



BANK OF GEORGIA
GROUP PLC

Payment MAU
1,000,000+

Top-of-mind
bank 49%

Deposit of
individuals market
share 44.4%



The best bank
for SMEs

NPS 58

ENABLED BY LEADING **DIGITAL CAPABILITIES** AND THE **STRENGTH OF OUR CUSTOMER FRANCHISE**, WE INCREASED OUR MONTHLY ACTIVE **DIGITAL USERS AND MONTHLY ACTIVE PAYMENTS** USERS TO OVER **1,000,000**

MAU

1,121,000

Most trusted
bank 44%

Acquiring market
share - 51.3%

ROE
32.4%

Total monthly
active retail
clients growth
17.1%



sCoolApp - the first
app for school
students in Georgia

Digital
capabilities

Focused on decreasing
cash economy

See more in  Annual Report 2022

About us

Bank of Georgia Group PLC

Bank of Georgia Group PLC (the '**Company**' – **LSE: BGEO LN**) is a FTSE-250 company. Its core entity is JSC Bank of Georgia ('**Bank of Georgia**', '**BOG**', or the '**Bank**'), a digital banking leader in Georgia, serving more than 1.6 million monthly active retail customers and more than 81 thousand monthly active business clients. Enabled by high levels of customer satisfaction and the strength of our customer franchise, we have consistently delivered a return on average equity above 20%.

We focus on customer relationships – supporting our clients at every step of their journeys, creating products and services that fulfil their needs and delivering positive experiences across touchpoints. We are committed to creating shared opportunities and building long-term value – underpinned by the highest standards of corporate governance and a strong risk management framework and guided by our purpose.

Helping People Achieve More of Their Potential

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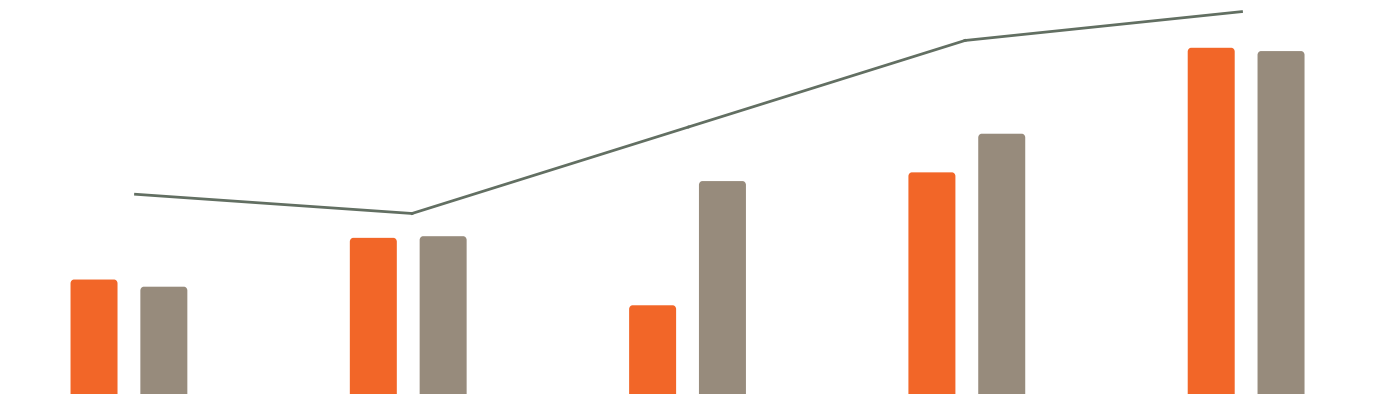
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History

1.1bn
Profit¹ (GEL)
2022

1.1m
Monthly active digital users
Dec-22

58
NPS
4Q22



2018

- BGEO Group PLC demerged into two separate companies – Bank of Georgia Group PLC and Georgia Capital PLC.

2019

- The new management team started to execute the Group's new strategy, focusing on customer and employee experience and digital transformation.
- We released a brand new business internet banking platform (Business iBank) for our MSME and corporate clients.
- We issued an inaugural US\$ 100 million Additional Tier 1 Capital Perpetual Subordinated Notes.

2020

- We added a number of innovative features to our financial mobile application, including peer-to-peer payments, bill split and money request, and digital card.
- We embedded a leading customer experience management software platform, Medallia, and started to collaborate with Salesforce, a world's leading customer relationship management platform, to have a more holistic view of customer needs, wants, and behaviours across channels.
- During the pandemic we focused on customer and employee safety, offered loan payment holidays to clients and ensured the Group's capital and liquidity positions remained at adequate levels.

2021

- We strengthened our focus on ESG, undertaking an ESG materiality assessment and launching a climate action programme.
- We rolled out digital onboarding, enabling individuals to open a bank account without a branch visit.
- We launched two new products – loan instalments in e-commerce and retail brokerage – Investments – directly in our retail mobile application.
- We fully redesigned consumer lending and deposit activation flow in our mobile application, resulting in increased product sales in digital channels.
- We launched a mobile application for our business clients.
- We rolled out a new debit card – PLUS – with American Express, its second debit card project worldwide and its first in EMEA.

2022

- We rolled out sCoolApp, a mobile application for school students.
- We added an insurance marketplace to our mobile application.
- We launched new subscription sets for mass retail clients.
- Monthly active digital users surpassed one million.

1. Profit has been adjusted for a one-off GEL 391.1 million other income due to the settlement of an outstanding legacy claim, and a one-off GEL 79.3 million tax expense due to an amendment of the corporate taxation model in Georgia.

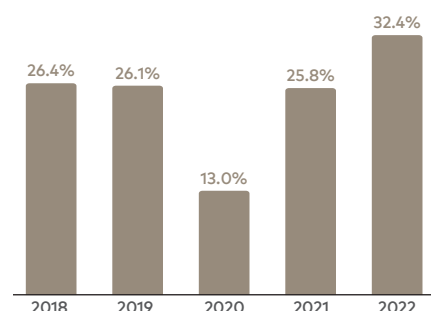
Track record of strong performance

Delivering on medium-term targets

ROAE¹

Target
20%+

2022 result
32.4%

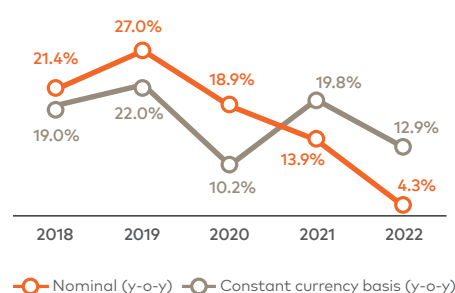


Loan book growth

Target
c.10% y-o-y

2022 result
12.9%

On a constant currency basis

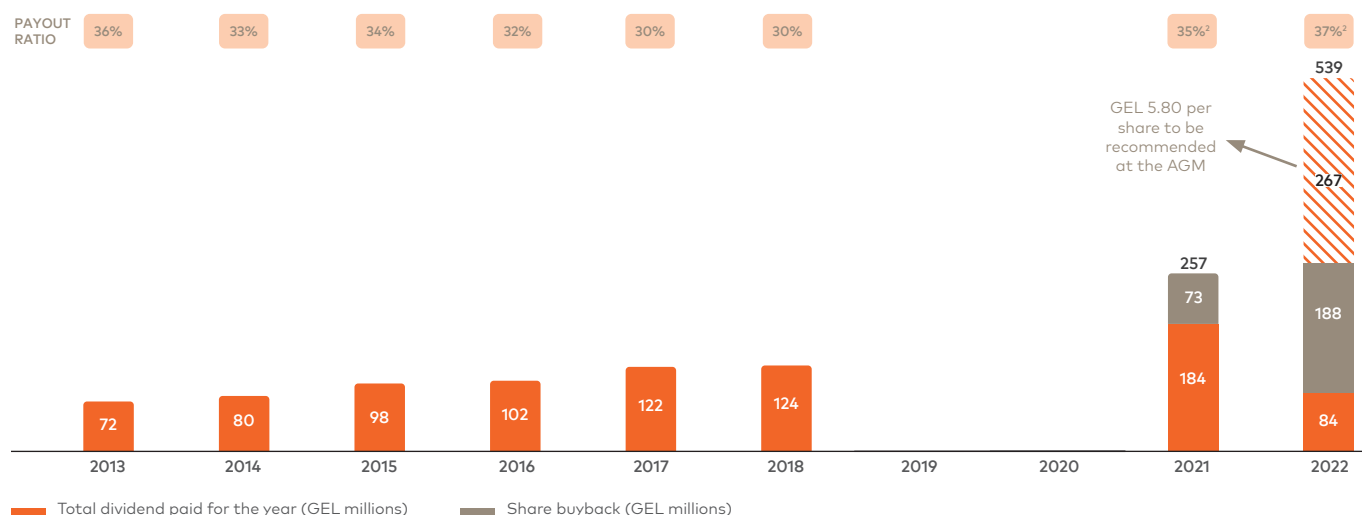


Capital distribution

Target
30-50%

2022 result
37%

dividend/share buyback



Interim dividend of GEL 1.85 per ordinary share in respect of the period ended 30 June 2022 was paid on 20 October 2022.

At the 2023 Annual General Meeting, the Board intends to recommend a final dividend for 2022 of GEL 5.80 per ordinary share payable in British Pounds at the prevailing rate, making a total dividend for 2022 of GEL 7.65 per share.

