,232**	**16**	**820,248**
Share based payment expense	27	–	–	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**

The notes set out on pages 131 to 263 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of GEL	Note	31 December 2021	31 December 2020	31 December 2019
Cash flows from/(used in) operating activities				
Interest received		1,953,538	1,455,624	1,359,528
Interest received on currency swaps	29	28,143	20,950	28,556
Interest paid		(841,066)	(841,146)	(657,671)
Fees and commissions received		361,844	297,030	282,715
Fees and commissions paid		(152,984)	(129,445)	(105,207)
Income/(expense) from trading in foreign currencies	32	113,043	(92,191)	79,287
Other operating income received		25,904	10,216	18,356
Staff costs paid		(258,274)	(203,247)	(198,345)
Administrative and other operating expenses paid		(130,891)	(103,274)	(132,181)
Income tax paid		(7,100)	(44,285)	(68,166)
Cash flows from operating activities before changes in operating assets and liabilities		**1,092,157**	**370,232**	**606,872**
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		390,174	(341,901)	(14,811)
Loans and advances to customers		(2,993,309)	(1,059,684)	(2,013,577)
Finance lease receivables		9,493	(2,010)	(44,268)
Other financial assets		(229,236)	(58,914)	26,582
Other assets		14,975	33,750	2,702
Net change in operating liabilities				
Due to other banks		139,893	(32,294)	(1,938)
Customer accounts		2,606,998	1,457,569	274,769
Other financial liabilities		(112,238)	132,679	10,205
Other liabilities and provision for liabilities and charges		40,277	(5,128)	8,432
Net cash flows from/(used in) from operating activities		**959,184**	**494,299**	**(1,145,032)**
Cash flows (used in) / from investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	(797,285)	(763,531)	(1,781,816)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	1,025,775	287,917	240,603
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	412,204	165,632	1,598,536
Dividends received		-	694	-
Acquisition of subsidiaries, net of cash acquired		-	-	410
Acquisition of bonds carried at amortised cost	11	-	(639,824)	(613,383)
Proceeds from redemption of bonds carried at amortised cost	11	-	413,038	216,871
Acquisition of premises, equipment and intangible assets	15	(107,544)	(153,791)	(120,677)
Proceeds from disposal of premises, equipment and intangible assets		20,826	3,450	13,225
Proceeds from disposal of investment properties		23,639	13,513	13,681
Net cash from/(used in) investing activities		**577,615**	**(672,902)**	**(432,550)**
Cash flows (used in)/from financing activities				
Proceeds from other borrowed funds	36	1,750,443	4,031,812	1,819,899
Redemption of other borrowed funds	36	(3,337,495)	(3,319,427)	(1,392,897)
Repayment of principal of lease liabilities	36	(12,825)	(13,251)	(6,453)
Redemption of subordinated debt	36	(12,562)	–	(104,079)
Proceeds from debt securities in issue	36	242,287	31,601	1,176,049
Redemption of debt securities in issue	36	-	–	(14,296)
Share based payment recharge paid		-	(27,932)	(62,840)
Dividends paid		(81,920)	–	(80,911)
Net cash flows (used in)/from financing activities		**(1,452,072)**	**702,803**	**1,334,472**
Effect of exchange rate changes on cash and cash equivalents		(90,866)	82,920	73,186
Net (decrease)/increase in cash and cash equivalents		**(6,139)**	**607,120**	**(169,924)**
Cash and cash equivalents at the beginning of the year	**6**	**1,601,599**	**994,479**	**1,164,403**
Cash and cash equivalents at the end of the year	**6**	**1,595,460**	**1,601,599**	**994,479**

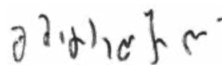
The notes set out on pages 131 to 263 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	31 December 2021	31 December 2020	31 December 2019
ASSETS				
Cash and cash equivalents	6	1,565,400	1,536,717	978,870
Due from other banks	7	16,722	13,717	12,709
Mandatory cash balances with National Bank of Georgia	8	2,086,113	2,098,506	1,591,829
Loans and advances to customers	9	16,549,460	14,611,204	12,416,985
Investment securities measured at fair value through other comprehensive income	10	1,958,198	1,547,330	983,131
Bonds carried at amortised cost	11	-	1,059,946	1,021,568
Investment properties	17	22,022	67,812	71,801
Current income tax prepayment		-	69,166	25,126
Other financial assets	12	442,305	173,075	119,593
Other assets	14	321,009	226,892	197,904
Premises and equipment	15	352,743	335,124	302,190
Intangible assets	15	249,356	210,602	152,393
Right of use assets	16	56,244	46,699	55,571
Goodwill	18	27,502	27,502	27,502
Investments in subsidiaries and associates		32,451	33,142	33,080
TOTAL ASSETS		**23,679,525**	**22,057,434**	**17,990,252**
LIABILITIES				
Due to credit institutions	19	2,757,243	4,230,013	3,418,798
Customer accounts	20	14,932,402	12,746,959	10,177,027
Debt securities in issue	21	1,539,518	1,381,009	1,213,598
Other financial liabilities	23	92,613	186,487	58,809
Current income tax liability		86,681	-	-
Deferred income tax liability	35	10,979	13,083	18,347
Provisions for liabilities and charges	22	15,845	17,451	16,978
Other liabilities	24	75,263	52,083	60,371
Lease liabilities	36	54,328	51,215	58,476
Subordinated debt	25	592,333	639,641	562,060
TOTAL LIABILITIES		**20,157,205**	**19,317,941**	**15,584,464**
EQUITY				
Share capital	26	21,014	21,014	21,014
Share premium		521,190	521,190	521,190
Retained earnings		3,043,459	2,259,159	1,933,412
Share based payment reserve	27	(52,521)	(73,129)	(62,669)
Fair value reserve of investment securities measured at fair value through other comprehensive income		(10,822)	11,259	(7,159)
TOTAL EQUITY		**3,522,320**	**2,739,493**	**2,405,788**
TOTAL LIABILITIES AND EQUITY		**23,679,525**	**22,057,434**	**17,990,252**

The consolidated and separate financial statements on pages 123 to 263 were approved by the Supervisory Board on 28 April 2022 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer



Giorgi Megrelishvili
Chief Financial Officer

The notes set out on pages 131 to 263 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	31 December 2021	31 December 2020 (restated)	31 December 2019 (restated)
Interest income	29	1,803,709	1,609,791	1,387,720
Interest expense	29	(878,444)	(839,830)	(657,579)
Net interest gains on currency swaps	29	28,143	20,950	28,556
Net interest income		**953,408**	**790,911**	**758,697**
Fee and commission income	30	349,598	263,981*	250,954*
Fee and commission expense	30	(176,028)	(139,583)*	(115,159)*
Net fee and commission income		**173,570**	**124,398**	**135,795**
Net gains from currency derivatives, foreign currency operations and translation	32	124,879	108,101	103,210
Net gains/(losses) from disposal of Investment securities measured at fair value through other comprehensive income		11,156	(624)	169
Other operating income		86,170	6,120	15,452
Share of profit of associates		810	-	633
Other operating non-interest income		**223,015**	**113,597**	**119,464**
Credit loss recovery/(allowance) for loan to customers	9	37,633	(323,651)	(84,562)
Credit loss recovery/(allowance) for performance guarantees and credit related commitments	38	1,204	3,238	(2,156)
Credit loss allowance for other financial assets	12	(5,979)	(9,844)	(2,173)
Credit loss recovery/(allowance) for financial assets measured at fair value through other comprehensive income	10	2,670	(1,915)	(291)
Net impairment of non-financial assets		(10,205)	(4,490)*	(1,886)*
Operating income after expected credit and non-financial asset impairment losses		**1,375,316**	**692,244***	**922,888***
Staff costs	33	(232,291)	(186,395)	(205,026)
Depreciation and amortisation		(62,653)	(55,761)	(50,726)
Provision for provision for liabilities and charges	22	-	(2,600)	(2,105)
Administrative and other operating expenses	34	(103,668)	(90,153)*	(101,053)*
Operating expenses		**(398,612)**	**(334,909)***	**(358,910)***
Losses from modifications of financial instruments		(1,726)	(37,131)	-
Profit before tax		**974,978**	**320,204**	**563,978**
Income tax (expense)/credit	35	(109,813)	5,264	(43,101)
Profit for the year		**865,165**	**325,468**	**520,877**
Other comprehensive (expense)/income 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		(22,081)	17,632	(15,933)
Other comprehensive (expense)/income for the year		**(22,081)**	**17,632**	**(15,933)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**843,084**	**343,100**	**504,944**

** Certain amounts do not correspond to the 2020 and 2019 financial statements as they reflect the certain restatements as described in Note 2.*

The notes set out on pages 131 to 263 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 payments reserve	Fair value reserve of investment securities measured at FVOCI	Retained earnings	Total
Balance as of 1 January 2019		**21,014**	**521,190**	**(33,591)**	**8,775**	**1,493,408**	**2,010,796**
Profit for the year		–	–	–	-	520,877	**520,877**
Other comprehensive loss		–	–	–	(15,933)	-	**(15,933)**
Total comprehensive (loss)/income for 2019		**–**	**–**	**–**	**(15,933)**	**520,877**	**504,944**
Share based payment expense	27	–	–	33,762	–	–	**33,762**
Share based payment recharge by parent company		–	–	(62,840)	–	–	**(62,840)**
Dividends declared		–	–	–	–	(80,911)	**(80,911)**
Other movements		–	–	–	(1)	38	**37**
Balance as of 31 December 2019		**21,014**	**521,190**	**(62,669)**	**(7,159)**	**1,933,412**	**2,405,788**
Profit for the year		–	–	–	–	325,468	**325,468**
Other comprehensive income		–	–	–	17,632	–	**17,632**
Total comprehensive income for 2020		**–**	**–**	**–**	**17,632**	**325,468**	**343,100**
Share based payment expense	27	–	–	17,472	–	–	**17,472**
Share based payment recharge by parent company		–	–	(27,932)	–	–	**(27,932)**
Other movements		–	–	–	786	279	**1,065**
Balance as of 31 December 2020		**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	2	–	–	–	26,062	-	**26,062**
Other effects during the period		–	–	–	(48,143)	-	**(48,143)**
Total comprehensive (loss)/income for 2021		**–**	**–**	**–**	**(22,081)**	**865,165**	**843,084**
Share based payment expense	27	–	–	20,609	–	–	**20,609**
Dividends declared		–	–	–	–	(81,872)	**(81,872)**
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**

The notes set out on pages 131 to 263 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

in thousands of GEL	Note	31 December 2021	31 December 2020	31 December 2019
Cash flows from operating activities				
Interest received		1,896,294	1,402,828	1,310,626
Interest received on currency swaps	29	28,143	20,950	28,556
Interest paid		(827,586)	(826,633)	(663,802)
Fees and commissions received		347,743	270,516	253,250
Fees and commissions paid		(175,738)	(147,379)	(118,969)
Income/(expense) from trading in foreign currencies	32	108,379	(91,996)	79,618
Other operating income received		18,839	4,803	9,543
Staff costs paid		(235,399)	(182,627)	(178,518)
Administrative and other operating expenses paid		(103,865)	(80,965)	(110,569)
Income tax paid		(60)	(44,040)	(68,508)
Cash flows from operating activities before changes in operating assets and liabilities		**1,056,750**	**325,457**	**541,227**
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		414,144	(338,835)	(20,393)
Loans and advances to customers		(2,981,673)	(993,187)	(2,042,091)
Other financial assets		(236,092)	(45,601)	477
Other assets		32,810	6,882	19,332
Net change in operating liabilities				
Due to other banks		139,332	(32,294)	(1,938)
Customer accounts		2,532,369	1,499,686	300,888
Other financial liabilities		(96,287)	125,129	3,456
Other liabilities and provision for liabilities and charges		39,348	(459)	5,019
Net cash flows from/(used in) operating activities		**900,701**	**546,778**	**(1,194,023)**
Cash flows (used in) / from investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	(797,285)	(783,530)	(1,781,432)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	1,025,775	287,917	240,603
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	412,204	165,632	1,598,536
Dividends received		52,593	694	5,211
Cash received from capital reductions in subsidiaries and contributions paid in subsidiaries		1,101	(667)	-
Acquisition of bonds carried at amortised cost	11	-	(639,824)	(613,383)
Proceeds from redemption of bonds carried at amortised cost	11	-	413,038	216,871
Acquisition of premises, equipment and intangible assets	15	(93,626)	(142,367)	(112,345)
Proceeds from disposal of premises, equipment and intangible assets		20,609	4,510	10,140
Proceeds from disposal of investment property		24,423	12,849	12,446
Net cash from/(used in) investing activities		**645,794**	**(681,748)**	**(423,353)**
Cash flows (used in)/ from financing activities				
Proceeds from other borrowed funds		1,692,815	3,860,292	1,703,411
Redemption of other borrowed funds		(3,267,884)	(3,209,347)	(1,270,653)
Repayment of principal of lease liabilities		(10,797)	(15,784)	(6,960)
Redemption of subordinated debt		(12,562)	–	(104,079)
Proceeds from debt securities in issue		236,820	–	1,196,422
Dividends paid		(81,872)	–	(80,911)
Share based payment recharge paid		-	(27,932)	(62,840)
Net cash flows (used in)/ from financing activities		**(1,443,480)**	**607,229**	**1,374,390**
Effect of exchange rate changes on cash and cash equivalents		(74,332)	85,588	66,468
Net increase/(decrease) in cash and cash equivalents		**28,683**	**557,847**	**(176,518)**
Cash and cash equivalents at the beginning of the year	6	**1,536,717**	**978,870**	**1,155,388**
Cash and cash equivalents at the end of the year	6	**1,565,400**	**1,536,717**	**978,870**

The notes set out on pages 131 to 263 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 147 (2020:149; 2019:148) branches within Georgia.

TBC Bank Group PLC ("TBCG") is a public limited liability company, incorporated in England and Wales. TBCG held 99.88% of the share capital of JSC TBC Bank as at 31 December 2021 (2020: 99.88%, 2019: 99.88%), thus representing the Bank's ultimate parent company. TBC Bank Group PLC's registered legal address is Highdown House, Yeoman Way, Worthing, West Sussex, United Kingdom, BN99 3HH. Registered number of TBC Group PLC is 10029943.

The following shareholders directly owned more than 3% of the total outstanding shares of the Group. Other shareholders individually owned less than 3% of the outstanding shares. As of 31 December 2021, 2020, and 2019 the Group had no ultimate controlling party.

	% of ownership interest held as of 31 December		
Shareholders	**2021**	**2020**	**2019**
TBC Bank Group PLC	99.88%	99.88%	99.88%
Other	0.12%	0.12%	0.12%
Total	**100.00%**	**100.00%**	**100.00%**

As of 31 December 2021, 31 December 2020 and 31 December 2019, the shareholder structure of TBC Bank Group PLC by beneficiary ownership interest was as follows:

	Ownership interest % as of 31 December		
Shareholders	**2021**	**2020**	**2019**
Institutional and retail investors	74.31%	74.79%	68.70%
International Financial Institutions	7.84%	7.84%	8.04%
Founders*	14.61%	14.64%	16.26%
Other shareholders**	3.24%	2.73%	7.00%
Total	**100.00%**	**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 CONTINUED

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

	Proportion of voting rights and ordinary share capital held as of 31 December					
Subsidiary name	**2021**	**2020**	**2019**	**Principal place of business or incorporation**	**Year of incorporation**	**Principal activities**
JSC TBC Bank	99.88%	99.88%	99.88%	Tbilisi, Georgia	1992	Banking
United Financial Corporation JSC	99.53%	99.53%	99.53%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	100.00%	100.00%	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution
TBC Pay LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
TBC Invest LLC	100.00%	100.00%	100.00%	Ramat Gan,Israel	2011	PR and marketing
Index LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management
TBC Capital Asset Management LLC	100.00%	N/A	N/A	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					
Associate name	**2021**	**2020**	**2019**	**Principal place of business or incorporation**	**Year of incorporation**	**Principal activities**
CreditInfo Georgia JSC	21.08%	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation
Tbilisi Stock Exchange JSC	28.87%	28.87%	28.87%	Tbilisi, Georgia	2019	Finance, service
Georgian Central Securities Depository JSC	22.87%	22.87%	27.70%	Tbilisi, Georgia	2019	Finance, service
Georgian Stock Exchange JSC[1]	17.33%	17.33%	17.33%	Tbilisi, Georgia	2019	Finance, service
Kavkasreestri JSC[1]	10.03%	10.03%	10.03%	Tbilisi, Georgia	2019	Finance, service

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries.

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.

MANAGEMENT REPORT GOVERNANCE FINANCIAL STATEMENTS ADDITIONAL INFORMATION

1. INTRODUCTION CONTINUED

	Proportion of voting rights and ordinary share capital held as of 31 December					
Subsidiary name	2021	2020	2019	Principal place of business or incorporation	Year of incorpora-tion	Principal activities
TBC Invest International Ltd[2]	100.00%	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund[2]	33.33%	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Natural Products of Georgia LLC[2]	25.00%	25.00%	25.00%	Tbilisi, Georgia	2001	Trade, Service
TBC Trade LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2008	Trade, Service
Georgia Large Cap Diversified Credit Portfolio JSC	100.00%	N/A	N/A	Tbilisi, Georgia	2021	Asset Management

Operating environment of the Group. Georgia, where Group's most 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 35). In 2021 the Georgian economy rebounded at 10.4%. While the restart was certainly expected, the Georgian economy has rebounded at a speed exceeding even the most optimistic scenarios. Importantly, the growth was broad based and has been reflected in all sources of inflows, as well as in domestic demand. The latter was fuelled by the reversal of the excess pandemic period related savings in an affluent segment being supported by the low USD deposit rates. The credit growth was also strong, while, the fiscal stance was slightly contractionary on the back of still large, however, much lower deficit than a year ago. At the same time, Georgia continues to face downside risks to economic growth due to prolongation of the pandemic, internal and external political tensions, possible military conflicts in the region, as well as undesirable side effects of the Fed's sooner-than-expected rate hike.

COVID-19 new cases continue to surge at an unprecedented speed. However, a much less severity of Omicron now appears to be well confirmed. At the same time, Georgia, among some other region countries, faces vaccination process challenges, lagging behind the world average. In 2022, compared with 2021, the growth will much more depend on the continued recovery in tourism inflows and therefore, the materialization of pandemic related and other risks could severely restrict economic activity in Georgia, negatively impacting business environment and clients of the Group.

Management is taking necessary measures to ensure sustainability of the Group's operations and support its customers and employees. There is continuous work on stress testing to better understand possible implications for the group of certain adverse scenarios. In addition, the Management took additional measures to identify inefficient processes and further supported the financial condition of the Group through optimisation.

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 37 provides more information of how the Group incorporated forward-looking information in the ECL models.

Since February 2022 ongoing political tension in the region escalated as a result of Russian invasion in Ukraine. This has negatively impacted commodity and financial markets, and increased volatility, particularly with regard to foreign exchange rates. As a result of sanctions imposed from a number of countries, many companies left Russian market and as a result ceased providing services and products to Russian Market. There is an expectation of further sanctions and limitations on business activity of companies operating in Russia. To avoid the severe effects on Georgian economy the Georgian Government has not joined on all sanctions, but the full nature and possible effects of the imposed restrictions against Russia and Ukrainian economy downturn are yet unknown. However, taking into account Georgia's vulnerability to developments in Ukraine and Russia and economic links with these countries, there will be adverse implications for the growth outlook, as well as, for the other macro variables, which may also negatively affect the Bank's capital adequacy, liquidity and credit risks.

1 The Group has a significant influence on Georgian Stock Exchange JSC and Kavkasreestri JSC held as an investment in associates.
2 Dormant

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.

Climate Change. The Group as a responsible lender continues to develop its assessment of the potential impacts that climate change and the transition to a low carbon economy may have on the assets and liabilities recognised and presented in its financial statements. During the year the Group has performed a high level sectoral risk assessment as different sectors might be vulnerable to different climate-related risks over different time horizons. On the other hand, the understanding of climate related risks, which have longer-term impacts need to be increased in coming years. At 31 December 2021, management specifically considered the potential impact of climate change and the transition to a low carbon economy on at a high level sectoral risk assessment. See more details outlined in risk management disclosures in note 37.

Presentation currency. These financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

Changes in presentation of the net impairment of non-financial assets. During 2021, the Group reclassified impairment/recovery of non-financial assets from "Administrative and other operating expenses" to "Net impairment of non-financial assets". Significant part of any impairment/recoveries recorded are related to repossessed assets and investment properties. Management believes, that those type of assets are not actively used in daily operations, but are primarily targeted for sale in future. Considering nature of those expenses/recovery such presentation is more appropriate and would increase understandability and clarity of the Group's audited consolidated and separate annual financial statements. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

Effect on consolidated statement of profit or loss and other comprehensive income

In thousands of GEL	**31 December 2020 (as originally presented)**	**Reclassification**	**31 December 2020 (as restated)**
Net impairment of non-financial assets	-	(5,830)	(5,830)
Administrative and other operating expenses	(117,744)	5,830	(111,914)

In thousands of GEL	**31 December 2019 (as originally presented)**	**Reclassification**	**31 December 2019 (as restated)**
Net impairment of non-financial assets	-	(2,743)	(2,743)
Administrative and other operating expenses	(126,927)	2,743	(124,184)

Effect on separate statement of profit or loss and other comprehensive income

In thousands of GEL	**31 December 2020 (as originally presented)**	**Reclassification**	**31 December 2020 (as restated)**
Net impairment of non-financial assets	-	(4,490)	(4,490)
Administrative and other operating expenses	(94,643)	4,490	(90,153)

In thousands of GEL	**31 December 2019 (as originally presented)**	**Reclassification**	**31 December 2019 (as restated)**
Net impairment of non-financial assets	-	(1,886)	(1,886)
Administrative and other operating expenses	(102,939)	1,886	(101,053)

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Restatement of cashbacks and incentive payments received for card operations. To further foster clarity of the consolidated statement of comprehensive income, the Group has re-considered the presentation of cash backs and incentive payments received from Visa and Mastercard for card operations. The amount of cash backs and incentive payments receivable depend on the scale of Groups operations with Visa and Mastercard cards and related commission expenses paid to them. Management believes, presenting commission expenses made to Visa and Mastercard net of cash backs and incentive payments received from them, will increase clarity and understandability of the financial statements and related accounting treatments. As a result of reclassification, management has moved cashbacks and incentive payments from Visa and Mastercard from "Fee and commission income" to "Fee and commission expense". The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

Effect on consolidated statement of profit or loss and other comprehensive income

In thousands of GEL	**31 December 2020 (as originally presented)**	**Reclassification**	**31 December 2019 (as restated)**
Fee and commission income	298,496	(8,000)	290,496
Fee and commission expense	(129,717)	8,000	(121,717)

In thousands of GEL	**31 December 2019 (as originally presented)**	**Reclassification**	**31 December 2019 (as restated)**
Fee and commission income	284,428	(3,810)	280,618
Fee and commission expense	(105,302)	3,810	(101,492)

Effect on separate statement of profit or loss and other comprehensive income

In thousands of GEL	**31 December 2020 (as originally presented)**	**Reclassification**	**31 December 2020 (as restated)**
Fee and commission income	271,981	(8,000)	263,981
Fee and commission expense	(147,583)	8,000	(139,583)

In thousands of GEL	**31 December 2019 (as originally presented)**	**Reclassification**	**31 December 2019 (as restated)**
Fee and commission income	254,764	(3,810)	250,954
Fee and commission expense	(118,969)	3,810	(115,159)

Business model change. The Group historically used Ministry of Finance (MoF) securities to invest the excess monetary resources and receive interest charges in return of the investment. In majority of the cases the securities were held till their maturity and the Group has not been engaged in trading activities for profit making purposes. As a result, according to their business model such securities were classified under hold to collect category and were recorded as "Bonds carried at amortised cost" in the consolidated and separate statements of financial position.

Towards the end of 2020 Ministry of Finance launched a new primary dealer platform to increase liquidity of the securities, to further encourage the trading of Government notes and develop Georgian securities market. Third party dealers were established for trading between the Ministry of Finance and investors. The platform was to expand investor data base and enhance liquidity of secondary market. JSC TBC Bank was given primary dealer status in the platform that enabled to act as an intermediary between investors and the Ministry of Finance by executing an order on behalf of investors.

As secondary market became more active, the Group began to monitor beneficial market opportunities and started selling Ministry of Finance securities in beneficial cases, provided the sale wouldn't impact significantly the liquidity position of the Group and would generate strong profit compared to collecting principal and interest till their maturity. As a result, practices for managing treasury securities changed by the end of 2020.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Respective change in Management's processes caused changes in existing business model from hold to collect to hold to collect and sell. Accordingly MOF securities had been re-classified from "Bonds carried at amortised cost" to "Investment securities measured at fair value through other comprehensive income" in the consolidated and separate statements of financial position, with respective effects also accounted in the audited consolidated annual financial statement of profit or loss and other comprehensive income. According to IFRS 9 requirement the change has been accounted for prospectively from the reclassification date. The reclassification date represents the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets, which is 1 January 2021. Management believes that such presentation is more appropriate for the nature of the transactions.

Based on business model assessment performed, Management considered respective securities should have been carried at fair value through other comprehensive income (FVTOCI). Internally performed test of solely payment of principal and interest ('SPPI') had shown, that those securities were held for collection of contractual cash flows and for selling, where those cash flows represented SPPI, and they were not designated at fair value through profit and loss (FVTPL). Subsequent period sales recorded during 2021 has also demonstrated respective changes in business operations of the Group..

Effect on consolidated statement of financial position:

In thousands of GEL	**Balance as at 31 December 2020**	**Change in business model**	**Balance as at 1 January 2021**
Fair value reserve	11,157	26,062	37,219
Bonds carried at amortised cost	1,059,946	(1,059,946)	-
Investment securities measured at fair value through other comprehensive income	1,527,268	1,086,008	2,613,276

Effect on separate statement of financial position:

In thousands of GEL	**Balance as at 31 December 2020**	**Change in business model**	**Balance as at 1 January 2021**
Fair value reserve	11,259	26,062	37,321
Bonds carried at amortised cost	1,059,946	(1,059,946)	-
Investment securities measured at fair value through other comprehensive income	1,547,330	1,086,008	2,633,338

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is 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.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs

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 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

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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 prin-

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

cipal 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 changed its business model in 2020 in relation to the securities held at amortized cost. Details and subsequent measurement are discussed in Note 2.

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 37 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 37.

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.

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 considering certain factors. 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:

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- 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 or, when applicable, the revised 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.

Payment holidays granted by the Group in response to COVID-19 pandemic are treated as contractual modifications of the respective loans and advances if they do not lead to derecognition as guided by the policy stated above. Their impact of modifications on the gross carrying amount (net modification loss) is presented in profit or loss within losses from modifications of financial instruments. The implication of COVID-19 impact on ECL methodology is described in Note 37.

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 as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 National Bank of Georgia. Mandatory cash balances with NBG 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 37 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

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 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 financial statements in their original 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 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

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease 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 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

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

market expectations. Refer to Note 37 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.

In relation to COVID-19, payment holidays are accounted on the same basis as disclosed above within paragraph of financial assets- derecognition and modification.

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 instruments 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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;
Leasehold improvements	term of the underlying lease or if not defined, not more than 7 years.
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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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 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 financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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. Group's and the Bank's functional 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.

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 2021 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 4.1737 (2020: GBP 1 = GEL 4.4529; 2019: GBP 1 = GEL 3.7593); USD 1 = 3.0976 (2020: USD 1 = GEL 3.2766; 2019: USD 1 = GEL 2.8677); EUR 1 = 3.5040 (2020: EUR 1 = GEL 4.0233; 2019: EUR 1 = GEL 3.2095).

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 and 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 (details of ECL measurement methodology are disclosed in Note 37). 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 37.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

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	2021	2020	2019
20% decrease in SICR thresholds	Increase credit loss allowance on loans and advances by GEL 2,470.	Increase credit loss allowance on loans and advances by GEL 2,543.	Increase credit loss allowance on loans and advances by GEL 1,954.
	Change of the Bank's cost of credit risk ratio by 2 basis points.	Change of the Bank's cost of credit risk ratio by 2 basis points.	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 2,511.	Increase credit loss allowance on loans and advances by GEL 3,311.	Increase credit loss allowance on loans and advances by GEL 2,380.
	Change of the Bank's cost of credit risk ratio by 2 basis points.	Change of the Bank's cost of credit risk ratio by 2 basis points.	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 include 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.

The table below describes sensitivity on 10% increase of PD and LGD estimates:

In thousands of GEL	2021	2020	2019
10% increase (decrease) in PD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 25,043 (GEL 18,905).	Increase (decrease) credit loss allowance on loans and advances by GEL 24,901 (GEL 26,013).	Increase (decrease) credit loss allowance on loans and advances by GEL 17,427 (GEL 17,547).
	Change of the Bank's cost of credit risk ratio by 16 (12) basis points	Change of the Bank's cost of credit risk ratio by 18 (19) basis points.	Change of the Bank's cost of credit risk ratio by 16 (16) basis points.
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 39,900 (GEL 35,129).	Increase (decrease) credit loss allowance on loans and advances by GEL 50,719 (GEL 53,813).	Increase (decrease) credit loss allowance on loans and advances by GEL 24,758 (GEL 26,604).
	Change of the Bank's cost of credit risk ratio by 26 (22) basis points.	Change of the Bank's cost of credit risk ratio by 37 (39) basis points.	Change of the Bank's cost of credit risk ratio by 22 (24) 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 2021 the weights applied are 50%, 25% and 25% for the base, upside and downside scenarios respectively, (31 December 2020: 60%, 10% and 30% and 31 December 2019: 50%, 25% and 25%). Based on the changes of the macro environment the Bank modifies the weightings based on expert judgement..

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

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**

The table below describes the unweighted ECL for each economic scenario as at 31 December 2020:

In thousands of GEL	Baseline	Upside	Downside	Weighted
Corporate	96,039	94,607	135,188	107,641
MSME	155,709	149,480	166,582	159,910
Consumer	240,827	238,427	245,072	241,825
Mortgage	96,351	95,496	98,329	96,870
Total	**588,926**	**578,010**	**645,171**	**606,246**

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	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 following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2020:

	Baseline			Upside			Downside		
Growth rates YoY, %	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
GDP	4.2%	7.4%	5.3%	4.9%	8.3%	6.5%	2.7%	5.2%	2.6%
USD/GEL rate (EOP)	3.2	3.1	3.0	3.0	2.8	2.7	3.5	3.4	3.3
RE Price (in USD)	-3.5%	5.2%	7.5%	-2.1%	4.6%	6.9%	-5.7%	6.3%	4.2%
Employment	2.6%	1.0%	1.0%	2.8%	1.3%	1.3%	2.4%	0.7%	0.6%
Monetary policy rate (EOP, Level)	7.5%	7.0%	6.5%	7.3%	6.7%	6.1%	8.4%	8.3%	8.1%

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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

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 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)

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 2020:

	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	(6,973)	7,323	3,899	(3,083)	4,136	(3,234)

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[1] 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.

Use of post model overlays and adjustments

Below we define what we call post model adjustments or overlays for ECL estimation purposes.

Post model adjustments

We call PMAs 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 that is described in note: 37 - under risk governance section.

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 during the year (2020 nil).

Below, are summarized in model PMAs applied as of YE 2020 and 2021. Total effect of all PMAs amounted to GEL 16,107 thousand and GEL 105,502 thousand for YE 2021 and YE 2020 respectively:

- **Default definition:** The bank applied additional default criteria to exposures particularly impacted by the pandemic-related restrictions. This included exposures that were granted several phases of covid-19 related grace periods or restructurings. The criteria included lower days past due threshold and deterioration in debt coverage ratios for those exposures to facilitate the early identification of impaired exposures. PMA was applicable as of YE 2020 and is no longer valid as of YE 2021 as covid-19 related grace periods or restructurings are no longer in place.
- **Stage 2 definition:** As a result of Covid-19 pandemic, the Bank applied certain PMAs to SICR criteria (significant increase in credit risk) to facilitate the early identification of increased risk exposures. The criteria is based on the repayment history of the exposures after the second stage grace period and availability of the recent financial monitoring information for the vulnerable business borrowers. PMA was applicable as of YE 2020 and is no longer valid as of YE 2021 as Covid-19 pandemic related grace periods are no longer in place.

1 Total exposure of the bank toward the borrower or group of interconnected borrowers.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

- **Loss given default (LGD) – Recovery rate:** For YE 2020, in the LGD modelling the Bank reduced the recovery rates for retail (mortgage, secured consumer & unsecured) and micro exposures in stage 3 to reflect the expected impact of the pandemic-related restrictions. In 2021, the Bank re-assessed the adjustment and based on the analysis of recoveries, made certain modifications to PMAs applied as of YE 2020. Mortgage portfolio – recovery rate downward adjustment was totally removed, as based on the analysis observed recoveries managed to reach pre-pandemic level. Unsecured consumer portfolio, recoveries were improved, however it was still lower compared to the pre-pandemic level, therefore, recovery rate downward adjustment was maintained, but it was decreased compared to YE 2020. Adjustments for other portfolios, namely, secured consumer and micro segments - remained unchanged compared to YE 2020, as material improvement in recoveries were not observed.
- **Loss given default (LGD) – Collateral haircut/AWT[1]:** In order to capture an impact of expected real estate price drop on ECL, downward adjustment to the collateral values was applied for stage 3 SME and stage 3 non-significant corporate exposures, as of YE 2020. As of YE 2021 the adjustment is no longer incorporated in line with the updated macro assumptions for real estate price. However, for that particular portfolios (SME, non-significant corporate) the Bank extended AWT (average workout period) from 1 Year[2] to 2 years in 2021, in order to reflect delayed recoveries, observed in 2021, mainly driven by covid-19 pandemic. An adjustment was applied across all stages.
- **Full prepayment ratio (FPR):** As of YE 2020, the Bank 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. In 2021 the Bank analyzed actual prepayments and based on the analytics either maintained the adjustment or decreased/totally removed it.
- **Credit Bureau scores:** In December 2020, the Bank has adjusted CB-Score/risk grade as available score did not reflect respective period creditworthiness of particular exposure due to the Covid-19 related grace periods. As of December 2021, CB-Score approximation was already removed and the Bank directly uses the CB-Scores provided by the external credit bureau.

Following Table presents effects of PMAs on ECL. Some of the effects are dependent on each other, therefore the sum of individual effects of PMAs do not equal to the total effect posted on ECL as a result of PMAs:

In thousands of GEL	2021	2020
Default definition	-	34,304
Stage 2 definition	-	2,906
Loss given default (LGD) – Recovery rate	12,835	45,578
Loss given default (LGD) – Collateral haircut/AWT[3]	2,754	3,116
Full prepayment ratio (FPR):	512	2,166
Credit Bureau scores	-	17,708

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective during 2021:

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).

In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

The application of the amendment did not have any impact on the right-of-use asset and no material effect on lease liabilities and income statement.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Libor is the most frequently used floating rate within the Group, as a result, below analysis is primarily concentrated on Libor change.

Libor Change

On 5 March 2021, the IBA confirmed its intention to cease the publication of GBP, CHF, EUR, and JPY LIBOR (all tenors) and USD LIBOR (one week and two-month tenors) at the end of 2021. The remaining USD LIBOR tenors will be published by IBA until the end of June 2023. The Bank has not yet re-negotiated the existing contracts in USD LIBOR and will follow extended timeline. Most Libor benchmarks are expected to transition to respective near risk-free rate (RFR) benchmarks.

Under these amendments, the changes to the basis for determining the contractual cash flows are reflected by adjusting the effective interest rate, as allowed by practical expedient. No immediate gain or loss is recognised. These revisions of effective interest rate are only applicable when the change is necessary as a direct consequence of interest rate benchmark reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The Group does not have any exposure to GBP, CHF, EUR or JPY LIBOR contracts and has no impact of the cessation. For EUR floating assets and liabilities, EURIBOR is used as the default benchmark in the Group. For all new contracts, the rate fallback provisions are in place to avoid future complications in case there will be changes to EURIBOR benchmark.

In USD, the Group has exposure to Libor, predominantly in contracts with 6 Month USD Libor benchmark.

For the new customer contracts, the plan is to move fully from USD LIBOR to the RFRs in 2022.

1 AWT - average workout period
2 AWT is set to 1 year according to the ECL methodology. As of YE 2020, no changes to the methodology was applied in terms of AWT.
3 As described above, collateral haircuts were applied as of YE 2020. As for the AWT, it was only applicable as of YE 2021.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

In the table below is the breakdown by financial statement components yet to transition to the alternative benchmark:

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**	**Derivatives**
6M Euribor	EUR	TBD*	-	-	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**

** To be determined.*

Financial risks resulting from the cessation of LIBOR and the development of market liquidity in new Benchmarks will also affect the Group throughout transition. The differences in Libor and the new benchmark rates will create a basis risk that we may need to actively manage through appropriate financial hedging. Basis risk in may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively. Where appropriate, portfolio immunization or cash flow matching strategies will be used during the transition for risk minimization purposes. The hedging is expected to be done via available interest rate derivatives for respective RFRs.

The continued orderly transition from LIBOR has been the Group's key objective through 2021 and were grouped into two work streams:

1. The development of alternative rate and RFR product capabilities.
2. The transition of legacy Libor contracts.

The Groups initiatives in connection with LIBOR transition include:

a. Implementing rate fall back provisions, where appropriate;
b. The Group continues to engage with market participants and the regulator to address market-wide challenges associated with 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 LIBOR;

5. NEW ACCOUNTING PRONOUNCEMENTS

The Group has not early adopted any of the amendments effective after 31 December 2021 and it expects they will have an insignificant effect, when adopted, or management is assessing the scale of impact on the consolidated financial statements of the Group and the separate financial statements of the Bank.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021, deferred to 1 January 2023 by the amendments to IFRS 17).

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.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

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.
- 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.

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.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

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.

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.

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 PPE 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 will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not 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 fulfil 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.

5. NEW ACCOUNTING PRONOUNCEMENTS 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.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

These narrow scope amendments 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. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. 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.

Amendment to IFRS 4 – deferral of IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

The amendments to IFRS 4 addressed the temporary accounting consequences of the different effective dates of IFRS 9 and the forthcoming IFRS 17. The amendments to IFRS 4 extended the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17. The fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has been deferred to annual reporting periods beginning on or after 1 January 2023.

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.

6. CASH AND CASH EQUIVALENTS

in thousands of GEL	2021	2020	2019
Cash on hand	831,035	747,195	646,394
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	134,262	102,289	35,133
Correspondent accounts and overnight placements with other banks	630,247	588,343	186,623
Placements with and receivables from other banks with original maturities of less than three months	45	163,851	126,359
Total gross amount of cash and cash equivalents	**1,595,589**	**1,601,678**	**994,509**
Less: credit loss allowance by stages	(129)	(79)	(30)
Stage 1	(129)	(79)	(30)
Stage 2	-	-	-
Stage 3	-	-	-
Total cash and cash equivalents	**1,595,460**	**1,601,599**	**994,479**

94% of the correspondent accounts and overnight placements with other banks are placed with OECD (The Organization for Economic Co-operation and Development) banking institutions (31 December 2020: 89%; 31 December 2019: 85%).

As at 31 December 2021 GEL 45 thousand was placed on interbank term deposits with one non-OECD bank and none with OECD banks (2020: GEL 25,030 thousand with non-OECD bank and GEL 163,838 thousand with one OECD bank; 2019: GEL 11,348 thousand with one non-OECD bank and GEL 115,012 thousand with two OECD banks). Interest rate analysis of cash and cash equivalents is disclosed in Note 37.

The credit-rating of correspondent accounts and overnight placements with other banks is as follows:

in thousands of GEL	2021	2020	2019
AA	69,943	–	–
AA-	2,117	1,891	–
A+	425,554	417,938	66,805
A	1,795	1,896	13,816
A-	23,766	35,753	–
BBB+	70,886	–	20,286
BBB	7	64,985	69,302
BBB-	12,569	897	–
BB+	367	–	733
BB	1,519	1,858	2,970
BB-	13,367	9,072	12,336
B+	8,343	53,684	375
B	14	15	–
Not rated	–	354	–
Total correspondent accounts and overnight placements with other banks	**630,247**	**588,343**	**186,623**

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	2021	2020	2019
A-	–	–	115,012
BBB+	–	163,837	–
BB	–	–	1,718
B+	–	–	9,629
Not rated	45	14	–
Total placements with and receivables from other banks with original maturities of less than three months	**45**	**163,851**	**126,359**

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 2021 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (2020: nil; 2019: nil).

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 2021, 2020 and 2019. Credit ratings of placements with other banks with original maturities of more than three months were as follows:

in thousands of GEL	2021	2020	2019
AA-	–	31	–
A+	13,099	10,908	9,541
BBB+	21	98	–
BBB-	2,943	2,010	–
BBB	–	–	2,493
BB	1,468	5,943	1,388
B+	24,706	700	2,175
Total placements with other banks with original maturities of more than three months	**42,237**	**19,690**	**15,597**

As at 31 December 2021 the Group had two placements, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2020: nil; 2019: nil). The total aggregated amount of placements with other banks with original maturities of more than three months was GEL 28,428 thousand (2020: GEL2,012 thousand; 2019: Nil) or 67.3% of the total amount due from other banks (2020: 4.0%; 2019: 40.8%).

As at 31 December 2021 GEL 13,819 thousand, (2020: GEL 11,744 thousand ; 2019: GEL 11,836 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 41 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 37.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances as at 31 December 2021 is GEL 9.9 thousand (2020: GEL 8 thousand; 2019: GEL 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 Group earned up to 10.5%, (0.25%) and (0.7%) annual interest in GEL, USD and EUR respectively on mandatory reserves with NBG in 2021 (2020: 8.0%, (0.25%) and (0.7%) in GEL, USD and EUR respectively; 2019: 9.0%, 1.25% and (0.7%) in GEL, USD and EUR respectively).

In August 2021, Fitch Ratings has affirmed Georgia's Long-Term Foreign and Local Currency Issuer Default Rating (IDRs) at 'BB'. The Outlook was revised to stable from negative. The issue ratings on long-term senior unsecured bonds were affirmed at 'BB'. The Country Ceiling Rating was affirmed at 'BBB-', short-term foreign and local-currency IDRs at 'B'.

9. LOANS AND ADVANCES TO CUSTOMERS

in thousands of GEL	2021	2020	2019
Corporate loans	6,547,741	5,690,749	4,660,473
Consumer loans	2,153,066	2,011,585	1,884,006
Mortgage loans	4,112,441	3,942,102	3,169,197
Loans to micro, small and medium enterprises	4,141,305	3,556,079	2,948,279
Total gross loans	**16,954,553**	**15,200,515**	**12,661,955**
Less: credit loss allowance	(407,368)	(606,246)	(312,556)
Stage 1	(101,972)	(130,228)	(95,689)
Stage 2	(120,417)	(142,915)	(82,687)
Stage 3	(184,979)	(333,103)	(134,180)
Total loans and advances to customers	**16,547,185**	**14,594,269**	**12,349,399**

As of 31 December 2021 GEL 16,948,195 thousand of gross loans and advances to customers and GEL 398,735 thousand of credit loss allowance were attributable to the Bank (2020: GEL 15,198,858 thousand and GEL 587,654 thousand; 2019: GEL 12,720,562 and GEL 303,577 thousand).

As at 31 December 2021 loans and advances to customers carried at GEL 843,006 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2020: GEL 889,353 thousand; 2019: GEL 474,480 thousand).

Total credit loss allowance includes PMAs amounted to GEL 16,107 thousand and GEL 105,502 thousand for YE 2021 and YE 2020, 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:

- 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 repaid during the period. Exposures which were issued and repaid during the period, written off or refinanced by other loans, are excluded;
- Net repayments refer to the net changes in gross carrying amounts, which is loan disbursements less repayments;
- Write-offs refer to write off of loans during the period;
- Foreign exchange movements refer 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;
- Re-segmentation refers to the transfer of loans from one reporting segment to another.

In 2021, the Group has reassessed its definition of segments as disclosed in Note 28. Wealth Management business with high net worth individuals has been transferred from retail to corporate segment and space segment has been fully transferred from MSME to retail segment due to changes in segment definitions. Other transfers between segments were primarily due to changes in client size and specifications compared to prior period.

All tables with comparatives below are prepared by the segmentation that was relevant during each prior year.

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

Total loans *in thousands of GEL*	Gross carrying amount				Credit loss allowance			
	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 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[1]	-	-	-	**-**	(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**

1 Movements with impact on credit loss allowance charge for the period differs from statement of profit or loss with amount of recoveries GEL 44,642 thousands in 2021 (2020: GEL 21,136 thousands, 2019: GEL 33,801 thousands) The amount of recoveries include recoveries from sale of written off portfolio in the amount of GEL 11.6 million sold In August 2021.

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 2020	**11,551,934**	**757,094**	**352,927**	**12,661,955**	**95,689**	**82,687**	**134,180**	**312,556**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(1,834,720)*	*1,871,883*	*(37,163)*	**–**	*(10,824)*	*23,099*	*(12,275)*	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(456,349)*	*(195,488)*	*651,837*	**–**	*(53,436)*	*(27,314)*	*80,750*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	116,479	(115,394)	(1,085)	**–**	15,269	(14,677)	(592)	**–**
New originated or purchased	3,361,543	–	–	**3,361,543**	110,226	–	–	**110,226**
Derecognised during the period	(922,671)	(83,851)	(23,487)	**(1,030,009)**	12,225	789	(13,151)	**(137)**
Net repayments	(982,755)	(60,770)	(42,984)	**(1,086,509)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	(45,959)	70,894	186,167	**211,102**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	–	–	(66,028)	**(66,028)**	–	–	(66,028)	**(66,028)**
Foreign exchange movements	1,042,872	280,445	59,787	**1,383,104**	7,038	7,437	24,052	**38,527**
Modifications	(15,774)	(5,793)	(1,974)	**(23,541)**	–	–	–	**–**
At 31 December 2020	**11,860,559**	**2,448,126**	**891,830**	**15,200,515**	**130,228**	**142,915**	**333,103**	**606,246**

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 2019	**9,226,512**	**791,969**	**354,101**	**10,372,582**	**96,812**	**95,784**	**141,534**	**334,130**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(646,985)*	*682,879*	*(35,894)*	**–**	*(22,811)*	*34,649*	*(11,838)*	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(151,728)*	*(138,204)*	*289,932*	**–**	*(11,259)*	*(24,668)*	*35,927*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	269,543	(264,141)	(5,402)	**–**	28,411	(26,682)	(1,729)	**–**
New originated or purchased	4,403,046	–	–	**4,403,046**	72,517	–	–	**72,517**
Derecognised during the period	(535,371)	(165,034)	(183,020)	**(883,425)**	(1,331)	(16,526)	(23,859)	**(41,716)**
Net repayments	(1,293,956)	(177,292)	56,480	**(1,414,768)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	(67,845)	19,033	128,776	**79,964**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	–	–	(140,161)	**(140,161)**	–	–	(140,161)	**(140,161)**
Foreign exchange movements	280,873	26,917	16,891	**324,681**	1,195	1,097	5,530	**7,822**
At 31 December 2019	**11,551,934**	**757,094**	**352,927**	**12,661,955**	**95,689**	**82,687**	**134,180**	**312,556**

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 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

Corporate *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 2020	**4,434,685**	**104,409**	**121,379**	**4,660,473**	**39,153**	**1,969**	**39,628**	**80,750**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(750,779)*	*750,779*	–	**–**	*(7,395)*	*7,395*	–	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(57,281)*	*(14,021)*	*71,302*	**–**	*(1,394)*	*(1,307)*	*2,701*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	20,142	(20,142)	–	**–**	227	(227)	–	**–**
New originated or purchased	854,821	–	–	**854,821**	14,830	–	–	**14,830**
Derecognised during the period	(285,949)	(20,839)	(7,919)	**(314,707)**	(3,328)	(1,915)	(3,800)	**(9,043)**
Net repayments	(145,390)	16,644	(32,056)	**(160,802)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	6,388	1,006	1,974	**9,368**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	21,785	–	–	**21,785**	76	–	–	**76**
Write-offs	–	–	(5,380)	**(5,380)**	–	–	(5,380)	**(5,380)**
Modifications	(2,541)	(1,758)	(864)	**(5,163)**	–	–	–	**–**
Foreign exchange movements	484,641	140,115	14,966	**639,722**	5,438	1,273	10,329	**17,040**
At 31 December 2020	**4,574,134**	**955,187**	**161,428**	**5,690,749**	**53,995**	**8,194**	**45,452**	**107,641**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Corporate *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 2019	**2,903,313**	**138,715**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(126,154)*	*137,126*	*(10,972)*	**–**	*(2,876)*	*5,184*	*(2,308)*	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(27,531)*	*(5,261)*	*32,792*	**–**	*(2,914)*	*(192)*	*3,106*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	72,484	(71,151)	(1,333)	**–**	2,806	(2,806)	–	**–**
New originated or purchased	1,638,709	–	–	**1,638,709**	25,355	–	–	**25,355**
Derecognised during the period	1,988	(31,192)	(13,862)	**(43,066)**	(2,544)	(1,064)	(9,094)	**(12,702)**
Net repayments	(186,958)	(70,285)	(27,812)	**(285,055)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	(14,698)	(4,398)	1,621	**(17,475)**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	55,356	711	–	**56,067**	176	76	–	**252**
Foreign exchange movements	103,478	5,746	7,305	**116,529**	908	175	2,732	**3,815**
At 31 December 2019	**4,434,685**	**104,409**	**121,379**	**4,660,473**	**39,153**	**1,969**	**39,628**	**80,750**