In 2022 the Group completed the GEL 112.7 million Share Buyback and Cancellation Programme ('Programme'). Since the launch of the Programme the Group has purchased and cancelled 1,670,446 ordinary shares. As at 31 December 2022, the total number of shares with voting rights was 47,498,982. In February 2023, the Group announced an increase of the Programme by up to GEL 148 million.

- 2018 ROAE adjusted for GEL 30.3m demerger-related costs, a GEL 8.0m demerger-related corporate income tax gain, a GEL 30.3m one-off impact of re-measurement of deferred tax balances and a GEL 3.9m (net of income tax) termination costs of former CEO.
2019 ROAE adjusted for GEL 14.2m (net of income tax) termination costs of former CEO and executive management.
2022 ROAE adjusted for a GEL 391.1 million one-off other income due to the settlement of an outstanding legacy claim and a GEL 79.3 million one-off expense due to an amendment to the corporate taxation model in Georgia applicable to financial institutions.
- For the purpose of payout ratio calculation, total buyback amount is divided by outstanding shares before the beginning of the programme for the respective year.

Financial highlights

All data in GEL million unless otherwise stated

Net interest income 1,182.3 +23.9% y-o-y	Net non-interest income¹ 819.7 +99.1% y-o-y	Operating income before cost of risk¹ 1,361.6 +59.4% y-o-y
Profit¹ 1,132.2 +55.7% y-o-y	Net loans² 16,861.7 +4.3% y-o-y +12.9% y-o-y on a constant currency basis	Client deposits 18,261.4 +30.1% y-o-y +43.2% y-o-y on a constant currency basis
Cost to income ratio¹ 32.0% -5.2 ppts y-o-y	Cost of credit risk ratio 0.8% +0.8 ppts y-o-y	Net interest margin 5.4% +0.5 ppts y-o-y
ROAE¹ 32.4% +6.6 ppts y-o-y	CET1 capital adequacy ratio (NBG, Basel III) 14.7% Minimum regulatory requirement at 31 December 2022 – 11.6%	Liquidity coverage ratio (NBG, Basel III) 132.4% Minimum regulatory requirement at 31 December 2022 – 100%

Reported figures and ratios for 2022 under IFRS

Net non-interest income 1,210.8 +194.1% y-o-y	Operating income before cost of risk 1,752.7 +105.2% y-o-y	Profit 1,444.0 +98.6% y-o-y
Cost to income ratio 26.8% -10.4 ppts y-o-y	ROAE 41.4% +15.6 ppts y-o-y	

- Figures adjusted for a one-off GEL 391.1 million other income due to the settlement of an outstanding legacy claim, and a one-off GEL 79.3 million tax expense due to an amendment to the corporate taxation model in Georgia.
- Throughout the Strategic Report, gross loans to customers and respective allowance for impairment are presented net of expected credit loss (ECL) on contractually accrued interest income. These do not have an effect on the net loans to customers balance. Management believes that netted-off balances provide the best representation of the Group's loan portfolio position.

Non-financial highlights

Figures given for JSC Bank of Georgia standalone

Monthly active individual clients (thousands) 1,632 +17.1% y-o-y	Monthly active digital individual users (MAU) (thousands) 1,121 +31.5% y-o-y
Daily active digital individual users (DAU) (thousands) 533 +41.4% y-o-y	DAU/MAU 47.6% +3.4 ppts y-o-y
Share of products activated through digital channels (Dec-22) 44.1% +13.6 ppts y-o-y	Share of transactions through mBank and iBank (4Q22) 58.2% +7.4 ppts y-o-y
Volume of payment transactions in BOG's acquiring in 2022 (GEL million) 10,213 +48.9% y-o-y	Acquiring market share (Dec-22) 51.3% +6.7 ppts y-o-y
Monthly active card users (Payments MAU) (thousands) 1,040 +33.0% y-o-y	Number of clients who exchanged loyalty points at least once during 2022 (thousands) 487 +28.4% y-o-y
Monthly active business clients (thousands) 81 +25.7% y-o-y	Monthly active digital users (thousands) (Business mBank/iBank) 58 39.0% y-o-y
Net Promoter Score (NPS)¹ 58 +3.0 ppts y-o-y	Employee Net Promoter Score (eNPS)² 53 -8.0 ppts y-o-y

1. Based on an external survey by an independent third-party provider.
2. Based on an internal survey.



Mel Carvill

Chairman

Chairman's statement

My first annual statement to shareholders comes at the end of what proved to be another extraordinary year. The world faced a combination of Russia's war in Ukraine, high levels of global inflation, volatile energy prices, and the continuing impact of the COVID-19 pandemic. Despite these considerable global challenges, the Group proved resilient and produced very strong results, whilst making a difference by supporting its customers and employees. We ended the year with operating income (adjusted for one-off items) of GEL 2,002 million, up 46.6% year-on-year¹. This was driven by a strong performance across core revenue lines, with a higher-than-expected increase in net foreign currency gains on the back of migrant inflows, and increased transactional activity.

Strategic progress

The Bank continues to make significant progress against its key medium-term strategic targets: to deliver c10% customer lending growth; to achieve a return on equity in excess of 20%; and to return capital to shareholders via a dividend/share buyback pay-out ratio of between 30-50%. In 2022, these objectives were achieved, or exceeded, despite the external challenges we have faced.

Archil Gachechiladze will talk about the business and our progress in greater detail in the next few pages, but first I want to highlight the key metrics that stood out as I reflected on our recent performance. Firstly, over the past 12 months we increased our monthly active customer base by around a quarter of a million people or 17.1%. Secondly, the number of monthly active retail digital users exceeded one million up 31.5% y-o-y.

And, thirdly, we ended the year with a high NPS of 58 – up from 55 in 2021 and 46 in 2020. These figures represent a great performance by the team, and fundamentally underpin the excellent top-line revenue growth that drove our strong earnings performance.

This is a clear demonstration of the significant progress the Group has made in its digital and cultural transformation over the past three years. These numbers are a testimony to the quality of the Group's Management Team and my predecessor, Neil Janin, as well as to the Board's continuing focus on purpose, customer-centricity and digitalisation to deliver high-quality services that contribute to the advancement of Georgian people and the economy. My strong first impressions when joining the Group a year ago have been completely affirmed, this is a high-performing organisation, with dedicated leaders and employees.

The Georgian economy and the banking sector

The Bank's performance was supported by the strong growth, around 10%, of the Georgian economy in 2022. This was driven by high levels of external inflows, including FX inflows boosted by the inbound migration of people and relocation of capital from nearby countries, and increased activity in the transportation sector, as the rerouting of cargo from Central Asia amplified Georgia's position as an important transport, trading and logistics corridor. These factors also boosted fiscal revenues and significantly narrowed the current account deficit.

From a banking sector perspective, I have been impressed by the low systemic banking risk. This is supported by prudent regulation and conservative oversight from a high quality regulator, the National Bank of Georgia (NBG), which consistently ensures the resilience of the sector to potential external shocks. As a result of recent financial stability policy measures implemented by the NBG, the sector continued to lend and support the Georgian economy in 2022 without difficulty. This stability, aligned with a strong monetary policy, continues to underpin the strength of the Georgian Lari and support a positive credit environment.

Strong internal capital generation and capital distribution

2022 saw excellent internal capital generation. Beyond the needs of a strong balance sheet and supporting future growth requirements, capital is available for distribution to shareholders and the Board intends to recommend a final dividend for 2022 of GEL 5.80 per share, making a total annual dividend of GEL 7.65 per share. In addition, the Board has increased the share buyback and cancellation programme by up to GEL 148 million. This represents an overall dividend and share buyback pay-out ratio for the year ended 31 December 2022 of 37%, in line with our published capital distribution policy. Further strong internal capital generation, and the surplus cash we have on our balance sheet, will be deployed in the growth of the Group, or returned to shareholders over time.

1. Figure adjusted for a one-off GEL 391.1 million other income due to the settlement of and outstanding legacy claim.

ESG

The Group's approach to ESG has been informed by the views of our key stakeholders through a formal materiality assessment. We create value together with our stakeholders, and when they succeed, we succeed as well. The Board places a high level of importance on achieving positive outcomes for the Group's stakeholders, but this means that we often need to balance between the views and the interests of different stakeholders to make decisions that we believe are fair and promote the longer-term value of the Company. Bank of Georgia has a strong focus on feedback culture, which goes beyond giving and receiving feedback within the organisation, and involves continuous research and dialogue with a variety of groups. We are regularly informed of and discuss what the Group's customers, employees, people in communities, investors and regulators want, need and expect from us, and this guides our thinking and decision-making.

Banks matter. They support productive activity and encourage economic growth and development. Banks move, lend, invest and protect money for customers and, through these activities, the Bank of Georgia plays a leading role in the development of Georgia, which has limited capital markets. The Bank also supports financial inclusion by delivering easily accessible, useful, affordable financial products and services that meet the needs of the entire Georgian population in all socio-economic brackets and throughout the country in rural and well as urban communities. The Bank supports financial literacy, too, through various initiatives, including the recent development of the first financial app for school students, detailed later in this Annual Report.