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 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**	-	-	-	**-**
Modifications	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			
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 2020	**2,650,261**	**204,699**	**93,319**	**2,948,279**	**18,341**	**18,593**	**29,211**	**66,145**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(539,299)*	*546,322*	*(7,023)*	**–**	*(6,860)*	*8,580*	*(1,720)*	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(103,564)*	*(83,981)*	*187,545*	**–**	*(8,258)*	*(9,097)*	*17,355*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	31,201	(30,770)	(431)	**–**	3,130	(2,954)	(176)	**–**
New originated or purchased	1,033,189	–	–	**1,033,189**	23,407	–	–	**23,407**
Derecognised during the period	(303,253)	(33,879)	(5,525)	**(342,657)**	(1,314)	(157)	(1,759)	**(3,230)**
Net repayments	(290,204)	(26,683)	(11,097)	**(327,984)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	(5,102)	29,155	55,752	**79,805**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(22,888)	–	–	**(22,888)**	(76)	–	–	**(76)**
Write-offs	–	–	(15,696)	**(15,696)**	–	–	(15,696)	**(15,696)**
Foreign exchange movements	209,565	57,071	22,178	**288,814**	1,222	2,733	5,600	**9,555**
Modifications	(3,222)	(1,432)	(324)	**(4,978)**	–	–	–	**–**
At 31 December 2020	**2,661,786**	**631,347**	**262,946**	**3,556,079**	**24,490**	**46,853**	**88,567**	**159,910**

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 2019	**2,210,617**	**193,157**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(181,576)*	*186,581*	*(5,005)*	**–**	*(3,097)*	*5,142*	*(2,045)*	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(51,354)*	*(42,338)*	*93,692*	**–**	*(2,568)*	*(6,711)*	*9,279*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	49,093	(48,292)	(801)	**–**	6,191	(5,872)	(319)	**–**
New originated or purchased	1,312,100	–	–	**1,312,100**	11,981	–	–	**11,981**
Derecognised during the period	(354,274)	(47,777)	(48,874)	**(450,925)**	(2,356)	(2,582)	(6,102)	**(11,040)**
Net repayments	(333,112)	(42,333)	(14,348)	**(389,793)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	(11,134)	6,047	26,965	**21,878**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(55,356)	(786)	–	**(56,142)**	(176)	(78)	–	**(254)**
Write-offs	–	–	(28,963)	**(28,963)**	–	–	(28,963)	**(28,963)**
Foreign exchange movements	54,123	6,487	4,798	**65,408**	227	268	1,034	**1,529**
At 31 December 2019	**2,650,261**	**204,699**	**93,319**	**2,948,279**	**18,341**	**18,593**	**29,211**	**66,145**

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 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			
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 2020	**1,593,262**	**216,817**	**73,927**	**1,884,006**	**36,724**	**52,439**	**44,793**	**133,956**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(165,248)*	*178,014*	*(12,766)*	**–**	*(3,846)*	*9,861*	*(6,015)*	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(114,928)*	*(58,650)*	*173,578*	**–**	*(24,678)*	*(14,790)*	*39,468*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	40,086	(39,544)	(542)	**–**	11,333	(10,945)	(388)	**–**
New originated or purchased	669,973	–	–	**669,973**	62,912	–	–	**62,912**
Derecognised during the period	(219,243)	(14,197)	(9,175)	**(242,615)**	11,426	220	(4,949)	**6,697**
Net repayments	(287,650)	(19,815)	3,789	**(303,676)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	(45,618)	29,130	96,489	**80,001**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	831	–	–	**831**	–	–	–	**–**
Write-offs	–	–	(44,356)	**(44,356)**	–	–	(44,356)	**(44,356)**
Foreign exchange movements	45,457	6,440	4,033	**55,930**	119	437	2,059	**2,615**
Modifications	(5,981)	(1,769)	(758)	**(8,508)**	–	–	–	**–**
At 31 December 2020	**1,556,559**	**267,296**	**187,730**	**2,011,585**	**48,372**	**66,352**	**127,101**	**241,825**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans *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 2019	**1,641,978**	**265,687**	**81,851**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(166,459)*	*176,428*	*(9,969)*	**–**	*(16,454)*	*21,029*	*(4,575)*	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(60,362)*	*(67,012)*	*127,374*	**–**	*(5,682)*	*(16,168)*	*21,850*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	81,453	(80,023)	(1,430)	**–**	16,851	(16,013)	(838)	**–**
New originated or purchased	641,207	–	–	**641,207**	34,363	–	–	**34,363**
Derecognised during the period	(101,437)	(39,416)	(125,004)	**(265,857)**	3,706	(11,085)	(7,972)	**(15,351)**
Net repayments	(460,554)	(42,061)	109,208	**(393,407)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	(38,995)	15,212	91,149	**67,366**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	2,583	1,092	572	**4,247**	15	97	184	**296**
Write-offs	–	–	(110,243)	**(110,243)**	–	–	(110,243)	**(110,243)**
Foreign exchange movements	14,853	2,122	1,568	**18,543**	17	122	663	**802**
At 31 December 2019	**1,593,262**	**216,817**	**73,927**	**1,884,006**	**36,724**	**52,439**	**44,793**	**133,956**

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 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

	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 2020	**2,873,726**	**231,169**	**64,302**	**3,169,197**	**1,471**	**9,686**	**20,548**	**31,705**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(379,394)*	*396,768*	*(17,374)*	–	*7,277*	*(2,737)*	*(4,540)*	–
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(180,576)*	*(38,836)*	*219,412*	–	*(19,106)*	*(2,120)*	*21,226*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	25,050	(24,938)	(112)	–	579	(551)	(28)	–
New originated or purchased	803,560	–	–	**803,560**	9,077	–	–	**9,077**
Derecognised during the period	(114,226)	(14,936)	(868)	**(130,030)**	5,441	2,641	(2,643)	**5,439**
Net repayments	(259,511)	(30,916)	(3,620)	**(294,047)**	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	(1,627)	11,603	31,952	**41,928**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	272	–	–	**272**	–	–	–	–
Write-offs	–	–	(596)	**(596)**	–	–	(596)	**(596)**
Foreign exchange movements	303,209	76,819	18,610	**398,638**	259	2,994	6,064	**9,317**
Modifications	(4,030)	(834)	(28)	**(4,892)**	–	–	–	–
At 31 December 2020	**3,068,080**	**594,296**	**279,726**	**3,942,102**	**3,371**	**21,516**	**71,983**	**96,870**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans *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 2019	**2,470,604**	**194,410**	**44,169**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(172,796)*	*182,744*	*(9,948)*	**–**	*(384)*	*3,294*	*(2,910)*	**–**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(12,481)*	*(23,593)*	*36,074*	**–**	*(95)*	*(1,597)*	*1,692*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	66,513	(64,675)	(1,838)	**–**	2,563	(1,991)	(572)	**–**
New originated or purchased	811,030	–	–	**811,030**	818	–	–	**818**
Derecognised during the period	(81,648)	(46,649)	4,720	**(123,577)**	(137)	(1,795)	(691)	**(2,623)**
Net repayments	(313,332)	(22,613)	(10,568)	**(346,513)**	–	–	–	**–**
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	**–**	(3,018)	2,172	9,041	**8,195**
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(2,583)	(1,017)	(572)	**(4,172)**	(15)	(95)	(184)	**(294)**
Write-offs	–	–	(955)	**(955)**	–	–	(955)	**(955)**
Foreign exchange movements	108,419	12,562	3,220	**124,201**	43	532	1,101	**1,676**
At 31 December 2019	**2,873,726**	**231,169**	**64,302**	**3,169,197**	**1,471**	**9,686**	**20,548**	**31,705**

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 credit quality of loans to customers carried at amortised cost is as follows at 31 December 2020:

	31 December 2020			
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	4,324,191	6,178	–	**4,330,369**
– Low	248,246	913,832	–	**1,162,078**
– Moderate	1,697	35,177	–	**36,874**
– Default	–	–	161,428	**161,428**
Gross carrying amount	**4,574,134**	**955,187**	**161,428**	**5,690,749**
Credit loss allowance	(53,995)	(8,194)	(45,452)	**(107,641)**
Carrying amount	**4,520,138**	**946,993**	**115,976**	**5,583,108**
Consumer loans risk category				
– Very low	1,010,723	20,041	–	**1,030,764**
– Low	453,899	64,950	–	**518,849**
– Moderate	91,937	159,726	–	**251,663**
– High	–	22,579	–	**22,579**
– Default	–	–	187,730	**187,730**
Gross carrying amount	**1,556,559**	**267,296**	**187,730**	**2,011,585**
Credit loss allowance	(48,372)	(66,352)	(127,101)	**(241,825)**
Carrying amount	**1,508,187**	**200,944**	**60,629**	**1,769,760**
Mortgage loans risk category				
– Very low	2,852,661	97,936	–	**2,950,597**
– Low	186,597	334,579	–	**521,176**
– Moderate	28,822	154,372	–	**183,194**
– High	–	7,409	–	**7,409**
– Default	–	–	279,726	**279,726**
Gross carrying amount	**3,068,080**	**594,296**	**279,726**	**3,942,102**
Credit loss allowance	(3,371)	(21,516)	(71,983)	**(96,870)**
Carrying amount	**3,064,709**	**572,780**	**207,743**	**3,845,232**
Loans to MSME risk category				
– Very low	2,252,448	145,445	–	**2,397,893**
– Low	395,733	348,147	–	**743,880**
– Moderate	13,605	121,925	–	**135,530**
– High	–	15,830	–	**15,830**
– Default	–	–	262,946	**262,946**
Gross carrying amount	**2,661,786**	**631,347**	**262,946**	**3,556,079**
Credit loss allowance	(24,490)	(46,853)	(88,567)	**(159,910)**
Carrying amount	**2,637,296**	**584,494**	**174,379**	**3,396,169**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2019:

	31 December 2019			
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	4,094,403	7,882	–	**4,102,285**
– Low	339,960	75,872	–	**415,832**
– Moderate	322	19,827	–	**20,149**
– High	–	828	–	**828**
– Default	–	–	121,379	**121,379**
Gross carrying amount	**4,434,685**	**104,409**	**121,379**	**4,660,473**
Credit loss allowance	(39,153)	(1,969)	(39,628)	**(80,750)**
Carrying amount	**4,395,532**	**102,440**	**81,751**	**4,579,723**
Consumer loans risk category				
– Very low	1,107,490	5,436	–	**1,112,926**
– Low	330,361	17,620	–	**347,981**
– Moderate	155,411	176,815	–	**332,226**
– High	–	16,946	–	**16,946**
– Default	–	–	73,927	**73,927**
Gross carrying amount	**1,593,262**	**216,817**	**73,927**	**1,884,006**
Credit loss allowance	(36,724)	(52,439)	(44,793)	**(133,956)**
Carrying amount	**1,556,538**	**164,378**	**29,134**	**1,750,050**
Mortgage loans risk category				
– Very low	2,668,691	17,970	–	**2,686,661**
– Low	182,049	80,289	–	**262,338**
– Moderate	22,986	121,743	–	**144,729**
– High	–	11,167	–	**11,167**
– Default	–	–	64,302	**64,302**
Gross carrying amount	**2,873,726**	**231,169**	**64,302**	**3,169,197**
Credit loss allowance	(1,471)	(9,686)	(20,548)	**(31,705)**
Carrying amount	**2,872,255**	**221,483**	**43,754**	**3,137,492**
Loans to MSME risk category				
– Very low	2,223,262	23,114	–	**2,246,376**
– Low	407,106	87,244	–	**494,350**
– Moderate	19,893	80,947	–	**100,840**
– High	–	13,394	–	**13,394**
– Default	–	–	93,319	**93,319**
Gross carrying amount	**2,650,261**	**204,699**	**93,319**	**2,948,279**
Credit loss allowance	(18,341)	(18,593)	(29,211)	**(66,145)**
Carrying amount	**2,631,920**	**186,106**	**64,108**	**2,882,134**

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 19,238 thousand (31 December 2020: GEL 47,933 thousand; 31 December 2019: 109,719 Thousand GEL), accrued interest GEL 4,963 thousand (31 December 2020: GEL 10,584 thousand; 31 December 2019: GEL 27,998 thousand) and accrued off balance sheet penalty GEL 115,371 thousand (31 December 2020: GEL 135,418 thousand; 31 December 2019: GEL 113,855 thousand).

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

	2021		2020*		2019*	
in thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	6,407,171	38%	5,948,341	39%	5,046,804	40%
Real Estate	1,591,277	9%	1,460,821	10%	1,076,102	8%
Hospitality, Restaurants & Leisure	1,350,184	8%	1,368,887	9%	988,467	8%
Energy & Utilities	1,095,387	7%	1,078,504	7%	1,089,643	9%
Construction	1,041,416	6%	667,904	4%	576,923	5%
Food Industry	994,780	6%	898,597	6%	785,539	6%
Trade	860,286	5%	708,559	5%	616,475	5%
Agriculture	838,719	5%	642,024	4%	498,783	4%
Healthcare	406,608	2%	369,645	2%	305,152	2%
Services	348,738	2%	268,982	2%	212,661	2%
Automotive	309,043	2%	263,276	2%	183,912	1%
Transportation	224,066	1%	159,857	1%	134,223	1%
Pawn Shops	159,851	1%	168,571	1%	203,633	2%
Financial Services	112,937	1%	78,923	1%	96,430	1%
Metals and Mining	43,132	0%	229,368	2%	99,321	1%
Communication	41,191	0%	46,406	0%	43,329	0%
Other	1,129,767	7%	841,850	5%	704,558	5%
Total gross loans and advances to customers	**16,954,553**	**100%**	**15,200,515**	**100%**	**12,661,955**	**100%**

**Management has re-visited the logic for disclosing the Economic sector risk concentrations within the customer loan portfolio for 2020 and 2019 year and corrected any discrepancies identified. As a result, amounts disclosed in the table were amended to reflect more accurate results.*

As of 31 December 2021 the Group had 188 borrowers (2020: 157 borrowers; 2019: 125 borrowers) with aggregated gross loan amounts above GEL 10,000 thousand. The total aggregated amount of these loans was GEL 5,017,758 thousand (2020: GEL 4,562,506 thousand; 2019: GEL 3,669,817 thousand) or 29.6% of the gross loan portfolio (2020: 30.0%; 2019: 29.0%).

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").

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

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 mediumenterprises	3,098,087	7,035,782	1,043,218	419,978
Total	**11,348,490**	**28,608,762**	**5,606,063**	**1,478,803**

The effect of collateral as at 31 December 2020:

	31 December 2020			
	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	4,603,143	9,630,768	1,087,606	477,701
Consumer loans	869,317	2,231,778	1,142,268	20,474
Mortgage loans	3,703,164	7,915,172	238,938	158,292
Loans to micro, small and medium enterprises	3,114,829	7,102,534	441,250	157,047
Total	**12,290,453**	**26,880,252**	**2,910,062**	**813,514**

The effect of collateral as at 31 December 2019:

	31 December 2019			
	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	3,682,456	8,481,849	978,017	310,419
Consumer loans	950,847	2,232,728	933,159	37,658
Mortgage loans	2,949,426	6,171,802	219,771	107,183
Loans to micro, small and medium enterprises	2,579,002	5,983,285	369,277	164,979
Total	**10,161,731**	**22,869,664**	**2,500,224**	**620,239**

As at 31 December 2021 loans and advances to customers which were 1. over-collateralised and 2. credit loss allowance was 0, amounted to GEL 1,576,220 thousand (2020: GEL 1,694,328 thousand, 2019: GEL 965,978 thousand).

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral by classes as at 31 December 2021[1]:

	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**

The effect of collateral by classes as at 31 December 2020:

	31 December 2020			
	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	332,438	358,847	12,937	39,109
Gold	115,139	158,008	37,856	37,946
Inventory	753,658	2,149,849	24,536	24,498
Other	137,749	849,249	7,960	20,313
Real Estate	10,697,040	23,217,956	428,092	395,398
Unsecured and secured solely by third party guarantees	254,429	146,343	2,398,681	296,250
Total	**12,290,453**	**26,880,252**	**2,910,062**	**813,514**

The effect of collateral by classes as at 31 December 2019:

	31 December 2019			
	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	309,228	333,329	25,299	35,507
Gold	140,627	174,531	49,118	66,943
Inventory	794,209	2,221,293	33,916	33,740
Other	146,762	1,256,843	8,558	11,361
Real Estate	8,435,227	18,547,991	225,511	212,902
Unsecured and secured solely by third party guarantees	335,678	335,677	2,157,822	259,786
Total	**10,161,731**	**22,869,664**	**2,500,224**	**620,239**

1 In 2020 and 2019 annual financial statements third party guarantees and unsecured loans were separately presented.

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 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**

Stage 3 loans presented by segments and collateral classes as at 31 December 2020 are the following:

	31 December 2020			
in thousands of GEL	**Corporate**	**Consumer**	**Mortgage**	**Loans to micro, small and medium enterprises**
Cash Cover	21	36	38	47
Gold	-	1,717	-	430
Inventory	15,991	8,909	185	4,250
Other	-	-	-	54
Real Estate	97,824	65,645	273,577	231,925
Unsecured and secured solely by third party guarantees	47,592	111,423	5,926	26,240
Total	**161,428**	**187,730**	**279,726**	**262,946**

Stage 3 loans presented by segments and collateral classes as at 31 December 2019 are the following:

	31 December 2019			
in thousands of GEL	**Corporate**	**Consumer**	**Mortgage**	**Loans to micro, small and medium enterprises**
Cash Cover	18	89	78	724
Gold	-	1,289	-	400
Inventory	9,675	4,819	13	1,702
Other	1,245	-	-	50
Real Estate	92,652	29,084	61,918	82,511
Unsecured and secured solely by third party guarantees	17,789	38,646	2,293	7,932
Total	**121,379**	**73,927**	**64,302**	**93,319**

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	**2021**	**2020**	**2019**
Stage 1	487,742	737,197	119,637
Stage 2	431,160	1,602,759	82,754
Stage 3	50,792	293,205	25,513
Total	**969,694**	**2,633,161**	**227,904**

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 857,891 thousand, GEL 564,701 thousand and GEL 595,464 thousand as of 31 December 2021, 2020 and 2019, respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 42 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 37. Information on related party balances is disclosed in Note 44.

For the year ended 31 December 2021 amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event was GEL 2,110,117 thousand (31 December 2020: GEL 2,805,274 thousand; 31 December 2019: GEL 520,916 thousand). During 2021, gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL 205 thousand (2020: GEL 10,411 thousand, 2019: GEL 978 thousand).

For the year ended 31 December 2021 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 994,526 thousand (31 December 2020: GEL 2,219,539 thousand; 31 December 2019: GEL 384,174 thousand).

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in thousands of GEL	2021	2020	2019
Corporate bonds	707,253	666,133	611,694
Ministry of Finance of Georgia treasury bills	1,231,024	839,839	330,096
Ministry of Finance of Uzbekistan treasury bills	1,683	1,951	1,596
Certificates of deposit of the National Bank of Georgia	-	21,687	40,346
Less: credit loss allowance by stages	(2,818)	(3,258)	(1,438)
Stage 1	(2,818)	(3,258)	(1,438)
Stage 2	-	-	-
Stage 3	-	-	-
Total investment securities measured at fair value through other comprehensive income before corporate shares	**1,937,142**	**1,526,352**	**982,294**
Corporate shares – unquoted	1,054	916	2,999
Total investment securities measured at fair value through other comprehensive income	**1,938,196**	**1,527,268**	**985,293**

All debt securities in 2021, 2020 and 2019 except for corporate bonds and Uzbekistan 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 August 2021). Latest country rating for Uzbekistan stands at BB-.

70.2% of corporate bonds are issued by triple A rated international financial institutions, 0.4% of corporate bonds are issued by BB- rated international financial institutions,13.2% of corporate bond are issued at B+ rating, 15.0% of corporate bonds are issued by B and 1.2% by B- rated corporations. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. 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 for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

As at 31 December 2021 investment securities measured at fair value through other comprehensive income carried at GEL 383,790 thousand have been pledged with local banks or financial institutions as a collateral with respect to other borrowed funds (2020: GEL 699,483 thousand; 2019: GEL 696,961 thousand). Refer to Note 19.

As at 31 December 2021 the principal equity investment securities measured at fair value through other comprehensive income are as follows:

in thousands of GEL	Nature of business	Country of registration	2021	2020	2019
GRDC	Property development	Netherlands Antilles	365	365	365
Georgian Stock Exchange	Stock exchange	Georgia	–	–	2,111
Other	Various	Various	689	551	523
Total corporate shares			**1,054**	**916**	**2,999**

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME CONTINUED

The movements in investment securities measured at fair value through other comprehensive income are as follows:

in thousands of GEL		2021	2020	2019
Carrying amount as of 31 December 2020		**1,527,268**	**-**	**-**
Transfer from investment securities measured at amortised cost due to changes in business model[1]		1,059,946	-	-
Revaluation at transfer date		26,062	-	-
Carrying amount as of 1 January		**2,613,276**	**985,293**	**1,005,239**
Purchases		797,285	763,530	1,781,817
Disposals		(1,025,775)	(92,103)	(213,362)
Redemption at maturity		(412,204)	(165,632)	(1,598,534)
Revaluation		(45,696)	17,633	(15,156)
Interest income accrued	29	185,424	103,516	74,043
Interest income received		(169,068)	(93,493)	(58,539)
Effect of translation to presentation currency		(5,486)	11,825	10,087
Transfer to investment in associate		-	(1,481)	–
Change in credit loss allowance		440	(1,820)	(302)
Carrying amount as of 31 December		**1,938,196**	**1,527,268**	**985,293**

11. BONDS CARRIED AT AMORTISED COST

in thousands of GEL	2021	2020	2019
Ministry of Finance of Georgia treasury bills	-	1,062,111	1,023,474
Total gross amount of bonds carried at amortised cost	**-**	**1,062,111**	**1,023,474**
Less: credit loss allowance	-	(2,165)	(1,906)
Stage 1	-	(2,165)	(1,906)
Stage 2	-	-	-
Stage 3	-	-	-
Total bonds carried at amortised cost	**-**	**1,059,946**	**1,021,568**

1 Refer to note 2 for detailed explanation of changes in business model

11. BONDS CARRIED AT AMORTISED COST CONTINUED

The movements in bonds carried at amortised cost are as follows:

in thousands of GEL	2021	2020	2019
Carrying amount as of 31 December 2020	**1,059,946**	**-**	**-**
Transfer from investment securities measured at amortised cost due to changes in business model[1]	(1,062,113)	-	-
Movement in credit loss allowance due to changes in business model	2,167	-	-
Carrying amount at 1 January	**-**	**1,021,568**	**653,703**
Disposals	-	(195,814)	(27,241)
Purchases	-	639,825	613,383
Redemption at maturity	-	(413,038)	(216,674)
Interest income accrual	-	95,888	58,597
Interest income received	-	(88,224)	(59,222)
Effect of translation to presentation currency	-	–	13
Change in credit loss allowance	-	(259)	(991)
Carrying amount as of 31 December	**-**	**1,059,946**	**1,021,568**

For the disclosure of bonds' fair value carried at amortised cost refer to Note 42. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 37.

As at 31 December 2021 none of the bonds carried at amortised cost have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2020: GEL 843,303 thousand; 2019: GEL 579,142 thousand). Refer to Note 19.

None of the bonds carried at amortised cost as at 31 December 2021, 2020 and 2019 were either overdue or defaulted.

12. OTHER FINANCIAL ASSETS

in thousands of GEL	2021	2020	2019
Derivative financial assets	199,233	30,783	5,849
Receivables from sales of non-financial assets	72,650	19,962	32,844
Receivables on credit card services and money transfers	62,881	25,227	21,895
Receivable on terminated leases	46,346	23,207	21,837
Advance to promotional service provider	17,681	15,766	14,055
Receivables from plastic card service providers	14,472	-	-
Investment held at fair value through profit or loss	11,125	17,239	-
Receivables on guarantees / letters of credit	9,766	1,943	1,695
Trade receivable	6,827	3,562	4,420
Leasing assets receivables	2,073	2,266	3,866
Rental income receivables	1,349	3,243	2,833
Other	49,611	58,832	36,784
Total gross amount of other financial assets	**494,014**	**202,030**	**146,078**
Less: Credit loss allowance	(51,807)	(41,028)	(30,867)
Total other financial assets	**442,207**	**161,002**	**115,211**

12. OTHER FINANCIAL ASSETS CONTINUED

As at 31 December 2021, 2020 and 2019, presentation of other financial assets gross carrying amount, except insurance and reinsurance receivables and credit loss allowance by IFRS 9 stages is as follows:

Other financial assets *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	**184,241**	**634**	**17,155**	**202,030**	**28,860**	**–**	**12,168**	**41,028**
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(2,913)*	*3,125*	*(212)*	**-**	*(1,609)*	*1,609*	-	**-**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(56,547)*	-	*56,547*	**-**	*(32,325)*	-	*32,325*	**-**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*118*	*(10)*	*(108)*	**-**	-	-	-	**-**
New originated or purchased	288,584	-	-	**288,584**	13,197	-	-	**13,197**
Derecognised during the period	(27,988)	(196)	(2,148)	**(30,332)**	(305)	-	(2,867)	**(3,172)**
Net repayments	31,838	306	3,135	**35,279**	-	-	-	**-**
Foreign exchange movements	(646)	(129)	(772)	**(1,547)**	(31)	(37)	(3,470)	**(3,538)**
Changes to ECL measurement model assumptions	-	-	-	**-**	(3,832)	134	7,990	**4,292**
At 31 December 2021	**416,687**	**3,730**	**73,597**	**494,014**	**3,955**	**1,706**	**46,146**	**51,807**

1 Refer to note 2 for detailed explanation of changes in business model

12. OTHER FINANCIAL ASSETS CONTINUED

	Gross carrying amount				Credit loss allowance			
Other financial assets *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 2020	**129,539**	**25**	**16,514**	**146,078**	**18,207**	**6**	**12,656**	**30,869**
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(751)*	*751*	–	–	*(1)*	*1*	–	–
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(484)*	–	*484*	**–**	*(4)*	–	*4*	**–**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*60*	*(10)*	*(50)*	**–**	*5*	*(4)*	*(1)*	**–**
New originated or purchased	*145,179*	–	–	**145,179**	10,106	–	–	**10,106**
Derecognised during the period	(97,574)	(6)	(1,989)	**(99,569)**	(401)	(1)	(1,848)	**(2,250)**
Net repayments*	7,747	(111)	1,937	**9,573**	–	–	–	**–**
Foreign exchange movements*	525	(15)	259	**769**	103	–	153	**256**
Changes to ECL measurement model assumptions*	–	–	–	**–**	845	(2)	1,204	**2,047**
At 31 December 2020	**184,241**	**634**	**17,155**	**202,030**	**28,860**	**–**	**12,168**	**41,028**

**Management has re-visited the logic for disclosing the movement between stages for 2020 and corrected any discrepancies identified. As a result, amounts disclosed in net repayments, foreign exchange movements and changes to ECL measurement model assumptions were amended to reflect more accurate results.*

12. OTHER FINANCIAL ASSETS CONTINUED

Other financial assets *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 2019	**134,977**	**74**	**47,302**	**182,353**	**13,145**	**14**	**14,935**	**28,094**
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(21)*	*23*	*(2)*	–	*(4)*	*4*	–	–
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(55)*	*(15)*	*70*	–	*(1)*	*(15)*	*16*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*47*	*(47)*	–	–	*4*	*(4)*	–	–
New originated or purchased	*105,754*	–	–	**105,754**	*21,675*	–	–	**21,675**
Derecognised during the period	(115,851)	(11)	(30,852)	**(146,714)**	(16,644)	13	(2,255)	**(18,886)**
Net repayments	4,565	–	(1,134)	**3,431**	–	–	–	–
Foreign exchange movements	123	1	1,130	**1,254**	–	–	–	–
Changes to ECL measurement model assumptions	–	–	–	–	31	(6)	(41)	**(16)**
At 31 December 2019	**129,539**	**25**	**16,514**	**146,078**	**18,206**	**6**	**12,655**	**30,867**

The credit quality of Other Financial Assets is as follows at 31 December 2021:

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
Other Financial Assets risk category				
– Very low	416,310	-	-	**416,310**
– Low	280	3,583	-	**3,863**
– Moderate	97	147	-	**244**
– Default	-	-	73,597	**73,597**
Gross carrying amount	**416,687**	**3,730**	**73,597**	**494,014**
Credit loss allowance	(3,955)	(1,706)	(46,146)	**(51,807)**
Carrying amount	**412,732**	**2,024**	**27,451**	**442,207**

12. OTHER FINANCIAL ASSETS CONTINUED

The credit quality of Other Financial Assets is as follows at 31 December 2020:

	31 December 2020			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
Other Financial Assets risk category				
– Very low	183,894	–	–	**183,894**
– Low	261	10	–	**271**
– Moderate	86	624	–	**710**
– Default	–	–	17,155	**17,155**
Gross carrying amount	**184,241**	**634**	**17,155**	**202,030**
Credit loss allowance	(28,860)	–	(12,168)	**(41,028)**
Carrying amount	**155,381**	**634**	**4,987**	**161,002**

The credit quality of Other Financial Assets is as follows at 31 December 2019:

	31 December 2019			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for defaulted)**	**Total**
Other Financial Assets risk category				
– Very low	129,218	1	–	**129,219**
– Low	234	1	–	**235**
– Moderate	87	23	–	**110**
– Default	–	–	16,514	**16,514**
Gross carrying amount	**129,539**	**25**	**16,514**	**146,078**
Credit loss allowance	(18,206)	(6)	(12,655)	**(30,867)**
Carrying amount	**111,333**	**19**	**3,859**	**115,211**

Impaired receivables include receivables on terminated leases and other receivables for which credit loss allowance was assessed individually. Receivable's overdue status is a primary factor for the Group to consider a receivable as impaired.

As of 31 December 2021 GEL 464,953 thousand of gross other financial assets and GEL 22,648 thousand of credit loss allowance were attributable to the Bank (2020: GEL 193,220 thousand and GEL 20,145 thousand; 2019: GEL 133,153 thousand and GEL 13,559 thousand).

13. FINANCE LEASE RECEIVABLES

As at 31 December 2021 finance lease receivables of GEL 262,046 thousand (2020: GEL 271,660 thousand; 2019: GEL 256,660 thousand) are represented by leases of fixed assets excluding land and buildings.

Finance lease payments receivable (gross investment in the leases) and their present values 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 at the end of 2021	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 as at 31 December 2021	**94,032**	**75,571**	**43,998**	**23,034**	**10,084**	**5,621**	**252,340**
Lease payments receivable at the end of 2020	132,984	102,136	65,085	31,307	13,922	7,662	**353,096**
Unearned finance income	(32,916)	(20,745)	(10,906)	(4,656)	(1,712)	(986)	**(71,921)**
Credit loss allowance	(4,794)	(1,829)	(1,886)	(928)	(425)	(335)	**(10,197)**
Present value of lease payments receivable as at 31 December 2020	**95,274**	**79,562**	**52,293**	**25,723**	**11,785**	**6,341**	**270,978**
Lease payments receivable at the end of 2019	147,959	97,959	55,978	25,236	9,333	4,637	**341,102**
Unearned finance income	(41,969)	(23,467)	(10,470)	(3,914)	(1,089)	(748)	**(81,657)**
Credit loss allowance	(1,430)	(492)	(475)	(222)	(86)	(80)	**(2,785)**
Present value of lease payments receivable as at 31 December 2019	**104,560**	**74,000**	**45,033**	**21,100**	**8,158**	**3,809**	**256,660**

The table below illustrates the movements in the credit loss allowance of finance lease receivables:

in thousands of GEL	2021	2020	2019
Credit loss allowance at the beginning of the year	**10,197**	**2,785**	**3,602**
Amounts written off during the year as uncollectible	(178)	(348)	(235)
Credit loss allowance/(reversal of loss allowance) during the year	(236)	7,760	(582)
Credit loss allowance at the end of the year	**9,783**	**10,197**	**2,785**

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 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 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)**
Changes due to change in credit quality	-	-	-	**-**	(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**

13. FINANCE LEASE RECEIVABLES CONTINUED

As restated	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 2020	**205,615**	**23,799**	**30,031**	**259,445**	**1,999**	**96**	**690**	**2,785**
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)**	*(42,299)*	*44,590*	*(2,291)*	**-**	*(330)*	*415*	*(85)*	**-**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)**	*(26,393)*	*(1,642)*	*28,035*	**-**	*(624)*	*(22)*	*646*	**-**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)**	*5,615*	*(4,945)*	*(670)*	**-**	*14*	*(14)*	-	**-**
New originated or purchased	*85,964*	*18,654*	*10,101*	**114,719**	*1,258*	*509*	*432*	**2,199**
Derecognised during the period	(40,360)	(13,560)	(11,171)	**(65,091)**	(331)	(63)	(323)	**(717)**
Net repayments	(22,860)	(9,575)	(8,476)	**(40,911)**	-	-	-	**-**
Foreign exchange movements	7,306	3,405	3,559	**14,270**	4	22	348	**374**
Other movements	(1,436)	43	136	**(1,257)**	(83)	59	(4)	**(28)**
Changes due to change in credit quality	-	-	-	**-**	1,007	2,417	2,160	**5,584**
At 31 December 2020	**171,152**	**60,769**	**49,254**	**281,175**	**2,914**	**3,419**	**3,864**	**10,197**

**Management has re-visited the logic for disclosing the movement between stages for 2020 and corrected any discrepancies identified. As a result, amounts disclosed in transfers between stages were amended to reflect more accurate results.*

As previously reported	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 2020	**205,532**	**23,799**	**30,031**	**259,362**	**96**	**690**	**2,785**	**2,785**
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*5,615*	*(4,945)*	*(669)*	**-**	*14*	*(13)*	-	**-**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(41,908)*	*44,590*	*(2,290)*	**391**	*(121)*	*415*	*(85)*	**209**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*(26,117)*	*(1,642)*	*28,035*	**276**	*(472)*	*(23)*	*646*	**152**
New originated or purchased	85,964	18,654	10,101	**114,719**	1,258	509	432	**2,199**
Derecognised during the period	(40,360)	(13,560)	(11,171)	**(65,091)**	(331)	(63)	(323)	**(717)**
Net repayments	-	-	-	**-**	1,007	2,417	2,160	**5,584**
Foreign exchange movements	6,723	3,405	3,558	**13,685**	(357)	22	348	**13**
Other movements	(1,436)	43	135	**(1,257)**	(83)	59	(4)	**(28)**
Partial repayment	(22,860)	(9,575)	(8,476)	**(40,911)**	-	-	-	**-**
At 31 December 2020	**174,716**	**64,210**	**43,575**	**282,502**	**3,103**	**3,787**	**3,956**	**10,845**

13. FINANCE LEASE RECEIVABLES CONTINUED

	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 2019	**178,171**	**10,861**	**18,372**	**207,404**	**2,045**	**205**	**1,352**	**3,602**
Transfers:								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(5,951)*	*6,598*	*(647)*	**-**	*(14)*	*14*	–	**-**
– *to defaulted (from Stage 1 and Stage 2 to Stage 3)*	*(22,099)*	*(2,941)*	*25,040*	**-**	*(27)*	*(65)*	*92*	**-**
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*4,968*	*(2,972)*	*(1,996)*	**-**	*1*	*(1)*	–	**-**
New originated or purchased	*138,634*	*18,663*	*5,836*	**163,133**	*1,319*	*89*	*81*	**1,489**
Derecognised during the period	(55,562)	(4,849)	(10,407)	**(70,818)**	(858)	(154)	(1,536)	**(2,548)**
Net repayments	(38,828)	(2,253)	(9,448)	**(50,529)**	(467)	8	701	**242**
Foreign exchange movements	2,622	170	1,022	**3,814**	–	–	–	**-**
Other movements	3,660	522	2,259	**6,441**	–	–	–	**-**
At 31 December 2019	**205,615**	**23,799**	**30,031**	**259,445**	**1,999**	**96**	**690**	**2,785**

All clients from Covid-19 affected sectors, which is in turn determined by TBC Leasing's credit risk department, using sector forecasts derived by Group's macro economists' team, where these sectors show significant declines, are moved to stage 2 unless obviously they fall in stage 3. Also restructurings that where categorized as good before grace period, are not removed from stage 2 pool because of application of grace period. Compared to 2020 year end, the need for overlays decreased. the group has more clarity related to the repayment capacity of it's borrowers as and majority of the borrowers resumed payments after graces.

As at 31 December 2021, credit quality of finance lease receivables is analysed below:

	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**
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**

13. FINANCE LEASE RECEIVABLES CONTINUED

As at 31 December 2020, credit quality of finance lease receivables is analysed below:

	31 December 2020			
in thousands of GEL	**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	152,660	423	–	153,083
– Low	18,492	55,260	–	73,752
– Moderate	–	4,737	–	4,737
– High	–	349	–	349
– Default	–	–	49,254	49,254
Gross carrying amount	**171,152**	**60,769**	**49,254**	**281,175**
Credit loss allowance	(2,914)	(3,419)	(3,864)	(10,197)
Carrying amount	**168,238**	**57,350**	**45,390**	**270,978**

As at 31 December 2019, credit quality of finance lease receivables is analysed below:

	31 December 2019			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for de-faulted)**	**Total**
Finance lease receivables risk category				
– Very low	175,468	–	–	175,468
– Low	30,147	13,688	–	43,835
– Moderate	–	6,361	–	6,361
– High	–	3,750	–	3,750
– Default	–	–	30,031	30,031
Gross carrying amount	**205,615**	**23,799**	**30,031**	**259,445**
Credit loss allowance	(1,999)	(96)	(690)	(2,785)
Carrying amount	**203,616**	**23,703**	**29,341**	**256,660**

The effect of collateral as at 31 December 2021:

	31 December 2021			
	Over-collateralised Assets		**Under-collateralised Assets**	
in thousands of GEL	**Gross carrying value of the assets**	**Fair value of collateral**	**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**

The effect of collateral as at 31 December 2020:

	31 December 2020			
	Over-collateralised Assets		**Under-collateralised Assets**	
in thousands of GEL	**Gross carrying value of the assets**	**Fair value of collateral**	**Gross carrying value of the assets**	**Fair value of collateral**
Finance lease receivables	218,272	362,426	62,903	51,783
Total	**218,272**	**362,426**	**62,903**	**51,783**

13. FINANCE LEASE RECEIVABLES CONTINUED

The effect of collateral as at 31 December 2019:

	31 December 2019			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Gross carrying value of the assets	Fair value of collateral	Gross carrying value of the assets	Fair value of collateral
Finance lease receivables	228,651	365,934	30,794	22,292
Total	**228,651**	**365,934**	**30,794**	**22,292**

14. OTHER ASSETS

in thousands of GEL	2021	2020	2019
Current other assets			
Repossessed collateral	255,785	174,197	152,134
Prepayments for other assets	54,730	39,970	33,106
Prepayments for purchase of leasing assets	28,829	11,450	31,417
Other inventories	8,203	7,103	5,016
Prepaid taxes other than income tax	6,624	2,412	2,880
Total current other assets	**354,171**	**235,132**	**224,553**
Non-current other assets			
Assets repossessed from terminated leases	10,224	8,619	6,321
Prepayments for construction in progress	5,229	7,525	10,248
Prepaid insurance of leasing assets	2,380	3,461	3,287
Assets purchased for leasing purposes	120	157	190
Other	1,768	1,752	2,602
Total non-current other assets	**19,721**	**21,514**	**22,648**
Total other assets	**373,892**	**256,646**	**247,201**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. 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 fair value when acquired. In 2021, collateral repossessed for settlement of impaired loans amounted to GEL 131,917 thousand (2020: GEL 51,043 thousand; 2019: GEL 78,945 thousand).

As at 31 December 2021 repossessed collateral of the bank before impairment is comprised of lands to GEL 12,475 thousand and buildings to GEL 245,875 thousand. (2020: GEL 10,790 thousand and GEL 165,403 thousand, 2019: GEL 15,905 thousand and GEL 142,018 thousand).

With regards to 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 2021, the carrying value of the repossessed collateral subjected to the repurchase agreement was GEL 124,687 thousand (2020: GEL 26,309 thousand; 2019: GEL 62,578 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
Carrying amount as of 1 January 2019	**162,429**	**87,921**	**63,719**	**314,069**	**108,505**	**422,574**
Cost as at 1 January 2019	201,740	214,516	63,719	**479,975**	164,705	**644,680**
Accumulated depreciation/amortisation including accumulated impairment loss	(39,311)	(126,595)	-	**(165,906)**	(56,200)	**(222,106)**
Additions	3,897	25,061	24,945	**53,903**	66,799	**120,702**
Transfers within premises and equipment	3,597	36	(3,633)	**-**	-	**-**
Transfers from investment property	-	-	1,817	**1,817**	-	**1,817**
Transfer to financial leases or repossessed assets	-	(1,439)	-	**(1,439)**	-	**(1,439)**
Disposals	(5,498)	(11,345)	(4,647)	**(21,490)**	(479)	**(21,969)**
Effect of translation to presentation currency - cost	48	75	-	**123**	23	**146**
Effect of translation to presentation currency - accumulated depreciation	(48)	(45)	-	**(93)**	(25)	**(118)**
Impairment reversal/(charge)	-	43	(6)	**37**	-	**37**
Depreciation/amortisation charge	(5,399)	(22,352)	-	**(27,751)**	(16,281)	**(44,032)**
Elimination of accumulated depreciation/ amortisation on disposals	1,956	8,397	-	**10,353**	567	**10,920**
Carrying amount as of 31 December 2019	**160,982**	**86,352**	**82,195**	**329,529**	**159,109**	**488,638**
Cost as at 31 December 2019	203,784	226,947	82,195	**512,926**	231,048	**743,974**
Accumulated depreciation/amortisation including accumulated impairment loss	(42,802)	(140,595)	-	**(183,397)**	(71,939)	**(255,336)**
Additions	8,889	32,094	26,934	**67,917**	87,885	**155,802**
Transfer within premises and equipment	5,365	-	(5,365)	**-**	-	**-**
Disposals	(2,901)	(4,668)	(95)	**(7,664)**	(3)	**(7,667)**
Effect of translation to presentation currency - cost	150	170	-	**320**	49	**369**
Effect of translation to presentation currency - accumulated depreciation	(139)	(94)	-	**(233)**	(48)	**(281)**
Impairment charge	(2,016)	(1,204)	-	**(3,220)**	(676)	**(3,896)**
Depreciation/amortisation charge	(5,159)	(20,669)	-	**(25,828)**	(22,742)	**(48,570)**
Elimination of accumulated depreciation/ amortisation on disposals	406	5,222	-	**5,628**	3	**5,631**
Transfer to Inventory	(395)	(39)	-	**(434)**	-	**(434)**
Transfer to right of use assets	(2,842)	(310)	-	**(3,152)**	-	**(3,152)**
Carrying amount as of 31 December 2020	**162,340**	**96,854**	**103,669**	**362,863**	**223,577**	**586,440**
Cost as at 31 December 2020	210,034	252,990	103,669	**566,693**	318,303	**884,996**
Accumulated depreciation/amortisation including accumulated impairment loss	(47,694)	(156,136)	-	**(203,830)**	(94,726)	**(298,556)**
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)**
Effect of translation to presentation currency - cost	(66)	(68)	-	**(134)**	(23)	**(157)**
Effect of translation to presentation currency - accumulated depreciation	52	66	-	**118**	21	**139**
Impairment (charge)/reversal	(7,787)	354	(483)	**(7,916)**	(92)	**(8,008)**
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**
Carrying amount as of 31 December 2021	**158,468**	**111,162**	**109,027**	**378,657**	**267,406**	**646,063**
Cost as at 31 December 2021	203,363	279,130	109,027	**591,520**	391,334	**982,854**
Accumulated depreciation/amortisation including accumulated impairment loss	(44,895)	(167,968)	-	**(212,863)**	(123,928)	**(336,791)**

*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 2021 GEL 352,743 thousand of premises and equipment and GEL 249,356 thousand of intangible assets were attributable to the Bank (2020: 335,124 thousand and GEL 210,602 thousand; 2019: GEL 302,190 thousand and GEL 152,393 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, having no effect on Group's consolidated result, as far as, transaction happened between the two Group companies.

On 18 June 2021, the Group sold land and buildings, where some of its back office functions is currently located, for cash consideration of USD 25 million. USD 5 million (GEL 16.5 million) has already been received, while the remaining USD 20 million (GEL 63.2 million) will be received until 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 existing plan the Group will gradually discharge the occupied part of the buildings up until 30 April 2022 and staff will be distributed to existing offices before the new headquarter will be completed. During this period the property is 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 (Note 17). Net gain on disposal from the sale was recognised as part of other operating income in the audited annual financial statements of profit or loss in the amount of GEL 26,294 thousand.

The 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 headquarters. Upon completion, assets are to be transferred to premises.

Land and premises of the bank before impairment comprised of land GEL 12,950 thousand and buildings GEL 188,906 thousand (2020: GEL 11,000 thousand and GEL 191,495 thousand, 2019: GEL 25,793 thousand and GEL 219,497 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 15 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 by class of underlying items is analysed as follows:

in thousands of GEL	2021 Premises	2020 Premises	2019 Premises
Carrying amount at 1 January	**49,746**	**57,086**	**60,232**
Additions of new contracts	5,650	-	16,571
Increases in value from substuntial changes in contractual terms	17,549	8,180	-
Disposals	(1,234)	(955)	(7,340)
Depreciation charge	(13,710)	(14,565)	(12,377)
Carrying amount at 31 December	**58,001**	**49,746**	**57,086**

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.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

16. RIGHT OF USE ASSETS CONTINUED

Expenses relating to short-term leases and to leases of low-value assets that are not classified as short-term leases are included in administrative and other operating expenses:

in thousands of GEL	**2021**	**2020**	**2019**
Expense relating to short-term leases	5,325	5,760	7,388
Expense relating to leases of low-value assets	7,112	6,990	6,154

17. INVESTMENT PROPERTIES

in thousands of GEL	**Note**	**2021**	**2020**	**2019**
Cost as of 1 January		73,876	76,521	86,884
Accumulated depreciation and impairment as of 1 January		(5,187)	(3,854)	(2,588)
Carrying amount as of 1 January		**68,689**	**72,667**	**84,296**
Transfer to premises and equipment	15	–	–	(1,817)
Transfer from repossessed collateral		1,874	10,367	4,914
Addition from foreclosure		–	–	47
Disposals		(42,524)	(13,012)	(13,507)
Depreciation charge		(749)	(929)	(933)
Elimination of depreciation on disposal		1,022	159	717
Impairment charge		(5,420)	(563)	(1,050)
Cost as of 31 December		**33,226**	**73,876**	**76,521**
Accumulated depreciation and impairment as of 31 December		(10,334)	(5,187)	(3,854)
Carrying amount of investment properties as of 31 December		**22,892**	**68,689**	**72,667**

In 2021, the Group disposed its certain investment properties, out of which most part accounted to the single sale described in Note 15.

As of 31 December 2021, investment properties comprised of 44 lots (2020: 58 lots; 2019: 63 lots) of land and 102 buildings (2020: 111 buildings; 2019: 111 buildings). The investment property of the bank before impairment comprised of land GEL 4,834 thousand and buildings GEL 24,222 thousand (2020: GEL 26,703 thousand and GEL 42,723 thousand, 2019: GEL 32,630 thousand and GEL 39,558 thousand) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 29,493 thousand (2020: GEL 120,959 thousand; 2019: GEL 123,325 thousand).

For disclosure purposes a latest fair valuation exercise was carried out for investment properties as of 31 December 2021. The valuation was carried out by external valuators who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. The fair value of assets has been estimated by using the market and cost approaches due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

In thousands of GEL (except for range of inputs)	**Fair value as of 31 December 2021 (valuation date)**	**Valuation technique**	**Unobservable inputs**	**Range of unobser-vable inputs (weighted average)**
Land	6,214	Sales comparison approach	Price per square meter	0.23 – 1,736 (93)
Buildings	23,279	Sales comparison approach	Price per square meter	1.1 – 7,738 (971)

Sensitivity of the input to fair value – increase/(decrease) in the price per square metre by 20% would result in increase/(decrease) in fair value by GEL 2,448 thousand/ (GEL 2,705 thousand).

17. INVESTMENT PROPERTIES CONTINUED

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

in thousands of GEL	2021	2020	2019
Not later than 1 year	29	82	207
Later than 1 year and not later than 2 years	–	–	230
Later than 2 years and not later than 3 years	–	–	–
Later than 3 years and not later than 4 years	–	–	–
Later than 4 years and not later than 5 years	–	–	–
Later than 5 years	–	–	–
Total operating lease payments receivable	**29**	**82**	**437**

18. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

in thousands of GEL	2021	2020	2019
Carrying amount as of 1 January	**28,197**	**29,459**	**29,459**
Impairment loss	-	(1,262)	-
Carrying amount as of 31 December	**28,197**	**28,197**	**29,459**

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	2021	2020	2019
JSC Bank Republic	**24,166**	**24,166**	**24,166**
Bank Republic Retail	11,088	11,088	11,088
Bank Republic Corporate	7,491	7,491	7,491
Bank Republic MSME	4,791	4,791	4,791
Bank Republic Other	796	796	796
LLC Bonaco	2,567	2,567	2,567
CGU Micro	769	769	769
JSC United Financial Corporation	695	695	695
LLC TBC Kredit	–	–	1,262
Total carrying amount of goodwill	**28,197**	**28,197**	**29,459**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

While assessing the Goodwill for potential impairment in 2020 the Group has identified goodwill generated from LLC TBC Kredit to be impaired.

18. GOODWILL CONTINUED

Assumptions used for value-in-use calculations is following:

in thousands of GEL	2021	2020	2019
JSC Bank Republic**			
Growth rate beyond five years of free cash flow to equity	5.2% p.a*	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	17.1% p.a.	24.6% p.a.	16.5% p.a.
CGU Micro			
Growth rate beyond five years of free cash flow to equity	5.2% p.a.	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	12.3% p.a.	19.7% p.a.	10.4% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of free cash flow to equity	5.2% p.a.	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	12.1% p.a.	15.1% p.a.	15.5% p.a.
LLC TBC Kredit			
Growth rate beyond five years of free cash flow to equity	-	-	2.7% p.a.
Pre-tax discount rate	-	-	16.4% p.a.
LLC Bonaco			
Growth rate beyond five years of free cash flow to equity	5.2% p.a.	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	12.4% p.a.	11.4% p.a.	10.2% p.a.

*p.a. means per annum.