The Board also sees climate change as a global challenge and monitors the ways in which the Group develops its approaches to managing climate-related risks and opportunities. The approach has been evolving and we know there is much more to learn and to implement going forward. On pages 84 to 148 of this report, you will see our ESG disclosures. The Board is closely involved in the ongoing development of the ESG strategy and is delighted with the progress the business has achieved.

Outlook

Overall, Bank of Georgia has continued to deliver an excellent performance – enabled by continuously improving digital and data analytics capabilities, and an ongoing systematic focus on customer satisfaction and employee empowerment. We have a great team in place, and we're focused on attracting and retaining top talent, especially in tech-related fields.

The Board considers that the growth prospects of the Group remain very positive, despite market uncertainty resulting from geopolitical events. While economic growth in Georgia is expected to ease in 2023, the economy is still expected to deliver c.5% real GDP growth. Georgia's strong prospects and the benefits of the Bank's strong customer franchise leave the Group well-positioned for the future.

Finally, I would like to express my sincerest thanks to all of our employees and colleagues – we would not have been able to achieve such results without their continued support.

Mel Carvill
Chairman
23 March 2023

Section 172 Statement

In discharging its duty to act in good faith and in a way that is most likely to promote the long-term success of the Company, Directors must take into consideration the interests of the various stakeholders of the Company. Throughout this report, we detail how we have identified and given consideration to our key stakeholders. See pages 149 to 153 for our Section 172(1) statement which details how the Board has engaged with our key stakeholders and provides examples of how stakeholder interests have been considered in principal decisions taken by the Board during the year.



Archil Gachechiladze

Chief Executive Officer

Chief Executive Officer's statement

2022 was an unprecedented year – which started with the war in Ukraine, which shocked us all, and which, sadly, remains ongoing. Our thoughts and prayers remain with the Ukrainian people, and I hope this horrible human suffering ends with a speedy resolution, however difficult that is to imagine at times.

The resilient Georgian macroeconomic environment

Despite the high levels of uncertainty and volatility during the year, however, the Georgian economy demonstrated strong growth momentum. We saw strong nominal GDP growth, a reduced current account deficit to around 3.1% of GDP, a reduced fiscal deficit to 3.1% of GDP, and a significant strengthening of GEL – which appreciated by 12.5% against the US dollar during 2022. Inflation and tight monetary policy are still the main challenges, but Georgia's macroeconomic risks overall reduced significantly – public debt decreased to 39.6% of GDP, from 49.7% in 2021, and banking sector loans to GDP also decreased to 62.7%, from 71.5% a year ago. In addition, gross international reserves increased by 14.7% in 2022 to US\$ 4.9 billion.

Our digital transformation and customer-centricity

Over the past few years, we have invested significantly in our customer franchise and the payments business and, as a result, are now delivering significant growth across our key performance metrics. Our monthly active retail clients grew to 1.6 million – a great result in a country of 3.7 million people. Importantly, the number of monthly active digital users was up 31.5% year-on-year, reaching 1.1 million and representing 68.7% of our monthly active customers, compared to 61.1% a year ago. During the fourth quarter of 2022, we launched the first financial mobile application for school students in Georgia – Bank of Georgia's sCoolApp – ending December with 33,167 monthly active users. Financial inclusion is one of our main focus areas, and we aim to enable children to improve their financial literacy skills through engagement with the app and the educational content we plan to embed into this channel.

Our payments business also continued to excel, with the volume of transactions through Bank of Georgia's acquiring up 48.9% year-on-year. More than one million people use our cards for payments at least monthly, a 33.0% increase over the past 12 months.

Product offloading to digital channels increased year-on-year by more than 11 ppts to 40%, and by 6 ppts in the final quarter of the year alone. This is also an area where we continue to see upside potential as we work on designing better end-to-end product journeys across our digital channels.

Our digital transformation over the past few years has run in parallel with our efforts to redesign our customer experience. Our ambition is to be a truly customer-centric organisation, with innovation inspired and driven by customer feedback, and we have been consistent in our efforts to improve customer satisfaction. Our customer NPS of 58 is a wonderful achievement by the team.

Strong earnings momentum at Bank of Georgia

The strength of the Georgian economy underpinned the recent growth momentum of Bank of Georgia. Our market-leading digital channels and payments solutions – coupled with top-of-mind customer franchise and a dedicated team with a strong customer-centric culture – ensured we were well-positioned to benefit from greater-than-expected economic growth.

We continued to build significant momentum throughout the year, culminating in an excellent full-year performance with operating income (adjusted for one-off items) up 46.6%, profit (adjusted for one-off items) up 55.7% to GEL 1,132 million, and full-year return on average equity standing at 32.4%¹. We maintained a strong balance sheet and continued to invest in building the business. Full-year basic earnings per share more than doubled to GEL 30.99, and book value per share increased by 43.3% to GEL 94.07.

The most pleasing aspect of our recent performance has been our top-line and franchise growth. This is most evident in the progress in net fee and commission income growth and net foreign currency gains – driven by the recent exchange rate volatility and client-driven flows as Georgia has seen strong inflows of tourists and migrants from nearby countries. The performance underpins our recent strategic focus and investment in our payment services capabilities and digital transformation.

Net interest income increased 23.9% year-on-year, supported by solid loan growth and by a 50 bps year-on-year increase in the net interest margin. Net fee and commission income also grew significantly – by 36.6% year-on-year – and the regional tourist and migrant inflows also led to exceptional levels of client-driven foreign currency gains and commissions.

On the portfolio side, our loan book increased by 12.9% year-on-year on a constant currency basis, and deposit growth was outstanding, at 43.2% year-on-year on a constant currency basis. This was not only supported by migrant inflows, but also by high levels of local economic activity, reflecting the strength of our brand and customer franchise.

Strong capital position and capital distribution policy

Good profitability and the improved GEL resulted in a strong capital position, with historically high levels of capital buffers. The CET1 ratio stood at 14.7% at 31 December 2022, more than 300 bps above the minimum requirement. In addition, the one-off gain of GEL 391.1 million, recorded in the fourth quarter of the year, arose at the holding company level and is therefore not reflected in the Bank's capital ratios, which are calculated within the regulated Bank – JSC Bank of Georgia.

Our remarkable people

Our people are critical to the enduring success of our organisation and, over the past few years, we have implemented talent development strategies that have enabled us to build a strong talent pipeline. We measure the effectiveness of our human capital development practices internally using the employee NPS, and finished 2022 with a high eNPS of 53. While this is slightly lower than the all-time high at the end of 2021, it is higher than the 50 score in April 2022 – reflecting the impact of global inflationary pressures for many of our workforce during the year, and some organisational changes, including the return to hybrid working. We listen to our employees' concerns and take relevant action to create better outcomes throughout the organisation – which in 2022 included implementing pay increases for many of our lower-paid employees in front office mass positions. I want to thank all of our remarkable employees for their commitment during what has been an incredibly challenging year.

Outlook

Although risks remain, given the importance of the South Caucasian corridor for the Central Asian economies, going forward we expect Georgia's role in the region to strengthen – bringing in additional investments and economic activity in the energy, transport and logistics sectors over the next few years. The Bank remains well-positioned to capture the benefits of increased economic activity in the country, and to sustainably deliver strong growth and high profitability.

Archil Gachechiladze
Chief Executive Officer
23 March 2023

This Strategic Report, as set out on pages 4 to 167, was approved by the Board of Directors on 23 March 2023 and signed on its behalf by

Archil Gachechiladze
Chief Executive Officer
23 March 2023

1. Figures adjusted for a one-off GEL 391.1 million other income due to the settlement of an outstanding legacy claim, and a one-off GEL 79.3 million tax expense due to an amendment to the corporate taxation model in Georgia.

MACRO OVERVIEW

Georgia in key figures

Ease of doing business and low level of corruption

Open budget index

#1

Out of 120 countries

Source: International Budget Partnership

Economic freedom index

#26

Out of 177 countries

Source: The Heritage Foundation

Business bribery index

#33

Out of 194 countries

Source: TRACE Association

Corruption perception index

#41

Out of 180 countries

Source: Transparency International

Steady ratings and improved outlook from global rating agencies

Agency: **Fitch**

Rating: **BB**

Outlook: **Positive**

Date: **Jan 2023**

Agency: **S&P**

Rating: **BB**

Outlook: **Stable**

Date: **Feb 2022**

Agency: **Moody's**

Rating: **Ba2**

Outlook: **Negative**

Date: **Apr 2022**

Prudent macroeconomic policy

Fiscal deficit as % of GDP
in 2022

3.1%

-3.0 pts y-o-y

Source: Ministry of Finance of Georgia

Public debt as % of GDP
in 2022

39.6%

-10.1 pts y-o-y

Source: Ministry of Finance of Georgia

Gross international reserves in
months of goods and services
imports in 2022

3.5 months

+14.7% nominal growth y-o-y

Source: National Bank of Georgia, GeoStat

Duty-free access to 2.3 billion-person market: Free Trade Agreements with EU, China, Turkey, EFTA, UK, Ukraine, and CIS



2022 macro review

2022 was a challenging year. As the region was recovering from the impact of the Covid-19 pandemic, it was hit by another major shock – Russia's war in Ukraine. Amid the geopolitical turbulence, supply chain disruptions intensified and commodity prices spiked. Businesses started to relocate from the affected regions and international trade flows were rerouted. The Georgian economy has demonstrated resilience thanks to a safe and business-friendly environment and its convenient geographical location. Consequently, a considerable number of highly skilled regional migrants and international companies relocated or set up operations in Georgia. Georgia also attracted international cargo forwarders, providing a convenient transport and logistics corridor for international trade flows. Given the growing interest

towards the country, external inflows surged, international trade expanded and investment activity started to gain momentum. While the global economy is slowing amid elevated prices, energy shortages and tightened financial conditions, the Georgian economy is operating close to full capacity to meet the increased demand. Although the demand is largely cyclical, the increased investment and relocation of capital should contribute to improved growth prospects in the medium term.