**Assumptions related to JSC Bank Republic are similar for all related CGU's.

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 percentage points higher than the management's estimates, 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 2,269,542 thousand (2020: GEL 619,250 thousand; 2019: GEL 3,068,466 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 41.86% p.a. (2020: 35.49% p.a.; 2019: 39.87% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Corporate CGU exceeds its carrying amount by GEL 1,744,639 thousand (2020: GEL 410,824 thousand; 2019: GEL 2,316,056 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.47% p.a. (2020: 30.87% p.a.; 2019: 36.34% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic MSME CGU exceeds its carrying amount by GEL 611,733 thousand (2020: GEL 389,641 thousand; 2019: GEL 1,210,045 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 28.41% p.a. (2020: 35.87% p.a.; 2019: 36.52% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Micro had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of CGU Micro exceeds its carrying amount by GEL 510,490 thousand (2020: GEL 370,815 thousand; 2019: GEL 732,567 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.62% p.a. (2020: 45.25% p.a.; 2019: 29.74% p.a.).

18. GOODWILL CONTINUED

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 151,060 thousand (2020: GEL 23,116 thousand; 2019: GEL 8,222 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 53.79% p.a. (2020: 24.23% p.a.; 2019: 19.53% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Bonaco had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of LLC Bonaco CGU exceeds its carrying amount by GEL 17,447 thousand (2020: GEL 116,174 thousand; 2019: GEL 500,031 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 37.49% p.a. (2020: 25.75% p.a. 2019: 49.45% p.a.).

19. DUE TO CREDIT INSTITUTIONS

in thousands of GEL	**2021**	**2020**	**2019**
Due to other banks			
Correspondent accounts and overnight placements	181,905	43,298*	27,747*
Deposits from banks	142,752	97,496*	139,267*
Total due to other banks	**324,657**	**140,794**	**167,014**
Other borrowed funds			
Borrowings from foreign banks and international financial institutions	1,653,245	2,370,656	2,005,900
Borrowing from Ministry of Finance of Georgia	-	-	536
Borrowings from other financial institutions	-	58,948	41,456
Borrowings from other local banks and financial institutions	24,754	32,185	62,916
Borrowings from National Bank of Georgia	981,419	1,883,290	1,316,079
Total other borrowed funds	**2,659,418**	**4,345,079**	**3,426,887**
Total amounts due to credit institutions	**2,984,075**	**4,485,873**	**3,593,901**

**Management has re-visited the logic for disclosing the Due to other banks for 2020 and 2019 year and corrected any discrepancies identified. As a result, amounts disclosed in the table were amended to reflect more accurate results.*

As of 31 December 2021 for the purposes of maturity analysis of financial liabilities (Note 37) the above-mentioned due to other banks are included within the amounts for which repayment is expected within 3 months.

20. CUSTOMER ACCOUNTS

in thousands of GEL	**2021**	**2020**	**2019**
State and public organisations			
Current/settlement accounts	577,020	504,019	616,397
Term deposits	364,121	590,426	298,177
Other legal entities			
Current/settlement accounts	4,865,920	3,512,078	3,161,526
Term deposits	932,480	763,035	363,217
Individuals			
Current/settlement accounts	4,444,586	3,487,017	2,712,910
Term deposits	3,700,018	3,777,720	2,959,775
Total customer accounts	**14,884,145**	**12,634,295**	**10,112,002**

20. CUSTOMER ACCOUNTS CONTINUED

State and public organisations include government owned profit orientated businesses. Economic sector concentrations within customer accounts are as follows:

	31 December 2021		31 December 2020*		31 December 2019	
in thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individuals	8,144,604	55%	7,264,737	58%	5,672,685	56%
Trade	1,237,807	8%	873,995	7%	741,385	7%
Financial services	1,226,110	8%	771,510	6%	351,537	3%
Services	718,050	5%	526,227	4%	446,876	4%
Construction	598,856	4%	610,321	5%	596,703	6%
Energy & utilities	542,425	4%	384,660	3%	322,331	3%
Government sector	480,046	3%	647,856	5%	505,494	5%
Real estate	418,062	3%	323,547	3%	322,416	3%
Transportation	403,249	3%	332,850	3%	308,268	3%
Healthcare	194,648	1%	131,936	1%	98,294	1%
Hospitality & leisure	155,778	1%	99,770	1%	110,816	1%
Agriculture	78,810	1%	58,005	0%	50,915	1%
Metals and mining	32,675	0%	18,458	0%	12,264	0%
Other	653,025	4%	590,423	4%	572,018	6%
Total gross loans and advances to customers	**14,884,145**	**100%**	**12,634,295**	**100%**	**10,112,002**	**100%**

*Management has re-visited the logic for disclosing the Economic sector risk concentrations within the customer accounts portfolio for 2020 year and corrected any discrepancies identified. As a result, amounts disclosed in the table were amended to reflect more accurate results.

As of 31 December 2021 the Group had 141 customers (2020: 117 customers; 2019: 93 customers) with balances above GEL 10,000 thousand. Their aggregate balance was GEL 4,754,533 thousand (2020: GEL 3,898,678 thousand; 2019: GEL 2,872,119 thousand) or 32% of total customer accounts (2020: 31%; 2019: 28%). In 2020 and 2019 annual financial statements the above disclosure was measured using GEL 3,000 thousand threshold and number of customers using respective threshold were 454 (GEL 5,630,143 thousand) and 361 (GEL 4,327,035 thousand).

As of 31 December 2021 included in customer accounts are deposits of GEL 28,379 thousand and GEL 109,404 thousand (2020: GEL 4,903 thousand and GEL 94,348 thousand; 2019: GEL 9,555 thousand and GEL 101,615 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. The latter is discussed in Note 38. As of 31 December 2021, deposits held as collateral for loans to customers amounted to GEL 576,261 thousand (2020: GEL 512,637 thousand; 2019: 469,205 thousand).

Refer to Note 42 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 44.

21. DEBT SECURITIES IN ISSUE

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	5.8%	6.4%
Bonds issued on Irish Stock Exchange	USD	392,840	10/3/2024	10.8%	11.4%
Bonds issued on Irish Stock Exchange	USD	228,174	2/4/2027	8.9%	9.9%
Bonds issued on Georgian Stock Exchange	GEL	38,532	3/20/2023	TIBR 3M+3.25%	12.5%
Baku Stock Exchange CJSC	AZN	5,649	9/23/2023	12.0%	12.4%
Total debt securities in issue		**1,583,699**			

in thousands of GEL	Currency	Carrying amount as of 31 December 2020	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	966,793	6/19/2024	5.8%	6.4%
Bonds issued on Irish Stock Exchange	USD	414,216	10/3/2024	10.8%	11.4%
Bonds issued on Georgian Stock Exchange	GEL	38,504	3/20/2023	TIBR 3M+3.25%	12.5%
Total debt securities in issue		**1,419,513**			

in thousands of GEL	Currency	Carrying amount as of 31 December 2019	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	842,471	6/19/2024	5.8%	6.4%
Bonds issued on Irish Stock Exchange	USD	371,127	10/3/2024	10.8%	11.4%
Total debt securities in issue		**1,213,598**			

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 completed the transaction of AZN 3 million 2-year 12% named, interest-baring, paperless, unsecured bonds issue (the "Notes").

On 20 March 2020, TBC Leasing with the help of TBC Capital placed senior secured bonds of amount GEL 58.4 million on the Georgian Stock Exchange. The percentage of securities is variable, 3.25% added to the 3-month Tbilisi Interbank Interest rate. Fitch rates the bonds 'BB-'.

On 3 July 2019 the Bank completed the transaction of a debut inaugural USD 125 million 10.75% yield Additional Tier 1 Capital Perpetual Subordinated Notes issue ("AT1 Notes"). The AT1 Notes are listed on the regulated market of Euronext Dublin and are rated B- by Fitch. The AT1 Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of additional Tier 1 Capital Notes from Georgia.

On 19 June 2019 the Bank completed the transaction of a debut USD 300 million 5-year 5.75% (6% yield) senior unsecured bonds issue. The Notes are listed on the regulated market of Euronext Dublin and are rated Ba2 by Moody's and BB- by Fitch. The Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of senior unsecured Notes from Georgia.

22. PROVISION FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND 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
Balance as of 1 January 2019	**4,393**	**5,424**	**4,000**	**13,817**
Charges less releases recorded in profit or loss	3,069	(913)	2,105	4,261
Utilization of provision	-	-	(1,104)	(1,104)
Effect of translation to presentation currency	4	-	-	4
Balance as of 31 December 2019	**7,466**	**4,511**	**5,001**	**16,978**
(Releases)/charges recorded in profit or loss	(3,568)	330	2,600	(638)
Effect of translation to presentation currency	529	583	-	1,112
Balance as of 31 December 2020	**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)
Balance as of 31 December 2021	**4,620**	**3,624**	**7,601**	**15,845**

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.

Once the respective on balance exposure is estimated, the Group applies the same impairment framework approach as the one used for the respective type of on balance exposures.

23. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

in thousands of GEL	Note	2021	2020	2019
Debit or credit card payables		28,963	6,408	13,259
Trade payables		27,307	31,598	21,223
Liabilities to asset and service providers of finance leases		18,295	10,851	25,923
Transfers in transit		15,136	2,156	-
Derivative financial liabilities	41	10,216	121,183*	20,440
Liabilities related to co-financing of hotels and restaurants sectors		1,638	13,771	315
Payable to deposit insurance agency		1,033	930	549
Security deposits for finance lease receivables		906	91	1,171
Prepayments related to guarantees		516	1,152	879
Other accrued liabilities		16,610	23,102*	11,884
Total other financial liabilities		**120,620**	**211,242**	**95,643**

**Management has revisited the classification of margin call deposits balance from one of forward exchange contracts, as far as, it does not represent the derivative instrument. To improve clarity and understandability of financial statements such deposit has been transferred from derivative financial liabilities in the amount of GEL 5,270 thousand to other accrued liabilities sub categories within other financial liability note.*

As of 31 December 2021 GEL 92,613 thousand of other financial liabilities were attributable to the Bank (2020: GEL 186,487 thousand; 2019: GEL 58,809 thousand).

Refer to Note 42 for disclosure of the fair value of other financial liabilities.

24. OTHER LIABILITIES

Other liabilities comprise the following:

in thousands of GEL	2021	2020	2019
Accrued employee benefit costs	45,984	28,957	42,017
Taxes payable other than on income	17,046	12,370	11,669
Advances received	13,075	10,390	11,161
Other	7,518	8,252	5,519
Total other liabilities	**83,623**	**59,969**	**70,366**

All of the above liabilities are expected to be settled within twelve months after the year-end.

25. SUBORDINATED DEBT

As of 31 December 2021, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Asian Developement Bank	10/18/2016	12/31/2026	USD	50,486	156,386
Private lenders	6/8/2017	12/19/2024	USD	35,304	109,427
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,097	77,739
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,079	62,195
Green for Growth Fund	12/18/2015	12/16/2030	USD	15,189	47,048
BlueOrchard Microfinance Fund	12/14/2018	12/15/2025	USD	14,966	46,360
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,954	46,321
European Fund for Southeast Europe	12/18/2015	12/16/2030	USD	7,594	23,523
European Fund for Southeast Europe	3/15/2016	3/17/2031	USD	7,592	23,517
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,930	18,369
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,115	9,649
ResponsAbility SICAV (Lux) - Microfinance Leaders	11/30/2018	11/30/2028	USD	1,005	3,113
Total subordinated debt					**623,647**

25. SUBORDINATED DEBT CONTINUED

As of 31 December 2020, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in orig-inal currency	Outstanding amount in GEL
Asian Developement Bank	10/18/2016	12/31/2026	USD	50,438	165,266
Private Lenders	6/8/2017	12/19/2024	USD	25,217	82,628
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,096	82,230
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,079	65,789
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,244	49,950
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,949	48,983
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,941	48,956
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,102	33,098
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,633	25,010
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,631	25,004
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,930	19,430
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,115	10,206
KfW	5/4/2015	5/8/2021	GEL	6,737	6,737
KfW	6/10/2014	5/8/2021	GEL	6,161	6,161
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,005	3,292
Total subordinated debt					**672,740**

As of 31 December 2019, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstand-ing amount in original currency	Outstanding amount in GEL
Asian Developement Bank	10/18/2016	10/18/2026	USD	50,585	145,064
Private Lenders	6/8/2017	12/19/2024	USD	25,218	72,317
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,089	71,948
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,074	57,565
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,305	43,890
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,924	42,798
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,920	42,786
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,101	28,976
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,663	21,975
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,662	21,971
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,935	17,020
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,117	8,940
KfW	5/4/2015	5/8/2021	GEL	6,739	6,739
KfW	6/10/2014	5/8/2021	GEL	6,162	6,162
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,006	2,884
Total subordinated debt					**591,035**

The subordinated debt ranks after all other creditors in case of liquidation.

Refer to Note 42 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 44.

In the event of any liquidation and/or significant financial distress with respect to the Borrower, the Lender agrees that the claims of the Lender in respect of the principal of, and interest on, the Loan and all other amounts payable under this Agreement shall be subordinated and subject in right of payment to the prior payment of claims of depositors and unsecured creditors of the Borrower, except for claims which are themselves so subordinated.

25. SUBORDINATED DEBT CONTINUED

Unless otherwise agreed with the Regulatory Authority, any voluntary or mandatory prepayment of the Loan or cancellation of this Agreement can be made no earlier than five calendar years after the Disbursement Date of the Loan and shall require the prior written consent of the Regulatory Authority.

The purpose of the Facility is to provide the Borrower with funding to be used by the Borrower as an instrument that qualifies as Tier 2 Capital to increase its lending capacity and to provide a capital cushion for the Borrower in accordance with the provisions of this Agreement.

26. SHARE CAPITAL

in thousands of GEL	Number of ordinary shares	Share Capital
As of 31 December 2019	**52,539,769**	**21,014**
As of 31 December 2020	**52,539,769**	**21,014**
As of 31 December 2021	**52,539,769**	**21,014**

Each share has a nominal value of GEL 0.4 (31 December 2020: GEL 0.4 per share, 31 December 2019: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

	2021	2020	2019
in thousands of GEL	**Interim**		**Ordinary**
Dividends payable at 1 January	**-**	**-**	**-**
Dividends declared during the year	81,872	-	80,911
Dividends paid during the year:	(81,872)	-	(80,911)
Dividends payable at 31 December	**-**	**-**	**-**
Dividends per share declared during the year	**GEL 1.56**	**-**	**GEL 1.54**

On August 11, 2021, JSC TBC Bank's shareholders agreed on a dividend of GEL 1.56 per share. The dividend was recorded on August 20, 2021 and on September 7, 2021 shareholders received the payment of the total GEL 81,872 thousand dividends.

In 2020, taking into consideration the unprecedented uncertainty triggered by the COVID-19 outbreak, the Board of Directors has decided not to recommend a dividend. The decision was approved by shareholders of the Group.

On 19 April 2019, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.54 per share, based on the 2018 audited financial statements. The dividend was recorded on 28 May 2019 and on 12 July 2019 shareholders received the payment of the total GEL 80,911 thousand dividends.

27. SHARE BASED PAYMENTS

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved management compensation scheme for the top and middle management which was enforced from 2015 through 2018. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares were awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management also received the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they cannot be sold or transferred to third parties.

27. SHARE BASED PAYMENTS CONTINUED

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares are vested in 3 years after being awarded. Under this compensation system the total vesting period extended to March 2022.

In 2015 the Group considered 17 June as the grant date. Based on the management's estimate of reached targets, as of 31 December 2015 1,908,960 shares were granted under the entire scheme of 2015-2018. The shares were gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme remained conceptually the same and was only updated to reflect the Group's new structure, whereby TBC Bank Group PLC distributed its shares to the scheme's participants, instead of JSC TBC Bank. The respective shares' value was recharged to JSC TBC Bank. As a result, the accounting of the scheme did not change in the financial statements.

The share based payment scheme for middle management and other eligible employees continued under existing terms after 2018, except for vesting conditions that changed from 10%, 10%, 80% to 33%, 33%, 34% for the 3 year period, starting from 2019.

December 2018 arrangements:

A new compensation system was approved by shareholders at the AGM on 21 May 2018 and came into effect on 1 January 2019 and it covered the period 2019-2021 inclusive. On 28 December 2018, the Board of Directors approved the following details for this new compensation schemes for the top management and the Group considered that as a grant date. All schemes are equity settled and accounted respectively.

Deferred share salary plan

Part of the top management salary is 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 are usually delivered during the first quarter of the second year (i.e. the year after the performance year) and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends. Starting from 2021, deferred share salary is no longer subject to the deferral and will be vested immediately upon delivery.

Where applicable, deferred share salary is paid in part under the JSC TBC Bank's Management Board members service contract with TBC Bank JSC, with TBC PLC or other Group subsidiaries (as relevant and as applicable). Initial salaries are set and approved by the Supervisory Board and Board of Directors. The Remuneration Committee assists both Boards in compensation related matters and makes respective recommendations. Deferred compensation is subject to the Group's malus and clawback policies until the shares are vested. If at any time after making the deferred compensation there is a material misstatement in the financial results for the year in respect of which the compensation was formally granted, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

Deferred Bonus plan

The annual bonus for the top management is determined as to the extent that the annual KPIs have been met. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year): and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Annual KPIs are 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 are achieved, the Remuneration Committee may recommend to the

27. SHARE BASED PAYMENTS CONTINUED

Board whether an award may be made and the amount of such award. The Group does 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 shares are vested. 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). Where applicable, deferred share bonus is paid in part under the JSC TBC Bank's Management Board members service contract with TBC JSC, with TBC PLC or other Group subsidiaries (as relevant and as applicable).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

Long Term Incentive Plan (LTIP)

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.

More details about the LTIP and share based payments are given in Remuneration Committee report.

During 2020 the management of JSC TBC Bank has forfeited their rights to deferred share bonuses and long-term incentive plan grants attributable to 2020.The above mentioned decision had no effect on the incentive schemes for 2019 and 2021 years. Decision has been agreed with remuneration committee details of which are given in remuneration report.

27. SHARE BASED PAYMENTS CONTINUED

Tabular information on the schemes is given below:

in thousands of GEL	31 December 2021	31 December 2020	31 December 2019
Number of unvested shares at the beginning of the period	**3,028,818**	**3,141,541**	**2,121,129**
Number of shares granted			
Number of shares granted - Deferred salary	–	–	285,047
Number of shares granted - Deferred bonus	–	–	471,778
Number of shares granted - LTIP	–	–	459,751
Number of shares granted - Middle management, subsidiaries' management and other eligible employees	321,453	528,325	396,525
Number of shares granted	**321,453**	**528,325**	**1,613,101**
Change in estimates of number of shares expected to be granted*			
Change in estimates for 2019-2021 all awards	(361,739)	–	(57,058)
Change in estimates for 2020 award for Deferred salary, 2021 awards for Deferred bonus and LTIP	–	479,580	–
Management forfeiture of rights for 2020 bonus	–	(428,451)	–
Change in estimates of number of shares expected to be granted*	**(361,739)**	**51,129**	**(57,058)**
Change in estimate of number of shares expected to vest based on changes in share price and exchange rate - 2020 performance	(169,753)	–	–
Change in estimate of number of shares expected to vest based on performance conditions, share price and exchange rate - 2019 performance	–	(71,847)	–
Change in estimate of number of shares expected to vest based on performance conditions - 2018 performance	–	–	(16,501)
Number of shares vested			
2015 year award – 80% vesting	–	–	(405,573)
2016 year award – 10% vesting	–	–	(51,693)
2016 year award – 80% vesting	–	(413,544)	–
2017 year award – 10% vesting	–	(105,527)	(61,864)
2017 year award – 80% vesting	(451,251)	–	–
2018 year award – 10% vesting	(57,102)	(101,259)	–
2019 year award – MM 33% vesting	(47,401)	–	–
2019 year award – TM 50% vesting	(137,779)	–	–
Number of shares vested	**(693,533)**	**(620,330)**	**(519,130)**
Number of unvested shares at the end of the period	**2,125,246**	**3,028,818**	**3,141,541**
Expense recognised as staff cost during the period (GEL thousand)	**19,352**	**16,522**	**33,857**

** The maximum amount is fixed for deferred share compensations for top management, the exact number will be calculated as per policy.*

Tax part of the existing bonus system is accounted under 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.

On 31 December 2021 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system by decreasing estimated number of shares to vest by 169,753 (31 December 2020: decreased estimated number of shares to vest by 71,847; 31 December 2019: decreased estimated number of shares to vest by 16,501).

In 2019 the Group established employee benefit trust (EBT) Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's share based payments plan. It purchases Group's shares from the open market and holds them before they are awarded to participants and vesting date is due. The number of shares to be purchased and held are instructed by the Remuneration committee of the TBC Bank Group PLC. As at 31 December 2021 the share number held by Trustee was 641,391 (31 December 2020: 778,183; 31 December 2019: 595,380), which represents 1.2% of total outstanding shares (31 December 2020: 1.4%; 31 December 2019: 1.1%).

28. SEGMENT ANALYSIS

The Management 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 2021 the Group made following re-segmentations:

- Standard annual re-segmentation after which some of the clients were reallocated to different segments – GEL 93,916 thousand of loans and GEL 75,268 thousand of customer accounts were transferred from MSME to Corporate segment.
- Wealth Management business with high net worth individuals has been transferred from retail to corporate segment in the amount of GEL 141,122 thousand of loans and GEL 2,289,076 thousand of customer accounts due to changes in segment definitions.
- Space segment has been fully transferred from MSME to retail segment in the amount of GEL 33,709 thousand of loans and GEL 9,717 thousand of customer accounts due to changes in segment definitions. The underlying rationale was the composition of product base, offered by Space to its customers. The majority of such products are consumer, fast consumer and installment loans, which by their nature represent the retail segment.

In the tables below is disclosed the information as of 31 December 2020 and 2019 both with and without re-segmentations effect.

Other transfers between segments were primarily due to changes in client size and specifications compared to prior period.

The operating segments are determined as follows:

- Corporate – a legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or which has been granted facilities of more than GEL 5.0 million. Some other business customers may also be assigned to the CIB segment or transferred to the MSME 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;
- MSME – business customers who are not included in the CIB segment;

Corporate centre and other operations - comprises of 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 2021, 2020 or 2019.

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 37.

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.

28. SEGMENT ANALYSIS CONTINUED

A summary of the Group's reportable segments for the years ended 31 December 2021, 2020 and 2019 is provided below:

Segment disclosure below is prepared with the effect of 2021 re-segmentations as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 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	52,811	(52)	**378,160**
Fee and commission expense	(81,033)	(38,282)	(33,874)	(84)	**(153,273)**
Net fee and commission income	**31,446**	**174,640**	**18,937**	**(136)**	**224,887**
Net gains from currency 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**	**271,672**	**63,771**	**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**	**186,613**	**27,616**	**962,223**
Income tax expense	(48,779)	(32,189)	(21,137)	(17,173)	**(119,278)**
Profit for the year	**380,701**	**286,325**	**165,476**	**10,443**	**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**

28. SEGMENT ANALYSIS CONTINUED

For comparison purposes segment disclosure below is prepared with the effect of 2021 re-segmentations as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2020					
Interest income	476,649	616,536	321,304	246,349	**1,660,838**
Interest expense	(230,061)	(116,507)	(11,057)	(496,464)	**(854,089)**
Net interest gains on currency swaps	-	-	-	20,950	**20,950**
Inter-segment interest income/(expense)	59,132	(135,612)	(121,732)	198,212	**-**
Net interest income	**305,720**	**364,417**	**188,515**	**(30,953)**	**827,699**
Fee and commission income	84,671	168,320	37,740	(235)	**290,496***
Fee and commission expense	(55,456)	(43,133)	(22,997)	(131)	**(121,717)***
Net fee and commission income	**29,215**	**125,187**	**14,743**	**(366)**	**168,779**
Net gains/(loss) from currency derivatives, foreign currency operations and translation	55,911	28,581	25,699	(4,336)	**105,855**
Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	(624)	**(624)**
Other operating income	1,855	6,939	391	4,169	**13,354**
Other operating non-interest income	**57,766**	**35,520**	**26,090**	**(791)**	**118,585**
Credit loss allowance for loans to customers	(30,434)	(205,180)	(95,197)	-	**(330,811)**
Credit loss recovery/(allowance) for performance guarantees and credit related commitments	3,546	(241)	(67)	-	**3,238**
Credit loss allowance for finance lease receivables	-	-	-	(7,760)	**(7,760)**
Credit loss allowance for other financial assets	(5,600)	(1,476)	-	(6,332)	**(13,408)**
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(876)	-	-	(934)	**(1,810)**
Net impairment of non-financial assets	(5)	(3,672)	(795)	(1,358)	**(5,830)***
Operating income after expected credit and non-financial asset impairment losses	**359,332**	**314,555**	**133,289**	**(48,494)**	**758,682***
Staff costs	(38,223)	(108,411)	(44,761)	(15,492)	**(206,887)**
Depreciation and amortisation	(4,460)	(45,939)	(10,340)	(3,329)	**(64,068)**
Provision for liabilities and charges	(400)	(2,200)	-	-	**(2,600)**
Administrative and other operating expenses	(13,684)	(68,756)	(15,836)	(13,638)	**(111,914)***
Operating expenses	**(56,767)**	**(225,306)**	**(70,937)**	**(32,459)**	**(385,469)***
Losses from modifications of financial instruments	(6,345)	(23,633)	(7,153)	(3,884)	**(41,015)**
Profit/(loss) before tax	**296,220**	**65,616**	**55,199**	**(84,837)**	**332,198**
Income tax (expense)/credit	(19,863)	23,759	2,337	(1,171)	**5,062**
Profit/(loss) for the year	**276,357**	**89,375**	**57,536**	**(86,008)**	**337,260**
Total gross loans and advances to customers reported	5,925,787	5,846,274	3,428,454	-	**15,200,515**
Total customer accounts reported	5,854,182	4,975,661	1,293,222	511,230	**12,634,295**
Total credit related commitments and performance guarantees	3,146,940	176,937	308,480	-	**3,632,357**

**Certain amounts do not correspond to the 2020 consolidated financial statements as they reflect the certain restatements as described in Note 2.*

28. SEGMENT ANALYSIS CONTINUED

Segment disclosure below is prepared without the effect of 2021 re-segmentations as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2020 Interest income	462,203	617,125	335,161	246,349	**1,660,838**
Interest expense	(208,556)	(184,738)	(12,020)	(448,775)	**(854,089)**
Net interest gains on currency swaps	-	-	-	20,950	**20,950**
Inter-segment interest income/(expense)	34,455	(59,379)	(125,599)	150,523	**-**
Net interest income	**288,102**	**373,008**	**197,542**	**(30,953)**	**827,699**
Fee and commission income	57,949	206,377	26,405	(235)	**290,496***
Fee and commission expense	(8,698)	(101,887)	(11,001)	(131)	**(121,717)***
Net fee and commission income	**49,251**	**104,490**	**15,404**	**(366)**	**168,779**
Net gains/(loss) from currency derivatives, foreign currency operations and translation	51,443	31,561	27,187	(4,336)	**105,855**
Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	(624)	**(624)**
Other operating income	1,855	6,901	429	4,169	**13,354**
Other operating non-interest income	**53,298**	**38,462**	**27,616**	**(791)**	**118,585**
Credit loss allowance for loans to customers	(29,089)	(201,652)	(100,070)	-	**(330,811)**
Credit loss recovery/(allowance) for performance guarantees and credit related commitments	3,546	(241)	(67)	-	**3,238**
Credit loss allowance for finance lease receivables	-	-	-	(7,760)	**(7,760)**
Credit loss allowance for other financial assets	(5,600)	(1,476)	-	(6,332)	**(13,408)**
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(876)	-	-	(934)	**(1,810)**
Net impairment of non-financial assets	(5)	(3,590)	(877)	(1,358)	**(5,830)***
Operating income after expected credit and non-financial asset impairment losses	**358,627**	**309,001**	**139,548**	**(48,494)**	**758,682***
Staff costs	(34,068)	(109,492)	(47,835)	(15,492)	**(206,887)**
Depreciation and amortisation	(4,296)	(45,256)	(11,187)	(3,329)	**(64,068)**
Provision for liabilities and charges	(400)	(2,200)	-	-	**(2,600)**
Administrative and other operating expenses	(11,968)	(64,719)	(21,589)	(13,638)	**(111,914)***
Operating expenses	**(50,732)**	**(221,667)**	**(80,611)**	**(32,459)**	**(385,469)***
Losses from modifications of financial instruments	(6,345)	(23,633)	(7,153)	(3,884)	**(41,015)**
Profit/(loss) before tax	**301,550**	**63,701**	**51,784**	**(84,837)**	**332,198**
Income tax (expense)/credit	(18,695)	21,360	3,568	(1,171)	**5,062**
Profit/(loss) for the year	**282,855**	**85,061**	**55,352**	**(86,008)**	**337,260**
Total gross loans and advances to customers reported	5,690,749	5,953,687	3,556,079	–	**15,200,515**
Total customer accounts reported	4,001,068	7,255,020	1,378,207	–	**12,634,295**
Total credit related commitments and performance guarantees	3,125,279	189,288	317,790	–	**3,632,357**

**Certain amounts do not correspond to the 2020 consolidated financial statements as they reflect the certain restatements as described in Note 2.*

28. SEGMENT ANALYSIS CONTINUED

For comparison purposes segment disclosure below is prepared with the effect of 2021 re-segmentations as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
Interest income	360,688	587,154	291,051	196,213	**1,435,106**
Interest expense	(148,464)	(147,099)	(9,966)	(364,893)	**(670,422)**
Net interest gains on currency swaps	-	-	-	28,556	**28,556**
Inter-segment interest income/(expense)	11,216	(73,263)	(99,022)	161,069	**-**
Net interest income	**223,440**	**366,792**	**182,063**	**20,945**	**793,240**
Fee and commission income	49,928	203,391	25,787	1,512	**280,618***
Fee and commission expense	(7,091)	(84,838)	(9,081)	(482)	**(101,492)***
Net fee and commission income	**42,837**	**118,553**	**16,706**	**1,030**	**179,126**
Net gains/(loss) from currency derivatives, foreign currency operations and translation	50,985	30,726	23,087	(2,363)	**102,435**
Net gains from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	169	**169**
Other operating income	4,322	8,204	1,082	3,968	**17,576**
Share of profit of associates	-	-	-	632	**632**
Other operating non-interest income	**55,307**	**38,930**	**24,169**	**2,406**	**120,812**
Credit loss recovery/(allowance) for loans to customers	3,262	(81,569)	(3,723)	-	**(82,030)**
Credit loss (allowance)/recovery for performance guarantees and credit related commitments	(2,691)	411	124	-	**(2,156)**
Credit loss recovery for finance lease receivables	-	-	-	582	**582**
Credit loss recovery/(allowance) for other financial assets	2,211	(3,545)	(11)	(6,372)	**(7,717)**
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(142)	-	-	(149)	**(291)**
Net impairment of non-financial assets	-	(2,743)	-	-	**(2,743)***
Operating income after expected credit and non-financial asset impairment losses	**324,224**	**436,829**	**219,328**	**18,442**	**998,823***
Staff costs	(36,630)	(132,722)	(45,773)	(10,883)	**(226,008)**
Depreciation and amortisation	(2,509)	(45,429)	(7,170)	(2,211)	**(57,319)**
Provision for liabilities and charges	-	-	-	(2,105)	**(2,105)**
Administrative and other operating expenses	(14,043)	(74,356)	(15,021)	(20,764)	**(124,184)***
Operating expenses	**(53,182)**	**(252,507)**	**(67,964)**	**(35,963)**	**(409,616)***
Profit/(loss) before tax	**271,042**	**184,322**	**151,364**	**(17,521)**	**589,207**
Income tax (expense)/credit	(29,048)	(17,557)	(15,369)	18,452	**(43,522)**
Profit for the year	**241,994**	**166,765**	**135,995**	**931**	**545,685**
Total gross loans and advances to customers reported	4,904,244	4,896,594	2,861,117	-	**12,661,955**
Total customer accounts reported	4,811,788	3,920,816	1,153,349	226,049	**10,112,002**
Total credit related commitments and performance guarantees	2,468,261	190,598	300,992	-	**2,959,851**

**Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.*

28. SEGMENT ANALYSIS CONTINUED

Segment disclosure below is prepared without the effect of 2021 re-segmentations as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
Interest income	356,654	582,788	299,451	196,213	**1,435,106**
Interest expense	(166,857)	(152,566)	(10,153)	(340,846)	**(670,422)**
Net interest gains on currency swaps	–	–	–	28,556	**28,556**
Inter-segment interest income/(expense)	31,352	(66,951)	(101,423)	137,022	**–**
Net interest income	**221,149**	**363,271**	**187,875**	**20,945**	**793,240**
Fee and commission income	49,387	203,448	26,271	1,512	**280,618***
Fee and commission expense	(7,059)	(84,870)	(9,081)	(482)	**(101,492)***
Net fee and commission income	**42,328**	**118,578**	**17,190**	**1,030**	**179,126**
Net gains/(loss) from currency derivatives, foreign currency operations and translation	49,852	30,726	24,220	(2,363)	**102,435**
Net gains from disposal of investment securities measured at fair value through other comprehensive income	–	–	–	169	**169**
Other operating income	2,952	9,563	1,093	3,968	**17,576**
Share of profit of associates	–	–	–	632	**632**
Other operating non-interest income	**52,804**	**40,289**	**25,313**	**2,406**	**120,812**
Credit loss recovery/(allowance) for loans to customers	3,262	(77,324)	(7,968)	–	**(82,030)**
Credit loss (allowance)/recovery for performance guarantees and credit related commitments	(2,691)	411	124	–	**(2,156)**
Credit loss recovery for finance lease receivables	–	–	–	582	**582**
Credit loss recovery/(allowance) for other financial assets	2,211	(3,545)	(11)	(6,372)	**(7,717)**
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(142)	–	–	(149)	**(291)**
Net impairment of non-financial assets	-	(2,743)	-	-	**(2,743)***
Operating income after expected credit and non-financial asset impairment losses	**318,921**	**438,937**	**222,523**	**18,442**	**998,823***
Staff costs	(36,630)	(131,583)	(46,912)	(10,883)	**(226,008)**
Depreciation and amortisation	(2,509)	(45,429)	(7,170)	(2,211)	**(57,319)**
Provision for liabilities and charges	–	–	–	(2,105)	**(2,105)**
Administrative and other operating expenses	(14,043)	(70,255)	(19,122)	(20,764)	**(124,184)***
Operating expenses	**(53,182)**	**(247,267)**	**(73,204)**	**(35,963)**	**(409,616)***
Profit/(loss) before tax	**265,739**	**191,670**	**149,319**	**(17,521)**	**589,207**
Income tax (expense)/credit	(29,048)	(18,101)	(14,825)	18,452	**(43,522)**
Profit for the year	**236,691**	**173,569**	**134,494**	**931**	**545,685**
Total gross loans and advances to customers reported	4,660,473	5,053,203	2,948,279	–	**12,661,955**
Total customer accounts reported	3,250,046	5,672,685	1,189,271	–	**10,112,002**
Total credit related commitments and performance guarantees	2,451,769	205,433	302,649	–	**2,959,851**

** Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.*

28. SEGMENT ANALYSIS CONTINUED

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	52,811	(52)	**378,160**
– Other operating income	2,706	8,879	877	28,580	**41,042**
Total	**115,185**	**221,801**	**53,688**	**28,528**	**419,202**
Timing of revenue recognition:					
– At point in time	115,185	220,246	53,688	28,575	**417,694**
– Over a period of time	-	1,555	-	(47)	**1,508**

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2020					
– Fee and commission income	57,949	206,377	26,405	(235)	**290,496**
– Other operating income	1,855	6,901	429	4,169	**13,354**
Total	**59,804**	**213,278**	**26,834**	**3,934**	**303,850**
Timing of revenue recognition:					
– At point in time	59,804	210,986	26,834	3,934	**301,558**
– Over a period of time	-	2,292	-	-	**2,292**

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2019					
– Fee and commission income	49,387	203,448	26,271	1,512	**280,618**
– Other operating income	2,952	9,563	1,093	3,968	**17,576**
Total	**52,339**	**213,011**	**27,364**	**5,480**	**298,194**
Timing of revenue recognition:					
– At point in time	52,311	211,531	27,359	5,480	**296,681**
– Over a period of time	28	1,480	5	-	**1,513**

28. SEGMENT ANALYSIS CONTINUED

Reportable segments' assets were reconciled to total assets as follows:

in thousands of GEL	31 December 2021	31 December 2020	31 December 2019
Total segment assets (gross loans and advances to customers)	16,954,553	15,200,515	12,661,955
Credit loss allowance	(407,368)	(606,246)	(312,556)
Cash and cash equivalents	1,595,460	1,601,599	994,479
Mandatory cash balances with National Bank of Georgia	2,086,113	2,098,506	1,591,829
Due from other banks	42,237	19,690	15,597
Investment securities measured at fair value through other comprehensive income	1,938,196	1,527,268	985,293
Bonds carried at amortised cost	-	1,059,946	1,021,568
Current income tax prepayment	84	69,762	25,695
Deferred income tax asset	2,056	2,134	2,173
Other financial assets	442,207	161,002	115,211
Finance lease receivables	252,340	270,978	256,660
Other assets	373,892	256,646	247,201
Premises and equipment	378,657	362,863	329,529
Intangible assets	267,406	223,577	159,109
Investment properties	22,892	68,689	72,667
Goodwill	28,197	28,197	29,459
Right of use assets	58,001	49,746	57,086
Investments in associates	4,589	4,090	2,655
Total assets per statement of financial position	**24,039,512**	**22,398,962**	**18,255,610**

Reportable segments' liabilities are reconciled to total liabilities as follows:

in thousands of GEL	31 December 2021	31 December 2020	31 December 2019
Total segment liabilities (customer accounts)	14,884,145	12,634,295	10,112,002
Due to credit institutions	2,984,075	4,485,873	3,593,901
Debt securities in issue	1,583,699	1,419,513	1,213,598
Current income tax liability	86,302	27	818
Deferred income tax liability	10,979	13,084	18,806
Provisions for liabilities and charges	15,845	17,451	16,979
Other financial liabilities	120,620	211,242	95,643
Other liabilities	83,623	59,969	70,366
Subordinated debt	623,647	672,740	591,035
Lease Liabilities	56,522	54,588	59,316
Total liabilities per statement of financial position	**20,449,457**	**19,568,782**	**15,772,464**

29. INTEREST INCOME AND EXPENSE

in thousands of GEL	2021	2020	2019
Interest income calculated using effective interest method			
Loans and advances to customers	1,601,966	1,393,856	1,225,201
Bonds carried at amortised cost*	-	95,888	58,597
Investment securities measured at fair value through other comprehensive income*	185,424	103,516	74,043
Due from other banks	13,491	13,870	27,915
Other financial assets	4,315	1,621	1,416
Other interest income			
Finance lease receivables	57,881	52,087	47,934
Total interest income	**1,863,077**	**1,660,838**	**1,435,106**
Interest expense			
Customer accounts	(469,873)	(402,728)	(327,154)
Due to credit institutions	(256,746)	(288,857)	(226,899)
Subordinated debt	(53,338)	(55,716)	(63,693)
Debt securities in issue	(113,146)	(104,182)	(50,248)
Other interest expense			
Lease liabilities	(2,325)	(2,606)	(2,428)
Total interest expense	**(895,428)**	**(854,089)**	**(670,422)**
Net interest gains on currency swaps	28,143	20,950	28,556
Net interest income	**995,792**	**827,699**	**793,240**

** 2021 reflects changes in business model of financial securities described in Note 2.*

As of 31 December 2021 GEL 1,831,852 thousand of interest income and GEL 878,444 thousand of interest expense were attributable to the Bank (2020: GEL 1,630,741 thousand of interest income and GEL 839,830 thousand of interest expense; 2019: GEL 1,416,276 thousand of interest income and GEL 657,579 thousand of interest expense).

During 2021 interest accrued on defaulted loans amounted to GEL 36,105 thousand (2020: GEL 69,285 thousand; 2019: GEL 14,372 thousand).

During 2021 capitalized interest expense in the amount of GEL 1,756 thousand (2020: GEL 1,403 thousand, 2019: nil), was attributable to the development of the Group's headquarters. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is weighted average of interest bearing liabilities by currencies: 7.7% in GEL, 2.9% in USD and 1.3% in EUR. (2020: 7.7% in GEL, 3.6% in USD and 1.1% in EUR, 2019: nil)

30. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense of the Group are as follows:

in thousands of GEL	2021	2020 (restated)	2019 (restated)
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
– Card operations	188,749	139,000*	135,015*
– Settlement transactions	108,046	84,366	81,933
– Guarantees issued	42,125	35,761	28,738
– Cash transactions	7,383	8,305	13,212
– Issuance of letters of credit	2,906	6,200	5,215
– Foreign exchange operations	3,259	1,952	2,841
– Other	25,692	14,912	13,664
Total fee and commission income	**378,160**	**290,496**	**280,618**
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
– Card operations	115,998	93,597*	78,752*
– Settlement transactions	18,052	13,041	13,729
– Cash transactions	6,062	6,618	4,731
– Guarantees and letters of credit received	4,628	4,148	3,628
– Other	8,533	4,313	652
Total fee and commission expense	**153,273**	**121,717**	**101,492**
Net fee and commission income	**224,887**	**168,779**	**179,126**

** Certain amounts do not correspond to the 2020 and 2019 financial statements as they reflect the reclassifications as described in Note 2.*

Fee and commission income and expense of the Bank are as follows:

in thousands of GEL	2021	2020 (restated)	2019 (restated)
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
– Card operations	185,842	137,011*	131,919*
– Settlement transactions	79,617	59,746	56,257
– Guarantees issued	44,960	35,761	28,738
– Cash transactions	13,825	11,105	14,884
– Issuance of letters of credit	73	6,388	5,703
– Foreign exchange operations	3,262	1,959	2,842
– Other	22,019	12,011	10,611
Total fee and commission income	**349,598**	**263,981**	**250,954**
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
– Card operations	124,191	101,065*	85,558*
– Settlement transactions	16,143	11,427	11,406
– Cash transactions	23,843	19,225	14,395
– Guarantees and letters of credit received	4,628	4,148	3,628
– Other	7,223	3,718	172
Total fee and commission expense	**176,028**	**139,583**	**115,159**
Net fee and commission income	**173,570**	**124,398**	**135,795**

** Certain amounts do not correspond to the 2020 and 2019 financial statements as they reflect the reclassifications as described in Note 2.*

31. OTHER OPERATING INCOME

in thousands of GEL	2021	2020	2019
Gain from sale of investment properties	22,933	1,003	938
Gain on disposal of premises and equipment	5,347	496	2,115
Gain from sale of inventories of repossessed collateral	3,087	1,559	2,755
Revenues from operational leasing	2,300	3,172	3,046
Revenues from sale of cash-in terminals	294	477	926
Other	7,081	6,647	7,796
Total other operating income	**41,042**	**13,354**	**17,576**

In 2021, the Group disposed its certain investment properties and premises, out of which most part accounted to the single sale described in Note 15.

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the repossessed collateral disposed in the year ended 31 December 2021 was GEL 48,029 thousand (2020: GEL 22,423 thousand; 2019: GEL 32,306 thousand).

32. 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	2021	2020	2019
Net gains/(losses) from trading in foreign currencies	113,043	(96,484)	79,287
Net gains from foreign exchange translation	10,862	202,331	23,428
Net gains/(losses) from derivative financial instruments	289	8	(280)
Total net gains from currency derivatives, foreign currency operations and translation	**124,194**	**105,855**	**102,435**

33. STAFF COSTS

Staff costs of the Group are as follows:

in thousands of GEL	2021	2020	2019
Salaries and bonuses	220,584	181,200	180,856
Share based compensation	19,352	16,522	33,624
Other compensation cost	15,811	9,165	11,528
Salaries and other employee benefits	**255,747**	**206,887**	**226,008**

Staff costs of the Bank are as follows:

in thousands of GEL	2021	2020	2019
Salaries and bonuses	198,837	161,833	160,941
Share based compensation	19,352	16,522	33,624
Other compensation cost	14,102	8,040	10,461
Salaries and other employee benefits	**232,291**	**186,395**	**205,026**

33. STAFF COSTS CONTINUED

Share based compensation represents remuneration paid in shares and is excluded as non-cash in the consolidated and separate statements 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		2021	2020	2019
Top Management	*Temporary*	-	-	-
	Permanent	6	6	7
Middle Management	*Temporary*	-	-	5
	Permanent	295	301	231
Other Employees	*Temporary*	1,047	1,193	1,341
	Permanent	6,370	5,869	5,396
Total		**7,718**	**7,369**	**6,980**

Number of employees of the Bank are as follows:

Position		2021	2020	2019
Top Management	*Temporary*	-	-	-
	Permanent	6	6	7
Middle Management	*Temporary*	-	-	3
	Permanent	226	225	216
Other Employees	*Temporary*	1,000	1,062	1,140
	Permanent	5,728	5,366	4,935
Total		**6,960**	**6,659**	**6,301**

34. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses of the Group are as follows:

in thousands of GEL	2021	2020 (restated)	2019 (restated)
Intangible asset maintenance	19,131	15,504	12,885
Professional services	19,085	16,229	19,027
Advertising and marketing services	17,375	17,046	18,344
Occupancy and rent**	12,437	12,750	13,076
Taxes other than on income	9,850	8,217	6,851
Utilities services	8,192	6,518	6,800
Insurance	7,999	7,640	6,083
Premises and equipment maintenance	6,589	5,509	9,208
Communications and supply	5,615	5,203	5,555
Stationery and other office expenses	4,431	5,322	4,638
Personnel training and recruitment	2,553	1,447	2,904
Transportation and vehicle maintenance	2,365	1,610	2,027
Security services	1,787	1,822	2,001
Loss on disposal of premises and equipment	1,229	93	937
Loss on disposal of repossessed collateral	598	181	1,310
Charity	417	1,530	1,990
Business trip expenses	337	507	2,163
Other	8,634	4,786*	8,385*
Total administrative and other operating expenses	**128,624**	**111,914***	**124,184***

**Certain amounts do not correspond to the 2020 and 2019 financial statements as they reflect the reclassification of net impairment of non-financial assets as described in Note 2.*
***Includes short-term leases, low value leases, VAT and other relevant tax expense on lease contracts recognised under IFRS 16 scope*

34. ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

Administrative and other operating expenses of the Bank are as follows:

in thousands of GEL	2021	2020 (restated)	2019 (restated)
Professional services	19,547	14,968	17,323
Advertising and marketing services	16,621	16,358	17,491
Intangible asset maintenance	16,500	13,590	11,307
Occupancy and rent**	9,634	10,372	9,412
Utilities services	7,852	6,308	6,576
Premises and equipment maintenance	6,200	5,640	8,586
Taxes other than on income	5,584	5,148	3,669
Communications and supply	4,553	4,226	4,682
Stationery and other office expenses	4,108	5,012	4,353
Personnel training and recruitment	2,389	1,345	2,760
Insurance	2,214	1,778	1,292
Security services	1,619	1,647	1,875
Loss on disposal of premises and equipment	1,117	85	938
Transportation and vehicle maintenance	634	442	640
Loss on disposal of repossessed collateral	583	23	1,270
Charity	417	1,488	1,975
Business trip expenses	297	449	2,024
Other	3,799	1,274*	4,880*
Total administrative and other operating expenses	**103,668**	**90,153***	**101,053***

**Certain amounts do not correspond to the 2020 and 2019financial statements as they reflect the reclassification of net impairment of non-financial assets as described in Note 2.*
***Includes short-term leases, low value leases, VAT and other relevant tax expense on lease contracts recognised under IFRS 16 scope*

Auditors' remuneration is included within professional services expenses above and comprises:

in thousands of GEL	Audit	Audit Related	Other Services	Total
31 December 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**
31 December 2020				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,711	–	–	1,711
Review of TBC Bank Group and subsidiaries interim financial statements	–	215	–	215
Other assurance services	–	–	25	25
Total auditors' remuneration	**1,711**	**215**	**25**	**1,951**
31 December 2019				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,165	–	–	1,165
Review of TBC Bank Group and subsidiaries interim financial statements	–	463	–	463
Other assurance services	–	–	864	864
Total auditors' remuneration	**1,165**	**463**	**864**	**2,492**

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 assurance services) is attributable to the services in relation to issuance of AT1 Notes in October 2021.

35. INCOME TAXES

Income tax credit/(expense) comprise of the following:

in thousands of GEL	2021	2020	2019
Current tax charge	121,305	612	44,690
Deferred tax credit	(2,027)	(5,674)	(1,168)
Total Income tax expense/(credit) for the year	**119,278**	**(5,062)**	**43,522**

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 portion. In 2021, no prepayments for current income tax were made as the 2020 resulted in tax loss and there was no current income tax payable. Accordingly, at the end of 2021 Bank had income tax payable, whilst in 2020 and 2019, income tax asset.

The income tax rate applicable to the majority of the Group's income was 15% (2020: 15%; 2019: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2020: 15% - 20%; 2019: 15% - 20%).

Reconciliation between the expected and the actual taxation credit/expense is provided below.

in thousands of GEL	2021	2020	2019
Statutory rate	**15% – 20%**	**15% – 20%**	**15% – 20%**
Profit before tax	**962,223**	**332,198**	**545,154**
Theoretical tax charge at statutory rate 15%-20%	144,310	50,230	88,419
Tax effect of items which are not deductible or assessable for taxation purposes:			
– Income which is exempt from taxation	(25,447)	(26,877)	(22,002)
– Non-deductible expenses	158	(2,322)	(2,083)
– Expected effects of change in tax legislation	343	(23,226)	(55)
– Other differences	(86)	(2,867)	(20,757)
Total Income tax expense/(credit) for the year	**119,278**	**(5,062)**	**43,522**

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% (2020: 15%; 2019: 15%) for Georgia and 20% for Azerbaijan (2020: 20%; 2019: 20%).