Increased consumption and investment spending coupled with strong external inflows underpinned Georgia's double-digit real GDP growth during the last two years. On the back of increased export proceeds, surging remittances and a steady recovery in tourism revenues, external balance

improved further, supporting a stronger Georgian Lari. The appreciation of the Lari, accompanied by rapid growth in revenues, resulted in a reduced debt burden of the private sector – below 2019 levels. In 2022, unemployment decreased by 3.4 ppts to 17.3% and fiscal parameters improved thanks to strong economic activity. The strong track record of the Georgian economy and solid support of international institutions contributed to rising interest among international investors, with FDI inflows reaching a record high of US\$ 2.0 billion in 2022.

External sector of the Georgian economy in 2022

Export of goods

+31.8% y-o-y

US\$ 5.6 B

Import of goods

+33.2% y-o-y

US\$ 13.5 B

Net money transfers

+98.2% y-o-y

US\$ 4.0 B

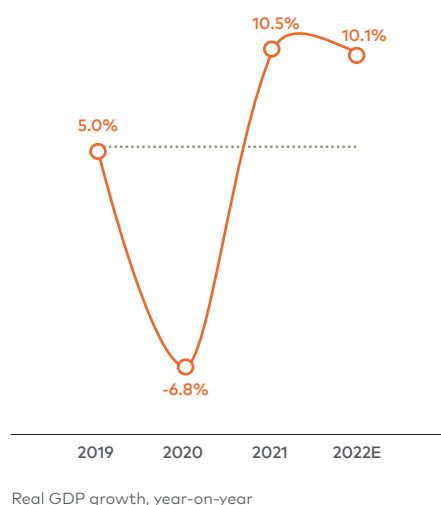
International tourism revenue

+182.5% y-o-y

US\$ 3.5 B

Source: GeoStat, NBG

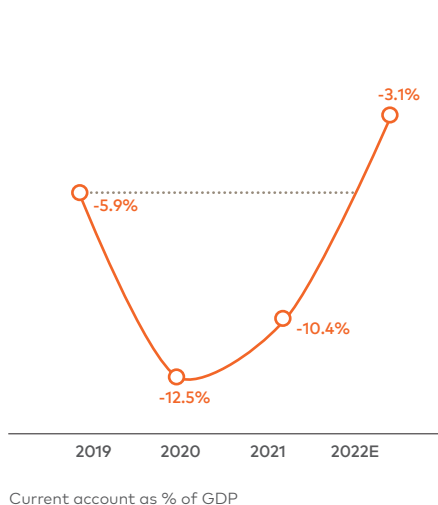
The Georgian economy maintained strong growth momentum in 2022 ...



Real GDP growth, year-on-year

Inflation remained elevated in 2022, mostly driven by food and energy prices, with some demand-side pressures as inbound migration and the lifting of pandemic-related restrictions boosted demand for housing. Inflation started to soften in the second half of the year due to reduction in global commodity prices and appreciation of GEL, with headline CPI inflation retreating to 9.8%

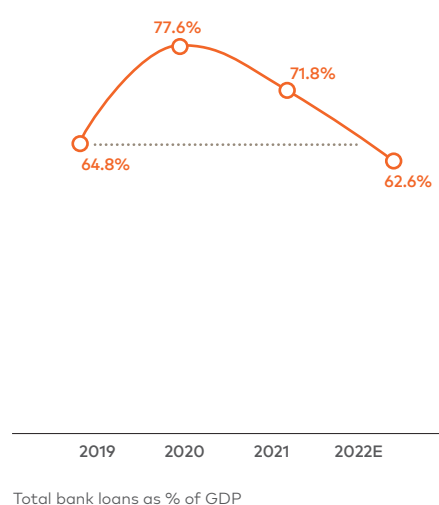
... while external balance improved further, surpassing the 2019 level ...



Current account as % of GDP

in December 2022 and averaging at 11.9% for the full year 2022. In response to persistent price pressures, the National Bank of Georgia ('NBG') maintained tight monetary policy with the refinancing rate at 11.0% since March 2022, having gradually increased the rate by 300 bps since March 2021. Given the tight monetary policy and strong external inflows, GEL strengthened against the

... and debt burden continued to ease, dropping below the 2019 level.



Total bank loans as % of GDP

Source: GeoStat, NBG

US dollar by 12.5% in 2022. The strong external sector also enabled the NBG to accumulate international reserves, which amounted to US\$ 4.9 billion at 31 December 2022.

Prudently managed banking sector

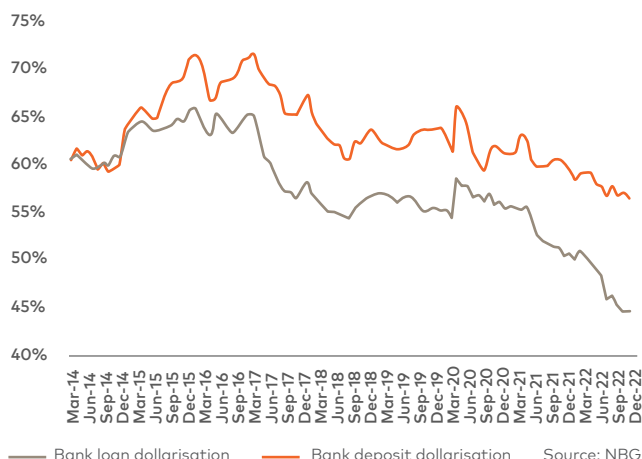
The banking sector is one of the fastest-growing segments of the Georgian economy, fully privately owned, with the two largest banks accounting for 77% of total banking assets at 31 December 2022. Prudent regulation by the NBG has ensured the resilience of the banking sector to various shocks. Adequate liquidity and capitalisation levels accumulated in the pre-pandemic period allowed the banking sector to overcome the Covid-19 pandemic without interruptions to the flow of credit to the economy.

Following the economic rebound, demand for credit increased, supporting economic recovery. Commercial banks restored capital buffers, which were released during the pandemic, before the date set by the NBG.

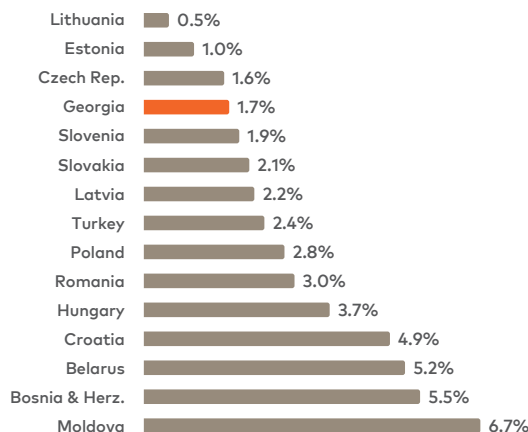
Tightening local and global financial conditions, coupled with the new local regulation reducing the maximum consumer loan term to three years, have impacted lending growth, which slowed to a 12.1% y-o-y growth on a constant currency basis in 2022 after a 18.2% y-o-y growth in the previous year. Credit growth was mainly driven by local currency lending, leading to reduced loan dollarisation – at 44.8% at 31 December 2022 (-5.9 ppts y-o-y). Deposit dollarisation also continued to decrease to 56.1% (-3.8 ppts y-o-y). The banking sector maintained high profitability with a 27.2% return on equity (ROE) in 2022, while loan book quality remained strong with non-performing loan (NPL) ratio at 1.7% based on the International Monetary Fund (IMF)'s methodology.

The Georgian banking sector has intensified efforts to ensure compliance with relevant anti-money laundering (AML) regulations and the sanctions adopted by Western countries against Russia. The US Department of State has noted that the NBG along with Georgian financial institutions acts fully in accordance with the financial sanctions imposed by the US and other countries on Russia.¹ Furthermore, according to the IMF, prompt and appropriate action by the NBG has helped mitigate the impact of the regional instability on the Georgian financial sector.² The international credibility and sound performance of the Georgian financial sector makes it attractive to international investors. Indeed, the financial sector was one of the largest FDI recipients in 2022.

Financial dollarisation in Georgia



NPLs to total gross loans in selected countries, 1H22



Macro outlook

The strong economic activity recorded in 2021-2022 is expected to be sustained in 2023, however, the growth momentum is likely to slow due to the base effect. Consumption is expected to be the main growth driver despite the anticipated slowdown in lending and the reduction in fiscal deficit. Investment spending should also remain strong with positive contribution to growth on the back of improved investor sentiments. The contribution of net exports is projected to decrease as external inflows stabilise. As commodity prices abate and the relocation of capital concludes, external

flows are expected to moderate. However, significant headroom remains for growth in tourism inflows with only partial recovery in the number of visitors in 2022 compared with pre-pandemic levels. As a result of the anticipated moderation of external inflows, the current account deficit may widen slightly in 2023, but is expected to be financed mostly by FDI.

G&T forecasts a 4.8% real GDP growth in 2023, slightly above the 4.0% projection by the IMF. Ongoing war in Ukraine, global recession and high inflation are downside risks. On the upside, the lasting impact of

migration, stronger tourism inflows and higher investment spending could deliver higher-than-expected growth.

Consumer price inflation is expected to soften starting from early 2023. As the Lari remains strong and global commodity prices stabilise, price pressures will moderate, with expected average inflation at 5.2% in 2023. The NBG remains concerned about inflation risks and intends to maintain tight monetary policy throughout 2023.

1. US Department of State, 2022 Investment Climate Statements: Georgia.

2. IMF Press Release NO. 22/374, IMF Reaches Staff-Level Agreement on First Review for Georgia's Stand-By Arrangement.

OUR STRATEGY

Our purpose and strategy framework

We are guided by our purpose

Helping people achieve more of their potential

We regularly engage with our key stakeholders and consider their views and feedback

Customers

Employees

Investors

Communities

Regulators

We focus on our strategic priorities

- Becoming increasingly relevant in our customers' daily lives through our payments and financial super app
- Further improving customer engagement across all business segments
- Harnessing the potential of our payments business
- Continuing to deliver an excellent customer experience

We are enabled by

Customer-centricity

Data and AI

People and culture

Brand strength

Effective risk management

We create positive impact through our main focus areas

Financial inclusion

Employee empowerment

Education for communities

Our purpose

Helping People Achieve More of Their Potential – puts people at the heart of our strategy and guides everything we do. We aspire to support people at different stages of their lives – empowering our customers with an integrated ecosystem

of products and services, empowering our employees with fair and inclusive workplace and opportunities for personal and professional growth, and empowering people in our communities by fostering financial inclusion and

education with our core products and services as well as with our community projects. Our purpose enables us to deliver sustainable returns for our shareholders and build long-term shared value.

Our stakeholders

We aim to balance the different interests of our key stakeholders – customers, employees, communities, investors, and regulators – in our decision-making. We believe that transparency and openness are key to sustainable value creation, and we regularly engage with our stakeholders to hear their feedback.

Our strategic priorities and enablers

We aim to deliver on our purpose and drive sustainable returns to shareholders by focusing on our strategic priorities. Our strategic priorities are what we aim to achieve and the strategic enablers are the 'how' behind them.

Over the past few years, we have invested significantly in customer experience, people development, and our information technology (IT) and data capabilities, and we continue to maintain our focus on these areas as the core foundation for future growth.

Bank of Georgia is the top-of-mind and the most trusted bank in Georgia¹, and maintaining the trust and brand recognition is a top priority, ensuring that we continue our strong customer franchise growth.

Our positive impact

We recognise the huge responsibilities that our role brings – from supporting the needs of customers to the positive impacts we can have on people as one

of the biggest employers in Georgia and on the wider communities as a motivator, partnership builder and a donor. We have identified three focus areas where we

believe we can now make a meaningful contribution and build long-term value in our business:

Financial inclusion

We use the power of technology and product innovation to provide accessible and affordable financial services to our communities, and we use the power of our outreach to increase financial literacy through digital content as well as personal interactions with our customers.

Employee empowerment

We are committed to being the employer of choice for top talent, providing equal opportunities for development and ensuring best employee experience underpinned by our values and business principles.

Education for communities

We have made increasing access to quality educational infrastructure and opportunities one of our priorities when designing community initiatives.

1. Based on an independent research by IPM Georgia conducted in autumn 2022.

Engaging with our stakeholders for shared success

Customers

Customer-centricity is one of our business principles and one of the key enablers of our success. We are committed to serving our customers responsibly, considering their best interests, fulfilling a variety of their needs, delivering positive experiences across touch points, and engaging with them regularly to learn from their feedback.

What do they tell us?

We engage with our customers in a variety of ways, including:

- Running regular surveys – telephone surveys, e-mail surveys, focus groups and NPS surveys (internal and external).
- Analysing real-time feedback received in Medallia – a leading customer experience management software we have been using since 2019.
- Analysing customer complaints and interacting with clients during the 'close-the-loop' process.
- Our bankers and relationship managers interacting with our clients

and supporting them with advice on financial wellbeing and different banking products or services. Such interactions also provide insight into customer wants, concerns and expectations.

Customers want:

- A smooth, fast and secure payment process, including payments through POS, self-service terminals or digital channels.
- Simplicity of procedures, products and services.
- More services and actions available in digital channels.

How do we respond to them?

We continue to enhance our digital value propositions by simplifying and improving the user experience and functionality of our retail mobile app and internet banking platforms. To increase and simplify digital interactions we use chatbots and live chats. We continue to add new products and functionalities relevant for our clients, and to simplify the daily banking process so they can do what they need in a few

clicks – wherever they are. We also invest in our payments business, and in 2022 Google Pay was introduced. To improve the experience for our merchant clients, we rolled out an instant settlement process so that payments are now instantly reflected on merchant accounts. This functionality is used by 97% of our merchants.

Employees

Our employees drive the success of our organisation, and we aim to be employer of choice for top talent – ensuring fair employee practices and equal opportunities for personal and professional development, and building the kind of culture that underpins long-term value creation.

What do they tell us?

We have a variety of communication channels to ensure we listen and consider different perspectives in decision-making, including employee satisfaction and engagement surveys, and personal interviews. We also ensure our employees can directly and openly communicate with the Bank's senior leadership and the Supervisory Board, including through:

- town hall meetings with the CEO and Executive Management;
- CEO vlog on Workplace and periodic live sessions with Q&As on current developments; and
- Employee Voice meetings with the Supervisory Board, held since 2018.

In 2022 we ran the Korn Ferry survey:

- 78% would recommend our company as a good place to work.

- 81% believe the Company values and promotes employee diversity.
- Overall, employee engagement was 70% and employee enablement was 73%, in line with high-performing organisations benchmarks.

Employees also shared what they would like to see us improve:

- 29% would like to receive clear and regular feedback on how well they do their work, and want opportunities to achieve their career goals at the Company.
- 23% would like to have better training to enable new hires to succeed in their roles

How do we respond to them?

In 2022 we undertook several initiatives, including:

- job levelling and career mapping completed for all positions at the Bank;
- hybrid work made available for back office employees;

- Key performance indicator (KPI) module integrated into the employee portal to strengthen the feedback culture and make decision-making more transparent; and
- training on effective feedback delivered to managers.

Investors

Our ongoing engagement programme with both equity and fixed income investors is instrumental in understanding our owners' and lenders' priorities. We aim to align our long-term strategic priorities with those of our investors, and minimise the cost of our equity and debt funding. Maintaining transparent and regular communication is a fundamental part of our investor engagement process.

What do they tell us?

We have a comprehensive investor engagement programme. In 2022, this included the Chairman, Independent Board Directors, the Chief Executive Officer, the Chief Financial Officer, and other senior members of management and the Investor Relations team. Throughout the year we engaged with more than 350 institutional equity and fixed income investors, and participated in more than 20 investor conferences and roadshows. A number of topics were top of mind for the Group's investors, including:

- The impact of the regional geopolitical and macroeconomic environment on Georgia and Bank of Georgia. As events evolved, investors asked about the

impact of the relocation of a significant number of individuals and businesses to Georgia, which supported the unexpectedly strong macroeconomic growth during 2022.

- The Group's approach to capital allocation, balancing growth expectations with potential capital returns to shareholders.
- The development of customer franchise and how Bank of Georgia's leading digital and payments capabilities supported the Group's competitive position.
- ESG matters, the management of climate-related risks, and the Group's social impacts.

How do we respond to them?

Our Chief Executive, Archil Gachechiladze, met with our largest institutional shareholders, highlighting the Bank's leading position in digital banking and its focus on customer-centricity, the high quality of the Bank's balance sheet, and its strong profitability.

Our business growth and profitability enabled the Group to enhance its capital repatriation policy, in line with investor wishes, to include the introduction

of a share buyback and cancellation programme, which started in 2022.

Mel Carvill, our new Chairman, participated in a number of introductory meetings with some of our largest shareholders.

We also continued to develop our ESG agenda, building on our 2021 ESG materiality assessment and the launch of the Bank's climate action programme.

Communities

Delivering long-term value depends on our continuous engagement with different individuals and groups that represent our communities.

What do they tell us?

We interact with a wide range of stakeholders in our communities, both face-to-face and via social media. We use 'Ideathecas' – the multifunctional libraries in schools designed with Bank of Georgia's support – to meet school children and teachers in remote areas. We sponsor various scholarship and education competitions, where we have a chance to meet hundreds of young people. Social media activities enable us to receive feedback from the wider population.

How do we respond to them?

To provide access to books and modern technology to students living in Georgia's remote areas, we continue to open multifunctional libraries (Ideathecas) across Georgia, adding seven new Ideathecas in 2022. We have continued to sponsor scholarships, including the Fulbright and Chevening scholarships.