Income which is exempt from taxation includes interest income from placements in NBG, Georgian government Treasury bills and IFI securities. Revaluation of investment securities held at FVOCI did not result in recognition of deferred tax assets/liabilities (since majority of securities were either tax exempt or were not supposed to be sold before Estonian model transition date discussed below) and its tax effect was not recognised in OCI. Non-deductible expenses include penalties paid and charity expenses towards beneficiary which are not registered charity organizations.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. However, during 2018 Georgian Government changed transition date to 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops. The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

35. INCOME TAXES CONTINUED

Deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2021 to 31 December 2022.

in thousands of GEL	1 January 2021	(Credited)/ Charged to profit or loss	31 December 2021
Tax effect of deductible/(taxable) 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 thousands of GEL	1 January 2020	(Credited)/ Charged to profit or loss	31 December 2020
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(11,363)	7,582	(3,781)
Loans and advances to customers	(8,822)	(9,795)	(18,617)
Other financial assets	4,802	(2,194)	2,608
Due to credit institutions	(2,486)	802	(1,684)
Other financial liabilities	792	(1,253)	(461)
Other liabilities	(1,800)	(533)	(2,333)
Share based payment	2,253	(885)	1,368
Tax loss carried forward	–	11,950	11,950
Net deferred tax liability	**(16,624)**	**5,674**	**(10,950)**
Recognised deferred tax asset	2,173	(39)	2,134
Recognised deferred tax liability	(18,797)	5,713	(13,084)
Net deferred tax liability	**(16,624)**	**5,674**	**(10,950)**

in thousands of GEL	1 January 2019	(Credited)/ Charged to profit or loss	31 December 2019
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(20,748)	9,385	(11,363)
Loans and advances to customers	2,864	(11,686)	(8,822)
Other financial assets	2,317	2,485	4,802
Due to credit institutions	(3,641)	1,155	(2,486)
Subordinated debt	(70)	70	–
Other financial liabilities	(41)	833	792
Other liabilities	864	(2,664)	(1,800)
Share based payment	663	1,590	2,253
Net deferred tax liability	**(17,792)**	**1,168**	**(16,624)**
Recognised deferred tax asset	1,992	181	2,173
Recognised deferred tax liability	(19,784)	987	(18,797)
Net deferred tax liability	**(17,792)**	**1,168**	**(16,624)**

35. INCOME TAXES CONTINUED

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

36. 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 2019	**2,872,071**	**13,343**	**650,919**	**60,232**	**3,596,565**
Proceeds from principal movement	1,819,899	1,176,049	-	-	**2,995,948**
Redemption of principal	(1,392,897)	(14,296)	(104,079)	(6,453)	**(1,517,725)**
Net interest movement**	5,225	1,140	(1,338)	383	**5,410**
Other non-cash movements*	-	-	-	2,818	**2,818**
Foreign exchange adjustments	122,589	37,362	45,533	2,336	**207,820**
Liabilities from financing activities at 31 December 2019	**3,426,887**	**1,213,598**	**591,035**	**59,316**	**5,290,836**
Proceeds from principal movement	4,031,812	31,601	-	-	**4,063,413**
Redemption of principal	(3,319,427)	-	-	(13,251)	**(3,332,678)**
Net interest movement**	6,851	(2,133)	(812)	236	**4,142**
Other non-cash movements*	-	-	-	1,947	**1,947**
Foreign exchange adjustments	198,956	176,447	82,517	6,340	**464,260**
Liabilities from financing activities at 31 December 2020	**4,345,079**	**1,419,513**	**672,740**	**54,588**	**6,491,920**
Proceeds from principal movement	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**

**Other non-cash movements represent additions less terminations for finance lease contracts.*
***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.*

37. 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.

37. 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.

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:

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

- 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 may utilize 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. 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.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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 directly 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 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 2021, the Group uses same approaches as in 31 December 2020. The Group employs statistical models to derive forward looking adjustment in all segments except for corporate. In corporate segment, due to the availability of comprehensive borrower-level financial information and insignificance of the statistical models, The Group uses stress test approach instead. The baseline, upside and downside scenarios were assigned probability weighing of 50%, 25% and 25%, respectively.

The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

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. The maturity structure of the loan portfolio shows that the largest part of assets is distributed in the time horizons that are much shorter that the impacts of climate change, especially of physical risks, can be materialized in Georgia. Therefore, the bank has not 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, if the bank will have a plausible findings and conclusions, 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 2021 in this regard.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Details of climate related risks and steps taken are disclosed in the material existing and emerging risks section of the annual report.

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.

Table 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 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 National Bank of Georgia	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**

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as at 31 December 2020 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	906,270	686,110	9,219	**1,601,599**
Due from other banks	6,638	13,052	–	**19,690**
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	**2,098,506**
Loans and advances to customers	14,111,683	131,066	351,520	**14,594,269**
Investment securities measured at fair value through OCI	1,206,673	318,682	1,913	**1,527,268**
Bonds carried at amortised cost	1,059,946	–	–	**1,059,946**
Finance lease receivables	270,632	–	346	**270,978**
Other financial assets	156,866	3,976	160	**161,002**
Total financial assets	**19,817,214**	**1,152,886**	**363,158**	**21,333,258**
Non-financial assets	1,060,212	433	5,059	**1,065,704**
Total assets	**20,877,426**	**1,153,319**	**368,217**	**22,398,962**
Liabilities				
Due to credit institutions	2,362,648	2,110,307	12,918	**4,485,873**
Customer accounts	10,709,378	911,146	1,013,771	**12,634,295**
Debt securities in issue	1,419,513	–	–	**1,419,513**
Other financial liabilities	210,887	340	15	**211,242**
Lease liabilities	52,923	–	1,665	**54,588**
Subordinated debt	115,394	390,941	166,405	**672,740**
Total financial liabilities	**14,870,743**	**3,412,734**	**1,194,774**	**19,478,251**
Non-financial liabilities	86,100	59	4,372	**90,531**
Total liabilities	**14,956,843**	**3,412,793**	**1,199,146**	**19,568,782**
Net balance sheet position	**5,920,583**	**(2,259,474)**	**(830,929)**	**2,830,180**
Performance guarantees	745,511	746,871	258,659	**1,751,041**
Credit related commitments	1,868,011	4,678	8,627	**1,881,316**

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as at 31 December 2019 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	692,905	287,063	14,511	**994,479**
Due from other banks	3,530	12,067	–	**15,597**
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	**1,591,829**
Loans and advances to customers	11,775,027	166,155	408,217	**12,349,399**
Investment securities measured at fair value through OCI	985,293	–	–	**985,293**
Bonds carried at amortised cost	1,021,568	–	–	**1,021,568**
Finance lease receivables	255,596	–	1,064	**256,660**
Other financial assets	113,535	1,431	245	**115,211**
Total financial assets	**16,439,283**	**466,716**	**424,037**	**17,330,036**
Non-financial assets	921,821	27	3,726	**925,574**
Total assets	**17,361,104**	**466,743**	**427,763**	**18,255,610**
Liabilities				
Due to credit institutions	1,813,684	1,744,130	36,087	**3,593,901**
Customer accounts	8,469,206	733,778	909,018	**10,112,002**
Debt securities in issue	1,213,598	–	–	**1,213,598**
Other financial liabilities	96,081	316	9	**96,406**
Lease liabilities	59,316	–	–	**59,316**
Subordinated debt	100,993	343,861	146,181	**591,035**
Total financial liabilities	**11,752,878**	**2,822,085**	**1,091,295**	**15,666,258**
Non-financial liabilities	100,081	829	5,296	**106,206**
Total liabilities	**11,852,959**	**2,822,914**	**1,096,591**	**15,772,464**
Net balance sheet position	**5,508,145**	**(2,356,171)**	**(668,828)**	**2,483,146**
Performance guarantees	603,910	232,328	622,646	**1,458,884**
Credit related commitments	1,485,032	4,476	11,459	**1,500,967**

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.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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 mis-matches 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. As at 31 December 2021, the Bank maintained an aggregate open currency position of 0.5% of regulatory capital (2020: 3.4%; 2019: 0.5%). 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.

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 would be deductible gradually for OCP calculation purposes. As a result of COVID-19 pandemic, the NBG implemented countercyclical measure in relation to OCP requirements: suspended the phasing in of special reserved planned to be fully implemented by July 2022.

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 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**

As of 31 December 2020 *in thousands of GEL*	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Georgian Lari	8,730,317	7,166,701	224,700	1,788,316
US Dollar	7,990,323	10,872,233	2,861,675	(20,235)
Euro	4,555,906	1,316,382	(3,237,938)	1,586
Other	56,712	122,935	61,163	(5,060)
Total	**21,333,258**	**19,478,251**	**(90,400)**	**1,764,607**

As of 31 December 2019 *in thousands of GEL*	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Georgian Lari	7,479,851	5,760,987	(96,378)	1,622,486
US Dollar	6,827,012	8,765,374	1,950,510	12,148
Euro	2,968,554	1,036,267	(1,924,856)	7,431
Other	54,619	103,630	56,133	7,122
Total	**17,330,036**	**15,666,258**	**(14,591)**	**1,649,187**

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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).

US Dollar strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2020 by GEL 4,047 thousand (increase by GEL 4,047 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2020 by GEL 317 thousand (decrease by GEL 317 thousand).

US Dollar strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2019 by GEL 2,430 thousand (decrease by GEL 2,430 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2019 by GEL 1,486 thousand (decrease by GEL 1,486 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.

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. As of 31 December 2021 the Bank was in compliance with the regulatory requirement with EVE=2.9%. 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 2021, if interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 129 million higher, mainly as a result of higher interest income on variable interest assets (2020: GEL 95 million). If interest rates at 31 December, 2021 had been 200 basis points lower with all other variables held constant, profit for the year would have been GEL 40 million lower, mainly as a result of lower interest income on variable interest assets (2020: GEL 31 million).

At 31 December, 2021, if interest rates had been 200 basis points lower, with all other variables held constant, other comprehensive income would have been GEL 57.0 million higher (2020: GEL 24.0 million; 2019: GEL 9.4 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, 2021 had been 200 basis points higher with all other variables held constant, Other comprehensive income would have been GEL 60.8 million lower (2020: GEL 35 million; 2019: GEL 9.1 million), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

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,

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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 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. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches are applied to the deposits' withdrawal rates depending on the clients group's concentration. From September, 2017 the Bank also monitors compliance with NBG LCR limits. In 2019, for long-term liquidity risk management purposes NBG introduced Net Stable Funding Ratio (""NBG NSFR"). From September, 2019, on a monthly basis the Bank 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 set 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.

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 2021 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.

37. 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 maturity analysis of undiscounted financial liabilities as of 31 December 2020 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	2,138,399	1,156,117	2,678,130	146,206	**6,118,852**
Customer accounts – individuals	4,275,412	1,828,748	1,282,427	53,444	**7,440,031**
Customer accounts – other	4,077,900	502,224	619,298	492,887	**5,692,309**
Other financial liabilities	204,218	6,486	537	–	**211,241**
Lease liabilities	3,098	9,029	35,298	5,849	**53,274**
Subordinated debt	14,388	75,845	1,474,185	1,635,830	**3,200,248**
Debt securities in issue	1,351	59,356	1,407,320	–	**1,468,027**
Gross settled swaps and forwards:					
– Inflows	2,937,065	260,379	103,181	–	**3,300,625**
– Outflows	3,045,427	263,330	113,820	-	**3,422,577**
Performance guarantees*	1,751,076	-	-	-	**1,751,076**
Financial guarantees	318,935	-	-	-	**318,935**
Letters of credit	10,820	90,559	59,463	-	**160,842**
Other credit related commitments	1,401,539	–	–	–	**1,401,539**
Total potential future payments for financial obligations	**14,305,498**	**3,731,315**	**7,567,297**	**2,334,216**	**27,938,326**

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The maturity analysis of undiscounted financial liabilities as of 31 December 2019 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	1,590,089	616,417	3,724,084	435,233	**6,365,823**
Customer accounts – individuals	3,407,952	1,658,316	699,554	27,344	**5,793,166**
Customer accounts – other	3,722,452	339,114	250,328	142,043	**4,453,937**
Other financial liabilities	85,338	6,151	4,917	–	**96,406**
Lease liabilities	4,367	12,508	57,058	11,988	**85,921**
Subordinated debt	2,351	55,182	1,283,737	2,330,270	**3,671,540**
Debt securities in issue	–	56,797	1,156,801	–	**1,213,598**
Gross settled swaps and forwards:					
-Inflows	1,241,090	415,656	160,951	-	**1,817,697**
-Outflows	1,249,533	421,347	164,099	-	**1,834,979**
Performance guarantees*	1,458,884	-	-	-	**1,458,884**
Financial guarantees	241,124	-	-	-	**241,124**
Letters of credit	41,132	19,687	48,914	-	**109,733**
Other credit related commitments	1,150,110	–	–	–	**1,150,110**
Total potential future payments for financial obligations	**11,712,242**	**2,769,863**	**7,228,541**	**2,946,878**	**24,657,524**

**In 2021 the Management took more conservative approach for the classification of performance guarantees contractual maturities by pulling the whole contractual amount into the less than 3 months bucket. As far as, contractually (which may differ from behavioral maturity) performance guarantee contracts can be reimbursed at any point in time Management considers that the amended approach will be more prudent for contractual analysis disclosure. Comparable periods has also been amended respectively to reflect the similar logic (2020: less than 3 months GEL 211,607 thousand, from 3 to 12 months GEL 588,883 thousand, from 1 to 5 years GEL 937,975 thousand and over 5 years GEL 12,610 thousand; 2019: less than 3 months GEL 115,997 thousand, from 3 to 12 months GEL 332,833 thousand, from 1 to 5 years GEL 909,502 thousand and over 5 years GEL 100,552 thousand).*

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, according to the Georgian Civil Code, however, 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 behavioral analysis, while for undiscounted cash flow disclosure purposes, demand deposits and issued guarantees are put in on demand bucket.

37. 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 National Bank of Georgia	2,085,709	-	-	404	**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 receivable	28,961	62,684	155,074	5,621	**252,340**
Other financial assets	435,807	3,021	3,379	-	**442,207**
Total financial assets	**7,509,886**	**3,384,258**	**6,822,063**	**5,187,531**	**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	**4,721,234**	**2,648,791**	**4,218,537**	**(9,009,972)**	**2,578,590**
Cumulative gap as of 31 December 2021	**4,721,234**	**7,370,025**	**11,588,562**	**2,578,590**	

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As at 31 December 2020 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	1,601,599	–	–	–	**1,601,599**
Due from other banks	11,736	7,954	–	–	**19,690**
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	–	**2,098,506**
Loans and advances to customers	1,555,791	2,512,138	6,117,467	4,408,873	**14,594,269**
Investment securities measures at fair value through OCI	1,527,268	–	–	–	**1,527,268**
Bonds carried at amortised cost	27,026	149,132	559,823	323,965	**1,059,946**
Finance lease receivables	23,064	73,213	168,447	6,254	**270,978**
Other financial assets	147,348	1,993	11,652	9	**161,002**
Total financial assets	**6,992,338**	**2,744,430**	**6,857,389**	**4,739,101**	**21,333,258**
Due to credit institutions	2,116,091	1,007,035	1,322,468	40,279	**4,485,873**
Customer accounts	1,273,664	382,857	–	10,977,774	**12,634,295**
Debt securities in issue	121	56,031	1,363,361	–	**1,419,513**
Other financial liabilities	204,218	6,486	538	–	**211,242**
Lease liabilities	2,978	8,680	33,933	8,997	**54,588**
Subordinated debt	11,747	16,369	258,110	386,514	**672,740**
Total financial liabilities	**3,608,819**	**1,477,458**	**2,978,410**	**11,413,564**	**19,478,251**
Performance guarantees	4,427	–	–	–	**4,427**
Financial guarantees	5,424	–	–	–	**5,424**
Other credit related commitments	100,214	–	–	–	**100,214**
Credit related commitments and performance guarantees	**110,065**	**–**	**–**	**–**	**110,065**
Net liquidity gap as of 31 December 2020	**3,273,454**	**1,266,972**	**3,878,979**	**(6,674,463)**	**1,744,942**
Cumulative gap as of 31 December 2020	**3,273,454**	**4,540,426**	**8,419,405**	**1,744,942**	

**Management has re-visited the logic for disclosing the expected maturity analysis for 2020 year and corrected any discrepancies identified. As a result, amounts disclosed in the table were amended to reflect more accurate results.*

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2019 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	994,479	–	–	–	**994,479**
Due from other banks	12,685	-	2,912	-	**15,597**
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	–	**1,591,829**
Loans and advances to customers	1,303,715	2,307,064	5,108,649	3,629,971	**12,349,399**
Investment securities measures at fair value through OCI	985,293	–	–	–	**985,293**
Bonds carried at amortised cost	122,889	215,711	555,379	127,589	**1,021,568**
Finance lease receivables	34,448	70,398	148,542	3,272	**256,660**
Other financial assets	112,263	2,946	2	–	**115,211**
Total financial assets	**5,157,601**	**2,596,119**	**5,815,484**	**3,760,832**	**17,330,036**
Due to credit institutions	1,573,720	427,794	1,496,459	95,928	**3,593,901**
Customer accounts	1,088,948	175,996	-	8,847,058	**10,112,002**
Debt securities in issue	–	56,797	1,156,801	–	**1,213,598**
Other financial liabilities	80,592	10,133	4,918	–	**95,643**
Lease liabilities	–	4,530	46,625	8,161	**59,316**
Subordinated debt	530	–	113,278	477,227	**591,035**
Total financial liabilities	**2,743,790**	**675,250**	**2,818,081**	**12,685**	**15,665,495**
Performance guarantees	7,466	–	–	–	**7,466**
Financial guarantees	4,511	–	–	–	**4,511**
Other credit related commitments	100,212	–	–	–	**100,212**
Credit related commitments and performance guarantees	**112,189**	**–**	**–**	**–**	**112,189**
Net liquidity gap as of 31 December 2019	**2,301,622**	**1,920,869**	**2,997,403**	**(5,667,542)**	**1,552,352**
Cumulative gap as of 31 December 2019	**2,301,622**	**4,222,491**	**7,219,894**	**1,552,352**	

The Management believes that the Group has sufficient liquidity to meet its current on and off-balance sheet obligations.

38. CONTINGENCIES AND COMMITMENTS

Legal proceedings. When determining the level of provision to be set up with regards to such claims, 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 financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as the probability of material adverse effect on the financial condition or the results of future operations of the Group is remote.

Tax legislation. Georgian and Azerbaijani 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. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the review period. 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 sustained. Accordingly, as of 31 December 2021, 2020 and 2019 no material provision for potential tax liabilities has been recorded.

Compliance with covenants. The Group is subject to certain financial and non-financial covenants primarily related to its borrowings. 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 2021, 31 December 2020 and 31 December 2019.

Group's financial covenants mainly consist of three major sub-categories. Key covenants within each category and their compliance status are 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

Covid-19 pandemic didn't have major negative effects on the compliance of Group's financial covenants in 2020, except for the asset quality ratios. Due to bank's immediate action to request the waiver from lenders, at the end of 2020 all waivers were granted with the pre-defined validity period. In 2021, as the probability of non-compliance was relatively high due to unforeseen negative consequences of Covid-19 on Group's operations, bank continued to work with the lenders on this matter, with the core objective to either prolong the waivers or amend the asset quality ratios.

Before pandemic, covenants in loan agreements with IFIs incorporated non-performing loans exposures, which has been composed of restructured loans. As pandemic evolved, the number of restructurings has increased significantly due to loan repayment grace periods granted to borrowers back in 2020, partially in line with imposed Government programs. Although, majority of such borrowers remained healthy, the number of restructured loan exposures has still increased. As a result, the Group has renegotiated the NPL ratio with majority of IFIs, replacing non-performing loans exposures that included restructured loans, by stage 3 loans according to IFRS 9.

Respective change has been successfully implemented in the vast majority of covenants with IFI's. Alternatively, for the two lenders the Group has extended renegotiated compliance terms existing in relation to the asset quality ratios. Apart from asset quality ratios for other 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.

38. CONTINGENCIES AND COMMITMENTS CONTINUED

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 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 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	**Stage 1**	**Stage 2**	**Stage 3**
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**

As of 31 December 2020 outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	**Stage 1**	**Stage 2**	**Stage 3**
Undrawn credit lines	1,222,916	165,798	12,825
Letters of credit issued	158,131	1,464	1,247
Financial guarantees issued	303,046	14,571	1,318
Total credit related commitments (before provision)	**1,684,093**	**181,833**	**15,390**

Credit loss allowance for credit related commitments	**Stage 1**	**Stage 2**	**Stage 3**
Undrawn credit lines	(3,246)	(986)	(15)
Letters of credit issued	(376)	-	-
Financial guarantees issued	(795)	(4)	(2)
Credit loss allowance for credit related commitments	**(4,417)**	**(990)**	**(17)**
Total credit related commitments	**1,679,676**	**180,843**	**15,373**

38. CONTINGENCIES AND COMMITMENTS CONTINUED

As of 31 December 2019 outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	Stage 1	Stage 2	Stage 3
Undrawn credit lines	1,124,862	18,548	6,700
Letters of credit issued	109,299	-	434
Financial guarantees issued	240,205	550	369
Total credit related commitments (before provision)	**1,474,366**	**19,098**	**7,503**

Credit loss allowance for credit related commitments	**Stage 1**	**Stage 2**	**Stage 3**
Undrawn credit lines	(2,096)	(514)	(182)
Letters of credit issued	(473)	-	-
Financial guarantees issued	(1,244)	(2)	-
Credit loss allowance for credit related commitments	**(3,813)**	**(516)**	**(182)**
Total credit related commitments	**1,470,553**	**18,582**	**7,321**

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**

38. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2020:

	31 December 2020			
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	1,157,753	3,820	-	**1,161,573**
- Low	62,193	146,114	-	**208,307**
- Moderate	2,963	14,723	-	**17,686**
- High	7	1,141	-	**1,148**
- Default	-	-	12,825	**12,825**
Gross carrying amount	**1,222,916**	**165,798**	**12,825**	**1,401,539**
Credit loss allowance	(3,246)	(986)	(15)	**(4,247)**
Carrying amount	**1,219,670**	**164,812**	**12,810**	**1,397,292**
Letters of credit issued risk category				
- Very low	157,992	-	-	**157,992**
- Low	139	1,464	-	**1,603**
- Moderate	-	-	-	**-**
- High	-	-	-	**-**
- Default	-	-	1,247	**1,247**
Gross carrying amount	**158,131**	**1,464**	**1,247**	**160,842**
Credit loss allowance	(376)	-	-	**(376)**
Carrying amount	**157,755**	**1,464**	**1,247**	**160,466**
Financial guarantees issued risk category				
- Very low	268,333	100	-	**268,433**
- Low	34,713	14,471	-	**49,184**
- Moderate	-	-	-	**-**
- High	-	-	-	**-**
- Default	-	-	1,318	**1,318**
Gross carrying amount	**303,046**	**14,571**	**1,318**	**318,935**
Credit loss allowance	(795)	(4)	(2)	**(801)**
Carrying amount	**302,251**	**14,567**	**1,316**	**318,134**

38. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2019:

	31 December 2019			
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	1,027,350	2,706	-	**1,030,056**
- Low	92,030	5,589	-	**97,619**
- Moderate	5,480	9,455	-	**14,935**
- High	2	798	-	**800**
- Default	-	-	6,700	**6,700**
Gross carrying amount	**1,124,862**	**18,548**	**6,700**	**1,150,110**
Credit loss allowance	(2,096)	(514)	(182)	**(2,792)**
Carrying amount	**1,122,766**	**18,034**	**6,518**	**1,147,318**
Letters of credit issued risk category				
- Very low	108,476	-	-	**108,476**
- Low	823	-	-	**823**
- Moderate	-	-	-	**-**
- High	-	-	-	**-**
- Default	-	-	434	**434**
Gross carrying amount	**109,299**	**-**	**434**	**109,733**
Credit loss allowance	(473)	-	-	**(473)**
Carrying amount	**108,826**	**-**	**434**	**109,260**
Financial guarantees issued risk category				
- Very low	233,004	-	-	**233,004**
- Low	7,027	62	-	**7,089**
- Moderate	174	488	-	**662**
- High	-	-	-	**-**
- Default	-	-	369	**369**
Gross carrying amount	**240,205**	**550**	**369**	**241,124**
Credit loss allowance	(1,244)	(2)	-	**(1,246)**
Carrying amount	**238,961**	**548**	**369**	**239,878**

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 2021 were GEL 251,903 thousand (2020: GEL 579,915 thousand; 2019: GEL 472,485 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.

Outstanding amount of performance guarantees and respective provision as of 31 December 2021 is GEL 1,565,694 thousand and GEL 4,620 thousand (2020: GEL 1,751,041 thousand and GEL 4,427 thousand, 2019: GEL 1,458,884 thousand and GEL 7,466 thousand).

38. CONTINGENCIES AND COMMITMENTS CONTINUED

Fair value of credit related commitments were GEL 3,624 thousand as of 31 December 2021 (2020: GEL 5,424 thousand; 2019: GEL 4,511 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

in thousands of GEL	2021	2020	2019
Georgian Lari	898,178	1,208,199	1,155,422
US Dollar	901,092	1,584,878	1,203,296
Euro	220,068	776,307	542,303
Other	68,840	62,973	58,830
Total	**2,088,178**	**3,632,357**	**2,959,851**

Capital expenditure commitments. As of 31 December 2021, the Group has contractual capital expenditure commitments amounting to GEL 104,162 thousand (2020: GEL 14,631 thousand; 2019: GEL 33,723 thousand). Out of total amount as at 31 December 2021, contractual commitments related to the head office construction amounted GEL 79,004 thousand (2020: GEL 4,853 thousand).