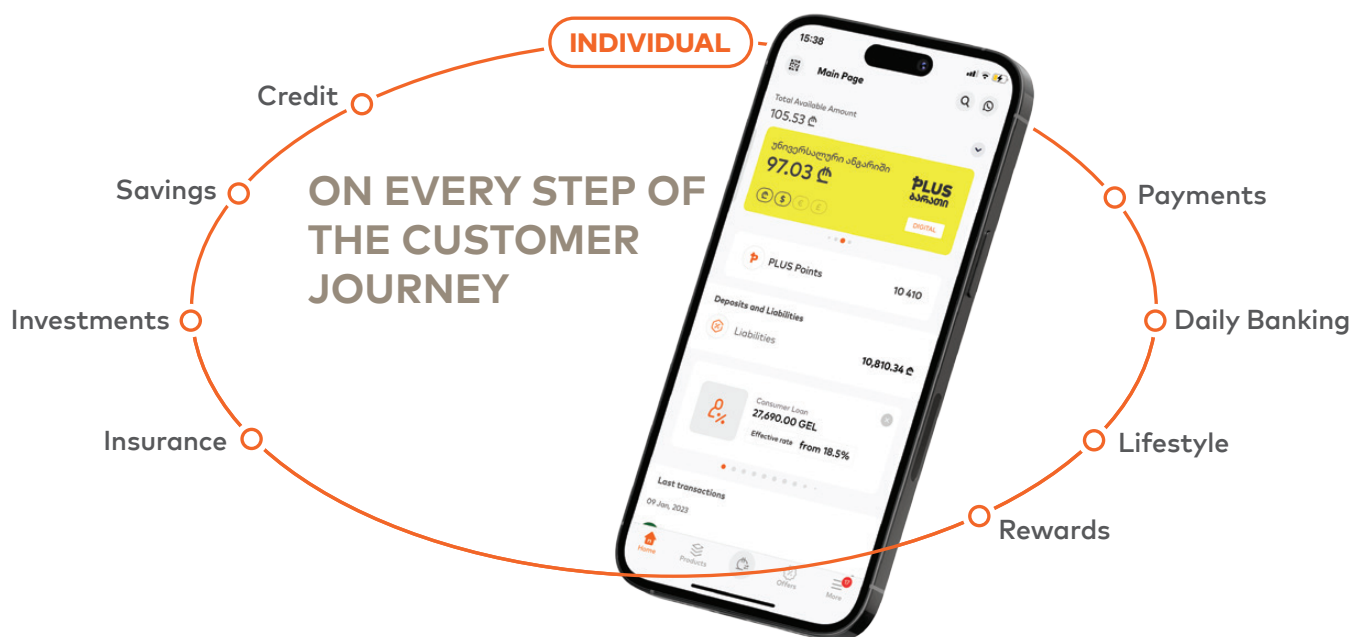
As access to education in communities is one of our impact focus areas, we receive many inquiries regarding educational opportunities for students. As a leading organisation in Georgia, we are expected to support people in the communities where we operate.

Additionally, in 2022, people asked us to provide a simpler way to help Ukrainian people.

To support Ukrainian people, we enabled everyone to donate money without a banking commission. The donations were transferred to the Red Cross. More than GEL 1.8 million was donated, out of which Bank of Georgia's contribution amounted to GEL 500,000.

YEAR IN REVIEW – EMPOWERING INDIVIDUALS

Fulfilling customers' financial and lifestyle needs



We serve a diverse retail customer base – from school students, university students and young professionals to self-employed, mass affluent and high-net-worth individuals – and are now playing an even bigger part in people's lives. We enable the fulfilment of their daily financial and lifestyle needs through a suite of products and offerings embedded into our financial super app (mBank) – the one app customers use to manage their entire financial lives – and provide tailored solutions and guidance during key moments.

Customer needs evolve and change with time, and different customer segments have different priorities. A school student wants to do a quick money request, while a young professional starts thinking about buying an apartment and investing for the future. And, while priorities and preferences differ from client to client, they all expect transparency in the way we communicate with them and a great customer experience.

During 2022 we enriched our products and offerings and continued to focus on providing an excellent customer experience across channels, but with a strong focus on the app as the go-to channel of the future.

We grew the number of monthly active retail clients by 17.1% y-o-y to 1.6 million as of 31 December 2022, with the share of active clients using our mobile and internet banking platforms at 69%, up from 61% a year ago.

1.6M

Monthly active individuals

+17.1% y-o-y

1.5M

Mass Retail

+16.4% y-o-y

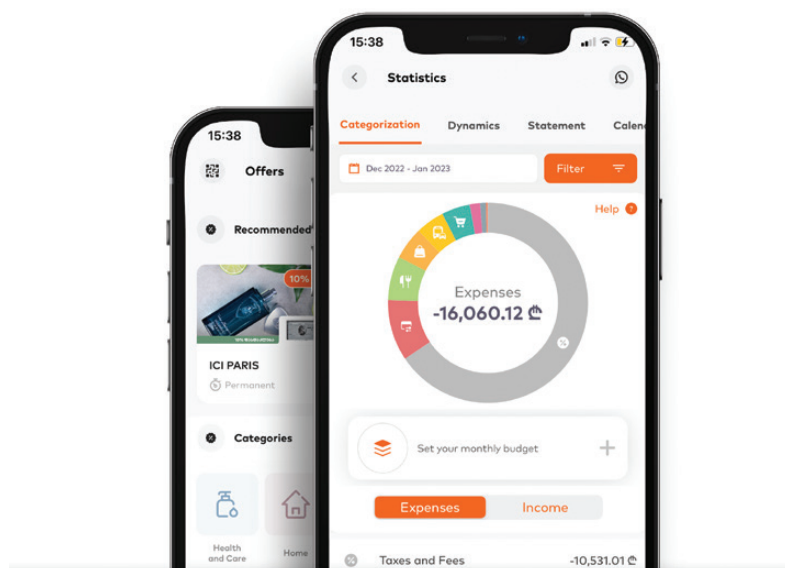
91.5K

Premium Banking
(SOLO and WM)

+30.5% y-o-y

Our financial super app (mBank)

Our financial mobile app – mBank – is a highly rated and popular financial application in Georgia, with more than one million monthly and more than half a million daily active users.



4.8 ★



4.8 ★

Customer satisfaction score (4Q22)

89

(87 in 4Q21)

Works without WiFi and mobile data

Quick customer digital onboarding process

Highly rated among global fintechs

For detailed KPIs of our digital channels, see page 54.

Sometimes it is more convenient for our retail customers to do things at their desktops, and for this, we continuously develop our internet banking platform – iBank – which mostly reflects the features and products of the mobile application.

What we did in 2022



SUBSCRIPTIONS

New service bundles for Mass Retail customers launched and made available in the mobile application. SOLO clients can now view their subscription package and all the benefits in the mobile application.



CHATBOT

Artificial intelligence (AI)-based virtual assistant with enhanced functionality, capable of conducting more than 20 tasks, including exporting account statements, checking balance, and blocking and unblocking cards. Closes around a third of all customer inquiries. In addition, we have a chatbot on our internet banking platform.



FRAUD MANAGEMENT
SOFTWARE

AI-based engine that analyses customer behaviour and detects potential fraud.



TRAVEL INSURANCE

Selection of travel insurance offers from four insurance providers.



Added a dedicated space for Buy Now, Pay Later (BNPL) offers. Customers can now view and activate their BNPL limits through the mobile application.

BUY NOW, PAY LATER



Customers can link any BOG card to a public transportation package and use their card to ride on public transport.

PUBLIC TRANSPORTATION

Our objective is to ensure our mobile app and internet banking platform are our main sales channels, and we are focused on improving the user experience and simplifying processes so that it is easy and convenient to use these channels for product activations. Although we increased the share of product sales through digital channels to 44.1% in December 2022 compared with 30.5% in December 2021, thanks, in part, to redesigned deposit products, we still have further upside in this area, and this is one of the KPIs that we will continue to monitor closely during 2023. Currently we are working on improving the card activation process in the app and internet bank. Customers can receive a digital card instantly, but many customers still prefer to get a physical card, and they tend to use branches to collect their cards. We are aiming to improve the card delivery process so that the convenience of walking to a local branch is substituted with an instant mobile experience.

Our vision of the financial super app we are building revolves around customers' needs, which go beyond daily transactional banking and core banking products such as deposits and loans. Over the past two years, we have added a number of non-banking financial products to our mobile app that has supported the strong growth of digital customers. However, we are yet to unlock more benefits of these products and increase their adoption in areas such as the insurance marketplace or retail brokerage. 2023 will be the year of increasing focus on customer engagement within our mobile app.

The quality of our mobile application and superior user experience have been recognised globally. We won Global Finance's World's Best Consumer Digital Bank 2022 category. Our super app initiative has also been named Best Digital Initiative by the InformaConnect Banking Tech Awards.



Global Finance

World's Best Consumer Digital Bank

Best Online Deposit, Card and Investment Product Offerings in Central and Eastern Europe 2022 (Consumer)

Best Mobile Banking App in Central and Eastern Europe 2022 (Consumer)

Best in Lending in Central and Eastern Europe 2022 (Consumer)



InformaConnect Banking Tech Awards

Winner: Best Digital Initiative: Bank of Georgia – SuperApp

Highly commended: Best UX/CX in Finance Initiative: Bank of Georgia – Design System

Daily banking

Bank of Georgia is a leader in retail daily banking solutions, with more than half a million people using our mobile application and internet banking platform every day and thousands of payments executed with our cards and in our acquiring network every hour. We continuously develop our products and services to turn daily interactions with

our clients into positive experiences that are fast, straightforward, and hassle-free. Our digital platforms enable clients to perform a variety of daily tasks – including sending or receiving money, paying bills, tracking spending, setting up automated payments and doing currency conversions.

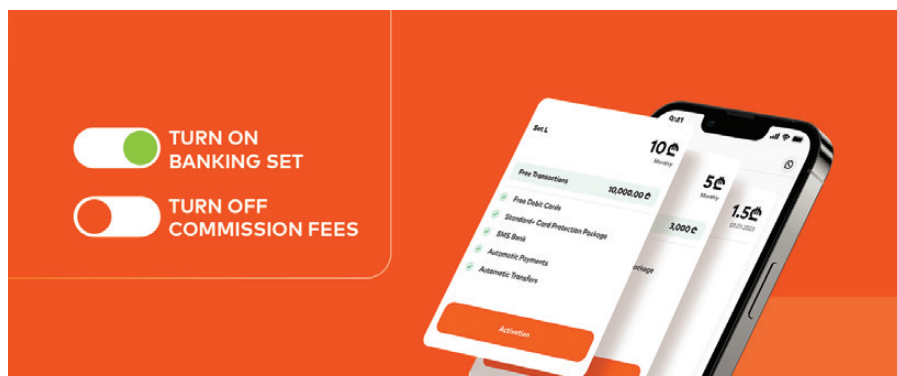
In 2022, we launched subscription sets and a payments webpage – bogpay.ge – to make daily banking even more convenient.

Subscription sets

In 2022, we introduced subscription sets for our Mass Retail customers, tailored to their needs and behaviours. A subscription set gives customers a bundle of products and daily banking services for a fixed monthly fee – avoiding the hassle of tracking and understanding individual transaction fees and increasing transparency of use.

The bundle includes:

- A multi-currency account.
- Free plastic and/or digital card.
- Free mBank/iBank services.
- Free SMS services.
- Automated payments and transfers.
- Free digital transfers, payments and ATM withdrawals within the predefined limit, depending on the type of subscription.



We offer three types of subscription sets, with the main difference between them being the free transactions limits.

Clients can activate, upgrade or disable a subscription set through mBank/iBank.

We launched this product by the end of November 2022, and as at 31 December 2022, 39K clients had an active subscription set.

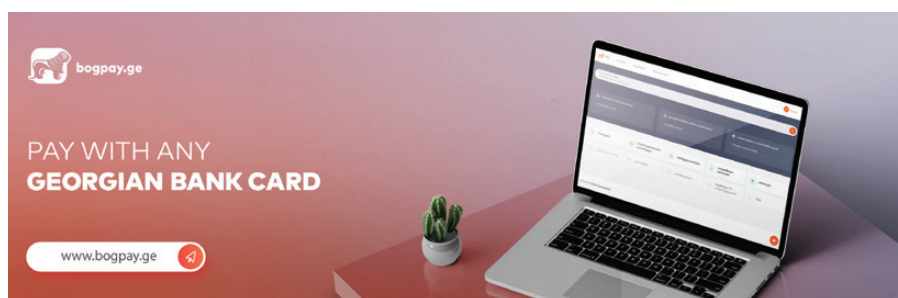
Our SOLO business model has always been subscription-based, bundling financial and lifestyle services for clients for a fixed monthly fee. Until 2023, SOLO offered two options: SOLO and SOLO Club at a higher monthly fee, which includes additional privileges such as a personal assistant service. In early 2023, we launched a third option: SOLO X, tailored to those clients who want to

benefit from SOLO's lifestyle proposition without needing the full-blown SOLO service and a personal banker. These clients are comfortable doing transactions digitally without additional support. With SOLO X, we believe we can serve a larger customer pool and provide lifestyle benefits to more clients.



bogpay.ge

In 2022, we created bogpay.ge – an online version of our physical BOG Pay terminals, enabling people to pay for up to 500 services. Customers can pay online using any Georgian bank card – as well as Bank of Georgia's PLUS points – and the payment is reflected on a provider's account instantly.



Payments

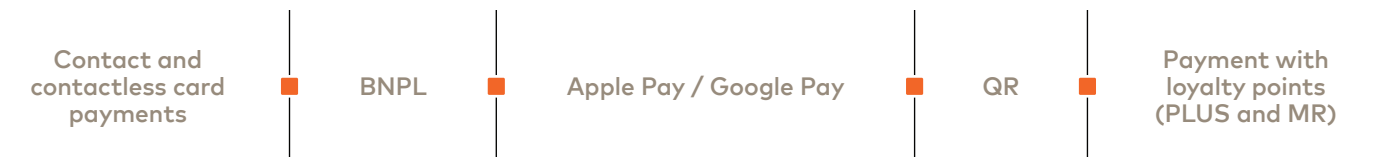
Our clients want a fast and frictionless payments experience – where they can simply tap to pay in-store or use their

loyalty points to pay in-store and online. We believe cashless payments benefit people – not just because it is easier and

safer when you do not handle cash, but also because paying with a card opens up other possibilities, including:

- Rewards such as cashback, discounts, and more loyalty points.
- Greater visibility of our customers' needs and preferences, enabling us to make more personalised offers.
- Greater control over personal finances, giving people a clear and full view of where and how they spend their money – so they can better manage personal finances. The Personal Finance Manager is available in our financial mobile app.

For our retail clients, we offer a variety of payment methods:



Google Pay was introduced in Georgia in November 2022. Our customers can activate **a free digital card instantly through our mobile app** or our internet banking platform. They can add the

card to their wallet and start making payments right away.

Last year we noted that one of the metrics we track to understand the use

of cashless payments is what we refer to as **Payment MAU – customers who used our cards for payment at least once during a month.**

609K
Dec-20

782K
Dec-21

1,040K
Dec-22

We have increased not only the absolute number of monthly card users, but also the share of such customers in total active individual clients – from 48% two years ago to 64% in December 2022.

We also track the share of income received by our customers that is being cashed out. In 2022 this figure was 61%, versus 39% for card transactions. Our goal is to increase the share of income that customers spend with cards versus cash.

To incentivise cashless payments, we enrich our payments solutions to give our customers a smoother payment experience and more benefits.

In 2021, we rolled out PLUS – the first American Express debit card project in EMEA and the second globally. The PLUS

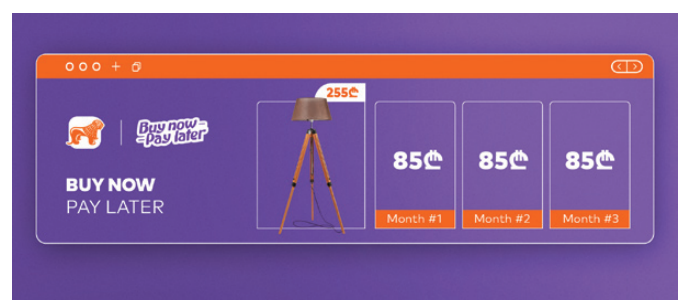
card lets us transfer more benefits to our customers (for example, more cashback and discounts), especially

in daily spend categories, thanks to lower transaction costs.



During 2022 we also enhanced our **Buy Now, Pay Later (BNPL)** offering for online shopping. We rebranded BNPL as a payment method and redesigned the

product activation flow. Our customers can now activate and see their BNPL limits in the mobile app, and see the list of merchants where they can use BNPL. As



at 31 December 2022, BOG's BNPL was offered at more than 50 merchants for online shopping.

Lifestyle and rewards

One of the key enablers of increasing cashless payments and customer stickiness is Bank of Georgia's loyalty programme, within which our clients accumulate PLUS points as they pay in BOG's acquiring network (physical POS and online). Clients get different status levels depending on their activity with the Bank, and higher status level means greater benefits.

We changed the programme in 2021 to enable customers to upgrade their status if they carry out more payments. Before this, only product use counted towards status upgrades, and our objective was to incentivise cashless payments and make the programme benefits more accessible to more clients.

Our objective is to increase the use of PLUS points. During 2022 we expanded our network of partner merchants where PLUS points could be used as a payment method. In our mobile app we also added the GEL equivalent below PLUS points, so clients know right away how much 'money' they have available to spend.

As at 31 December 2022, around 8,000 partner merchants accepted PLUS points, compared with around 250 at the start of the year. In total, Bank of Georgia had

14.5K active merchants in its acquiring network at the end of December 2022.

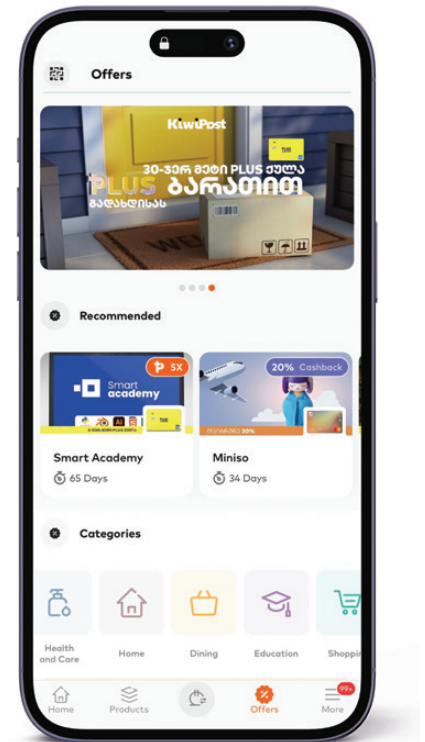
We offer a variety of benefits to our loyalty programme members – discounts, cashback and PLUS points. One of the main aspects of the value proposition is the personalisation of lifestyle offers.