39. NON-CONTROLLING INTEREST

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)

The following table provides information for each subsidiary with a non-controlling interest as of 31 December 2020:

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%	22	105

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2020:

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	5,269	17,803	504	257	14,716	4,573	4,573	676

39. NON-CONTROLLING INTEREST CONTINUED

The following table provides information for each subsidiary with a non-controlling interest for the year ended as of 31 December 2019:

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
TBC Leasing JSC*	0.39%	11	-
United Financial Corporation JSC	0.47%	62	582

**In May 2019 the Group purchased remaining 0.39% shareholding from TBC Leasing JSC shareholders and became 100% owner of the company.*

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2019:

in thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Net cash flows
TBC Leasing JSC	180,282	172,275	133,198	182,804	29,894	6,861	6,861	719
TBC Kredit LLC	10,605	14,140	6,238	5,730	4,543	2,221	2,221	473
United Financial Corporation JSC	9,507	8,821	155	435	12,023	4,725	4,725	(622)

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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		Net amount of exposure (c)-(d)-(e)
				Financial instruments (d)	Cash collateral received (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**

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

As of 31 December 2020, 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		Net amount of exposure (c)-(d)-(e)
				Financial instruments (d)	Cash collateral received (e)	
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	25,245	18	25,227	–	–	25,227
Assets subject to offsetting, master netting and similar arrangement	**25,245**	**18**	**25,227**	**–**	**–**	**25,227**
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	8,800	18	8,782	–	–	8,782
Liabilities subject to offsetting, master netting and similar arrangement	**8,800**	**18**	**8,782**	**–**	**–**	**8,782**

As of 31 December 2019, 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		Net amount of exposure (c)-(d)-(e)
				Financial instruments (d)	Cash collateral received (e)	
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	24,139	2,244	21,895	–	–	21,895
Assets subject to offsetting, master netting and similar arrangement	**24,139**	**2,244**	**21,895**	**–**	**–**	**21,895**
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	17,518	2,244	15,274	–	–	15,274
Liabilities subject to offsetting, master netting and similar arrangement	**17,518**	**2,244**	**15,274**	**–**	**–**	**15,274**

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

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.

41. 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	2021	2020	2019
Fair value of gross settled currency swaps, included in other financial assets or due from banks	199,233	30,783	5,849
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(10,216)	(121,183)	(20,440)
Total	**189,017**	**(90,400)**	**(14,591)**

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.

41. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

In thousands of GEL	2021		2020		2019	
	Contracts with positive fair value	Contracts with negative fair value	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 (-)	(412,621)	(528,905)	(476,671)	(145,313)	(123,836)	(14,480)
– USD receivable on settlement (+)	3,355,801	500,167	360,514	3,123,145	338,080	1,750,746
– GEL payable on settlement (-)	(115,337)	(485,231)	(175,849)	(25,589)	(822)	(204,470)
– GEL receivable on settlement (+)	394,562	205,667	291,022	135,116	108,914	-
– EUR payable on settlement (-)	(3,096,222)	(9,883)	(175,014)	(3,262,892)	(333,796)	(1,616,299)
– EUR receivable on settlement (+)	54,955	326,103	199,968	-	16,048	9,191
– Other payable on settlement (-)	(1,031)	(19,165)	(2,904)	-	(1,631)	(2,887)
– Other receivable on settlement (+)	19,126	1,031	9,717	54,350	2,892	57,759
Fair value of foreign exchange forwards and gross settled currency swaps	**199,233**	**(10,216)**	**30,783**	**(121,183)**	**5,849**	**(20,440)**
Net fair value of foreign exchange forwards and gross settled currency swaps	**189,017**			**(90,400)**		**(14,591)**

42. 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 December 2021					31 December 2020					31 December 2019				
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	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															
– Certificates of Deposits of National Bank of Georgia	-	-	-	**-**	**-**	–	21,687	–	**21,687**	**21,687**	–	40,346	–	**40,346**	**40,346**
– Corporate Bonds	-	704,435	-	**704,435**	**704,435**	–	664,563	–	**664,563**	**664,563**	–	611,000	–	**611,000**	**611,000**
– Ministry of Finance of Uzbekistan treasury bills	-	1,683	-	**1,683**	**1,683**	–	1,950	–	**1,950**	**1,950**	–	1,596	–	**1,596**	**1,596**
– Ministry of Finance Treasury Bills	-	1,231,024	-	**1,231,024**	**1,231,024**	–	838,152	–	**838,152**	**838,152**	–	329,353	–	**329,353**	**329,353**
– Corporate shares	-	-	1,054	**1,054**	**1,054**	-	-	916	**916**	**916**	-	-	2,999	**2,999**	**2,999**
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	-	199,233	-	**199,233**	**199,233**	–	30,783	–	**30,783**	**30,783**	–	5,849	–	**5,849**	**5,849**
– Investment held at fair value through profit or loss	-	-	11,125	**11,125**	**11,125**	–	–	17,239	**17,239**	**17,239**	–	–	–	**-**	**-**
Total assets recurring fair value measurements	-	**2,136,375**	**12,179**	**2,148,554**	**2,148,554**	**–**	**1,557,135**	**18,155**	**1,575,290**	**1,575,290**	**–**	**988,144**	**2,999**	**991,143**	**991,143**
Liabilities carried at fair value															
Financial liabilities															
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	10,216	-	**10,216**	**10,216**	–	121,183	–	**121,183**	**121,183**	–	20,440	–	**20,440**	**20,440**
Total liabilities recurring fair value measurements	**-**	**10,216**	**-**	**10,216**	**10,216**	**–**	**121,183**	**–**	**121,183**	**121,183**	**–**	**20,440**	**–**	**20,440**	**20,440**

There were no transfers between levels 1 and 2 during the year ended 31 December 2021 (2020 none, 2019: none).

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

42. FAIR VALUE DISCLOSURES CONTINUED

	Fair value at 31 December				
in thousands of GEL	2021	2020	2019	Valuation technique	Inputs used
Assets carried at fair value					
– Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	1,937,142	1,526,352	982,295	Discounted cash flows ("DCF")	Government bonds yield curve
– Foreign exchange forwards and gross settled currency swaps, included in due from banks	199,233	30,783	5,849	Forward pricing using present value calculations	Official exchange rate, risk-free rate
Total assets recurring fair value measurements at level 2	**2,136,375**	**1,557,135**	**988,144**		

Liabilities carried at fair value					
– Foreign exchange forwards included in other financial liabilities	10,216	121,183	20,440	Forward pricing using present value calculations	Official exchange rate, risk-free rate
Total liabilities recurring fair value measurements at level 2	**10,216**	**121,183**	**20,440**		

in thousands of GEL	2021	2020	2019	Valuation technique	Inputs used
Assets carried at fair value					
– Investment held at fair value through profit or loss	11,125	17,239	-	Discounted cash flows ("DCF")	Government bonds yield curve
– Corporate shares	1,054	916	2,999	Discounted cash flows ("DCF")	Government bonds yield curve
Total assets recurring fair value measurements at level 3	**12,179**	**18,155**	**2,999**		

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 2021 (2020: none; 2019: 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 886 thousand/ (GEL 886 thousand).

Fair value measurement analysis by level in the fair value hierarchy is disclosed in Note 2.

42. 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 2021					31 December 2020					31 December 2019				
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	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**	747,195	854,404	–	**1,601,599**	**1,601,599**	646,394	348,085	–	**994,479**	**994,479**
Due from other banks	-	42,237	-	**42,237**	**42,237**	–	19,690	–	**19,690**	**19,690**	–	15,597	–	**15,597**	**15,597**
Mandatory cash balances with the NBG and NBU	-	2,086,113	-	**2,086,113**	**2,086,113**	–	2,098,506	–	**2,098,506**	**2,098,506**	–	1,591,829	–	**1,591,829**	**1,591,829**
Loans and advances to customers:															
– Corporate loans	-	-	6,492,668	**6,492,668**	**6,497,010**	–	–	5,728,134	**5,728,134**	**5,583,107**	–	–	4,838,348	**4,838,348**	**4,579,723**
– Consumer loans	-	-	2,304,534	**2,304,534**	**1,973,016**	–	–	2,025,055	**2,025,055**	**1,769,759**	–	–	1,876,364	**1,876,364**	**1,750,050**
– Mortgage loans	-	-	4,522,528	**4,522,528**	**4,048,955**	–	–	4,032,243	**4,032,243**	**3,845,233**	–	–	3,354,901	**3,354,901**	**3,137,491**
– Loans to micro, small and medium enterprises	-	-	4,126,318	**4,126,318**	**4,028,204**	–	–	3,508,881	**3,508,881**	**3,396,170**	–	–	2,891,382	**2,891,382**	**2,882,135**
Bonds carried at amortised cost	-	-	-	**-**	**-**	–	1,086,008	–	**1,086,008**	**1,059,946**	–	990,537	–	**990,537**	**1,021,568**
Finance lease receivables			251,855	**251,855**	**252,340**	–	–	274,402	**274,402**	**270,978**	–	–	265,165	**265,165**	**256,660**
Other financial assets	-	-	231,849	**231,849**	**231,849**	–	–	112,980	**112,980**	**112,980**	–	–	109,362	**109,362**	**109,362**
Non-financial assets															
Investment properties, at cost	-	-	29,493	**29,493**	**22,892**	–	–	105,628	**105,628**	**68,689**	–	–	123,324	**123,324**	**72,667**
Total assets	**831,034**	**2,892,776**	**17,959,245**	**21,683,055**	**20,778,076**	**747,195**	**4,058,608**	**15,787,323**	**20,593,126**	**19,826,657**	**646,394**	**2,946,048**	**13,458,846**	**17,051,288**	**16,411,561**
Financial liabilites															
Customer accounts	-	9,888,470	4,966,775	**14,855,245**	**14,884,145**	–	7,503,114	5,153,793	**12,656,907**	**12,634,295**	–	6,490,267	3,633,289	**10,123,556**	**10,112,002**
Debt securities in issue	1,671,435	-	-	**1,671,435**	**1,583,699**	1,463,830	–	–	**1,463,830**	**1,419,513**	1,136,297	–	–	**1,136,297**	**1,136,297**
Due to credit institutions	-	-	2,986,631	**2,986,631**	**2,984,075**	–	4,490,464	-	**4,490,464**	**4,485,873**	–	3,600,318	–	**3,600,318**	**3,593,901**
Other financial liabilities	-	-	166,926	**166,926**	**166,926**	–	144,645	-	**144,645**	**144,645**	–	134,519	–	**134,519**	**134,519**
Subordinated debt	-	-	626,503	**626,503**	**623,647**	–	677,246	-	**677,246**	**672,740**	–	594,892	–	**594,892**	**591,035**
Total liabilities	**1,671,435**	**9,888,470**	**8,746,835**	**20,306,740**	**20,242,492**	**1,463,830**	**12,815,469**	**5,153,793**	**19,433,092**	**19,357,066**	**1,136,297**	**10,819,996**	**3,633,289**	**15,589,582**	**15,567,754**

The fair values in the level 2 and 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 (refer to Note 17).

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 2021 (2020: none; 2019: none).

43. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 2.

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 National Bank of Georgia	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**
Bonds carried at amortised cost	-	-	-	**-**
Other financial assets	231,849	-	210,358	**442,207**
Total financial asset 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**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2020:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
Assets				
Cash and cash equivalents	1,601,599	–	–	**1,601,599**
Due from other banks	19,690	–	–	**19,690**
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	**2,098,506**
Loans and advances to customers	14,594,269	–	–	**14,594,269**
Investment securities measured at FVOCI	–	1,527,268	–	**1,527,268**
Bonds carried at amortised cost	1,059,946	–	–	**1,059,946**
Other financial assets	112,980	–	48,022	**161,002**
Total financial asset subject to IFRS 9 measurement categories	**19,486,990**	**1,527,268**	**48,022**	**21,062,280**
Finance lease receivables	–	–	–	**270,978**
Non-financial assets	**–**	**–**	**–**	**1,065,704**
Total assets	**19,486,990**	**1,527,268**	**48,022**	**22,398,962**

43. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY CONTINUED

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
Assets				
Cash and cash equivalents	994,479	–	–	**994,479**
Due from other banks	15,597	–	–	**15,597**
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	**1,591,829**
Loans and advances to customers	12,349,399	–	–	**12,349,399**
Investment securities measured at FVOCI	–	985,293	–	**985,293**
Bonds carried at amortised cost	1,021,568	–	–	**1,021,568**
Other financial assets	113,124	–	2,087	**115,211**
Total financial asset subject to IFRS 9 measurement categories	**16,085,996**	**985,293**	**2,087**	**17,073,376**
Finance lease receivables	–	–	–	**256,660**
Non-financial assets	**–**	**–**	**–**	**925,574**
Total assets	**16,085,996**	**985,293**	**2,087**	**18,255,610**

As of 31 December 2021, 2020 and 2019 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.

44. 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 2021, 2020 and 2019) in the Group or with representatives in the Board of Directors are considered as Significant Shareholders. Their close family members and related companies with ownership stake of more than 50% are also considered as significant shareholders.
- The key management personnel include members of the Group's Board of Directors, the Management Board of the Bank and their close family members.

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.

The definition of the related party is different per standards of National Bank of Georgia and is regulated by the published Decree N 26/04 of the Governor of the National Bank of Georgia..

44. RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2021, 2020 and 2019 the outstanding balances with related parties were as follows:

in thousands of GEL	Contractual interest rate	Significant share-holders	Key mana-gement personnel	Immediate parent	Companies under com-mon control
2021					
Gross amount of loans and advances to customers	4.0%-36.0%	24	12,394	–	–
Credit loss allowance for loans and advances to customers	–	–	6	–	–
Customer accounts	0%-12.5%	19,460	23,620	14,614	38,870
Guarantees	–	–	–	–	211
Other borrowed funds from EBRD	0.86%-12.85%	360,889	–	–	–
2020					
Gross amount of loans and advances to customers	4.0% – 33.0%	54	6,869	–	–
Credit loss allowance for loans and advances to customers	–	–	4	–	–
Customer accounts	0.0% – 12.5%	16,574	16,555	37,275	24,441
Guarantees	–	–	–	–	35
Other borrowed funds from EBRD	0.98%–11.09%	411,765*	–	–	–
2019					
Gross amount of loans and advances to customers	0.4% – 48.0%	77	9,624	–	99
Credit loss allowance for loans and advances to customers	–	–	1	–	–
Customer accounts	0.0% – 10.2%	16,418	13,098	47,426	15,991
Guarantees	–	–	–	–	97
Other borrowed funds from EBRD	4.5% – 11.55%	243,040*	–	–	–

The income and expense items with related parties except from key management compensation for the year 2021, 2020 and 2019 were as follows:

in thousands of GEL	Significant shareholders	Key man-agement personnel	Immediate parent	Companies under common control
2021				
Interest income - loans and advances to customers	5	384	–	–
Interest expense on customer accounts	98	673	1,649	2,324
Interest expense with EBRD	36,819	–	–	–
Fee and commission income	27	72	–	407
Administrative and other operating expenses (excluding staff costs)	–	431	–	–
2020				
Interest income - loans and advances to customers	8	346	–	–
Interest expense on customer accounts	–	1	7	6
Interest expense with EBRD	29,580*	–	–	–
Fee and commission income	21	24	5	58
Administrative and other operating expenses (excluding staff costs)	–	323	–	–
2019				
Interest income - loans and advances to customers	7	620	42	–
Interest expense on customer accounts	87	197	5,814	1,135
Interest expense with EBRD	22,826*	–	–	–
Fee and commission income	123	342	–	2
Administrative and other operating expenses (excluding staff costs)	68	978	–	–

**The management has added and separately disclosed the interest expense incurred for EBRD borrowings for current and comparative periods, considering, the data was incomplete and that the latter represents more than 5% shareholder of the Group. Other borrowed funds from EBRD were GEL 411,765 thousand and GEL 243,040 thousand as at 31 December 2020 and 2019. Interest expense with EBRD for the year 2020 and 2019 were GEL 29,580 thousand and GEL 22,826 thousand.*

44. RELATED PARTY TRANSACTIONS CONTINUED

The aggregate loan amounts advanced to, and repaid, by related parties during 2021, 2020 and 2019 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Immediate parent	Companies under common control
2021				
Amounts advanced to related parties during the year	67	5,131	–	–
Amounts repaid by related parties during the year	(97)	(5,311)	–	–
2020				
Amounts advanced to related parties during the year	107	3,750	–	–
Amounts repaid by related parties during the year	(76)	(8,193)	–	–
2019				
Amounts advanced to related parties during the year	1,512	15,137	48	–
Amounts repaid by related parties during the year	(3,146)	(17,747)	–	–

As of 31 December 2021, 2020 and 2019 transactions and balances of TBC Bank JSC with its subsidiaries were as follows:

in thousands of GEL	31 December 2021	31 December 2020	31 December 2019
Gross amount of loans and advances granted to subsidiaries	13,699	28,472	86,518
Customer accounts of subsidiaries	48,258	112,665	65,025
Other Financial Assets	23,515	23,994	22,061
Other Assets	-	112	19
Other Financial Liabilities	10,830	24,192	22,268
Investment in subsidiaries	30,020	31,120	30,426

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

in thousands of GEL	31 December 2021	31 December 2020	31 December 2019
Interest income	3,880	5,278	2,109
Interest expense	5,914	5,509	5,527
Fee and commission income	6,572	25,229	16,471
Fee and commission expense	25,964	248	2,415
Foreign exchange translation gains less losses	-	-	54
Other operating income	52,286	4,144	4,477
Administrative and other operating expense	7,507	771	223

Compensation of the key management personnel and Supervisory Board members is presented below:

	2021		2020		2019	
In thousands of GEL	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and short-term bonuses	12,095	–	7,484	–	7,376	–
Cash settled bonuses related to share-based compensation	–	–	–	–	(1,627)	–
Equity-settled share-based compensation	11,299	–	11,514	–	25,695	–
Total	**23,394**	**–**	**18,998**	**–**	**31,444**	**–**

45. EVENTS AFTER REPORTING PERIOD

Since February 2022 ongoing political tension in the region escalated as a result of Russian invasion in Ukraine. This has negatively impacted commodity and financial markets, and increased volatility, particularly with regard to foreign exchange rates. As a result of sanctions imposed from a number of countries, many companies left Russian market and as a result ceased providing services and products to Russian Market. There is an expectation of further sanctions and limitations on business activity of companies operating in Russia. To avoid the severe effects on Georgian economy the Georgian Government has not joined on all sanctions, but the full nature and possible effects of the imposed restrictions against Russia and Ukrainian economy downturn are yet unknown. However, taking into account Georgia's vulnerability to developments in Ukraine and Russia and economic links with these countries, there will be adverse implications for the growth outlook, as well as, for the other macro variables, which may also negatively affect the Bank's capital adequacy, liquidity and credit risks.

Russian entities have been restricted from having access to the Euro and US$ financial markets including removing access to the international SWIFT system and in such a situation this could further impact the Group's ability to transfer or receive funds from Russia. At this stage, it is not possible for the Management to predict with any degree of certainty the impact of all this uncertainty on the future operations of the Group. However, Group's Management believes, the war in Ukraine is non-adjusting event and closely monitors the current economic environment to adjust the Groups performance accordingly where needed.

In March 2022, the Bank obtained the funding resource of EUR 20 million from European Fund for Southeast Europe S.A. ("EFSE") and USD 50 million from Proparco, with the maturities of 3 and 5 years, respectively. USD 9.2 million from the European Bank for Reconstruction and Development ("EBRD") and USD 15 million from the City Bank, also have been obtained in March 2022, with agreements maturities of 6 months each.

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	80 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
JSC CreditInfo Georgia	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
Natural Products of Georgia LLC	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
Mobi Plus JSC	45 Vajha 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 Securities Central Depositor JSC	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
JSC Givi Zaldastanishvili American Academy In Georgia	37 Chavchavadze Avenue, 0162, Tbilisi Georgia
United Clearing Centre	5 Sulkhan Saba Street, 0105, Tbilisi, Georgia
GRDC	2 Vagzali Square, 0112, Tbilisi, Georgia
Banking and Finance Academy of Georgia	123, Agmashenebeli Avenue, 0112, Tbilisi, Georgia
Swift	1 Adele Avenue, B-1310, La Hulpe, Belgium
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	floor 7th block 10, 71 Vazha Pshavela Ave, Tbilisi, Georgia
Kavkasreestri JSC	6 Bagrationi st. saburtalo, Tbilisi , georgia
TBC Capital Asset Management LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Georgia Large Cap Diversified Credit Portfolio JSC	7 Marjanishvili Street, 0102, Tbilisi, Georgia

ADDITIONAL INFORMATION

GLOSSARY

Active customers	Clients who have at least one active product or performed at least one transaction during the last 3 months.
Active retail digital users	Includes unique digital users of TBC Bank, Space app and TBC Pay mobile app, who logged in at least once for the past 3 months.
Active merchant terminals	Active merchant terminals include POS terminals and e-commerce with at least one transaction conducted during the month.
Bank	Joint Stock Company TBC Bank
Board	Board of Directors of TBC Bank Group PLC
Chairman	Chairman of the Supervisory Board of Joint Stock Company TBC Bank
Code	The UK Corporate Governance Code
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 segment	A legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or which has been granted facilities of more than GEL 5.0 million. Some other business customers may also be assigned to the CIB segment or transferred to the MSME segment on a discretionary basis. In addition, CIB includes Wealth Management private banking services to high-net-worth individuals with the threshold of US$ 250,000 on assets under management (AUM), as well as on discretionary basis.
Daily active digital users (DAU)	Monthly average number of digital users who logged into our digital channels at least once per day.
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.
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
Group	Joint Stock Company TBC Bank and its subsidiaries
Management Board	Management Board of Joint Stock Company TBC Bank
Monthly active digital users (MAU)	The number of digital users who logged into our digital channels at least once a month
MSME (Micro, Small and Medium) segment	Business customers who are not included in the CIB segment
NPS (Net Promoter Score)	Net promoter score measures how willing customers are to recommend our products and services to others.
Retail offloading ratio	The retail offloading ratios measures the share of transactions conducted in our remote channels, that is outside the branches.
Retail segment	Non-business individual customers, including the fully-digital bank, Space
Supervisory Board	Supervisory Board of Joint Stock Company TBC Bank
TBC Bank	Joint Stock Company TBC Bank and its subsidiaries
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 and other closely related fields. TBC Bank Group PLC is listed on the London Stock Exchange under the symbol TBCG.
TBC JSC	Joint Stock Company TBC Bank
TBC PLC	TBC Bank Group PLC

RATIO DEFINITIONS

Ratio Name	Ratio Type	Ratio definitions
Profitability		
ROE	IFRS based	Return on average total equity (ROE) equals net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the JSC's equity holders for the same period; annualised where applicable.
ROA	IFRS based	Return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period; annualised where applicable.
Cost to income	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	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	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	IFRS based	Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
Cost of funding	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; annualized where applicable.
Asset quality & portfolio concetration		
Cost of risk	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	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	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	IFRS based	NPL provision coverage equals total credit loss allowance for loans to customers divided by the NPL loans.
Total NPL coverage	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	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	IFRS based	Related party loans to total loans equals related party loans divided by the gross loan portfolio.
Top 10 Borrowers to Total Portfolio	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	IFRS based	Top 20 borrowers to total portfolio equals the total loan amount of the top 20 borrowers divided by the gross loan portfolio.
Capital & liquidity positions		
Net Loans to Deposits plus IFI Funding	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 standards.
Leverage	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 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 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 standards.

Notes to table: IFRS based ratios are calculated using financial information prepared under IFRS standards, while regulatory ratios are calculated for the Bank only in accordance with local accounting standards.

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AFS	Available for sale
ALCO	Asset-liability management committee
APM	Alternative performance measure
ATM	Automated teller machine
BNY	Bank of New York
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
CRM	Customer relationship management
CRO	Chief risk officer
CSAT	Customer satisfaction
CSR	Corporate social responsibility
CVP	Cost volume profit
DCF	Discounted cash flows
EBRD	European Bank for Reconstruction and Development
ECL	Expected credit losses
EECG	Energy Efficiency Centre Georgia
EFSEDF	The Development Facility of the European Funds for Southeast Europe
EMEA	Europe, Middle East and Africa
ENPS	Employee Net Promoter Score
EPS	Earnings per share
ERM	Enterprise risk management
ESRM	Environmental and social risk management
EU	European Union
EUR	Euro
FDI	Foreign direct investment
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
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
GWP	Gross written premium
HNWI	High-net-worth individuals
HR	Human resources
IAS	International Accounting Standards
IASB	International Accounting Standards Board
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
LED	Light-emitting diode
LSE	London Stock Exchange
LTV	Loan to value
MBA	Master of Business Administration
MBO	Management-by-objectives
MSME	Micro, small and medium-sized enterprises
NBG	National Bank of Georgia
NCI	Non-controlling interest
NIM	Net interest margin
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
PPP	Purchasing power parity
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
UK	United Kingdom of Great Britain and Northern Ireland
US$	The US dollar, national currency of the United States
VAR	Value-at-risk
VIP	Very important person
WB	World Bank
WRI	World Resources Institute

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