Throughout 2022, we had around 300 PLUS card-related offers and more than 200 offers tailored to sCool Card and Student Card holders.

During 2022 we continued to enhance the Offers Hub – a dedicated single space for lifestyle offers from partner merchants in our financial mobile app. The Offers Hub is powered by our recommendation engine, which automatically analyses customers' preferences based on their behaviour across different touchpoints and delivers relevant offers. The Offers Hub is one of our key tools for growing customer engagement.

Bank of Georgia's lifestyle offers are tailored to the needs and preferences of specific segments, and we have special offers for sCool Card holders, Student card holders, and Premium Banking (SOLO) clients.

In 2022 we launched a dedicated web page – offers.bog.ge – so customers can look for offers based on their interests, and filter based on card and offer type.



A snapshot of 2022 lifestyle offers from our partners

738

Total offers (excl.
SOLO-specific ones)

683

SOLO-specific offers

Unique customers who
exchanged PLUS points at
least once

486,761

+28.4% y-o-y

Value of PLUS points exchanged

GEL 25,212,509

+82.8% y-o-y

PLUS

Unique customers who
exchanged MR points at least
once

15,551

+11.3% y-o-y

Value of MR points exchanged

GEL 4,913,114

+22.7% y-o-y

AMEX

Lifestyle experiences for SOLO clients

In addition to lifestyle offers from our partners, SOLO's unique value proposition includes lifestyle experiences for our premium segment customers. We continuously expand SOLO lifestyle offers

in the travel, entertainment, education, and wellbeing categories to sustain customer stickiness and the strength of the SOLO brand.

During 2022, we held around two SOLO events per week – 92 in total. More than 2,000 SOLO customers participated in these events.

37
SOLO Talks



13
SOLO Hobby



2
SOLO Workshop



31
SOLO Kids



9
SOLO One to One

Unique experiences for SOLOs

Through SOLO we give access to exclusive products and the finest concierge-style environment at our 11 specially designed SOLO lounges located across Georgia. SOLO is a unique banking concept in one space, combining privileged financial and advisory services and unlimited lifestyle experiences. At SOLO lounges, personal bankers serve our clients and, in addition to providing banking solutions, offer luxury goods and other lifestyle experiences, such as exclusive events, concerts of world-famous artists, special travel tours, the SOLO boutique, exclusive benefits, and other hand-picked lifestyle products and services. This unique blend of banking and lifestyle offerings sustains the strong interest in the SOLO brand.

As at 31 December 2022, SOLO served around 90K active customers, up 30.7% y-o-y, reflecting the ongoing popularity of this brand. SOLO Club, a membership group within SOLO, which was launched in 2017, offers exclusive access to SOLO's products and offerings ahead of other SOLO clients, at a higher fee. One such exclusive product is American Express Platinum card, available only to SOLO Club members. Since 2019, SOLO Club members have also enjoyed the benefits of a personal assistant service for lifestyle offerings.



Insurance marketplace

We launched insurance marketplace in 2022 in our mobile application, enabling our customers to choose among third-party insurance offerings and purchase insurance in the app.

We now have two types of insurance offerings: third-party auto insurance and travel insurance.

During 2022, the share of digital activation of these two types of plans stood at 19%.



Investments

At the end of 2021, Bank of Georgia, together with the Group's subsidiary JSC Galt & Taggart (G&T) and in partnership with a US brokerage house DriveWealth LLC, launched a retail brokerage platform – BOG Investments – in Bank of Georgia's mobile application, enabling access to the US stock market. BOG Investments offers our retail customers low-cost trading and even fractional trading options. In 2023 we aim to enhance existing functionalities and add new features that will give clients tools to manage their savings more effectively.

In addition to BOG Investments, G&T offers brokerage solutions through two accounts: execution brokerage – an offline brokerage account with personal broker services, and G&T Trading solution through trader.ge – a white label solution in partnership with Saxo Bank. Through these accounts we provide access to more complex products to affluent and

high-net-worth individuals and more experienced investors, including legal entities.

We see substantial potential in retail brokerage in Georgia over the medium term as the share of investment securities in households' financial assets is below 5%. However, this type of product is new to the market. Since its launch, we have mostly focused on increasing awareness of investments, the associated risks and benefits, and other financial topics. Going forward, we will continue the distribution of educational content and work on enhancing the functionalities of the product itself to increase its adoption.



To promote investing and general financial literacy in 2022, we primarily used three channels: media, our own social networks, and events. We collaborate with leading business media companies in Georgia that enable us to actively provide educational content and

an overview of financial and economic developments, including updates on global financial markets. G&T also frequently publishes financial articles on its website, written by its analysts. During 2022 we hosted events, including SOLO talks, to discuss investments.

We also held interactive sessions at Georgian universities. We will continue to collaborate with various outlets to help develop financial and investment literacy among our customers and the wider population.

Media

1.2K

Written pieces

120 TV

Business channel visits

Social network

170

Posts

2.1M

People reached

Events

25+

Events

Credit

Bank of Georgia's core business activity is lending. We aim to create simpler end-to-end customer journeys for loans, increasing access to finance while doing so responsibly, in line with the Bank's risk appetite and underpinned by prudent risk management practices.

In 2021 we redesigned the unsecured consumer lending flow in digital channels, and the share of these loans sold digitally increased from 37% in December 2020 to 64% in December 2022.

Throughout 2022 we worked on a number of lending process improvements. One of the major changes happened in the lending process for individuals with income sources from self-employment or unofficial employment. While this type of individuals mostly behave as typical retail customers, we did not have a straightforward process to serve this segment and did not offer typical retail products, such as consumer loans or instalments, to them. In 2022 we redesigned the process so that self-

employed individuals can now access a broad range of credit products in digital channels.

The process of income validation is also fast and simple – we determine the amount of income using a predetermined matrix, and the professional activity is being validated by a video call or/and, if necessary, a site visit and a more detailed study of the field of activity.

Given that self-employed people often have seasonal income, we can offer income-based payment schedules to help our customers with loan servicing.

As at 31 December 2022, we had 46K self-employed borrower clients. Our goal is to increase access to finance among self-employed individuals. By the end of 2023, we aim to have 57K self-employed borrower clients.



Savings

During 2022 we changed the terms for some of our savings products to make them more flexible and accessible for our customers and to incentivise the use of our digital channels:

- We removed the minimum opening amount on demand deposits.
- We removed the deposit opening fee in digital channels.

In 2022, we also added a money box (digital piggy-bank) as a separate product to our digital channels. Previously, customers could have a money box only linked to a deposit. Now, customers can open a money box independently of a deposit. It can be a current account where our clients can save some money from

every payment they make. Money box can be de-activated and activated at any time.

To incentivise the use of digital channels, we are offering higher rates on deposits opened through our mobile application. The share of deposits activated digitally was 39.1% in December 2022, compared with 29.0% a year ago.

For Premium Banking (SOLO) customers we have an upgraded savings product, 'Premium.' SOLO clients receive a higher return on this deposit, with rates linked to the monetary policy rate.

As at 31 December 2022, 286K Mass Retail and Premium Banking clients had an active time deposit, up 1.9% y-o-y.

As at 31 December 2022, 119K customers had an active money box as a standalone product.



Empowering young people

sCoolApp

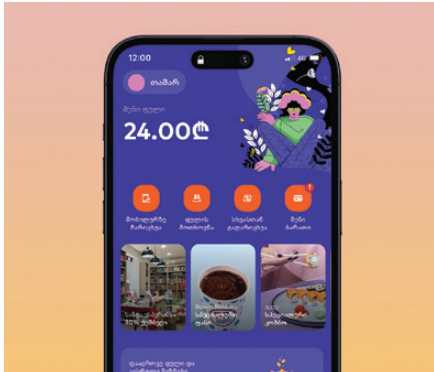
We believe financial inclusion starts in childhood.

Around 625K school students live in Georgia – more than 50% of them live outside of Georgia's capital, Tbilisi. Our

priority is to onboard more of these young people, making sure they become part of the formal financial system, teaching them financial literacy skills, and supporting them with simple daily banking solutions and a variety of

relevant lifestyle offers. We offer a free account and a daily banking card, sCool Card, to school students, complete with a recently launched mobile app – sCoolApp.

sCoolApp is the first financial application for young people in Georgia. Launched in October 2022, it keeps young people safe with our end-to-end security, spending alerts, custom limits and in-app card controls.



Money box (digital 'piggy bank')

Money request

Special offers

Different skins for app

sCoolApp is becoming popular, with 33,167 monthly active users in December 2022. Our target is to finish 2023 with 70,000 monthly active users.

sCool Card



Can be ordered on our website or through the app

Free card

Free SMS, mobile and internet banking

Free public transportation in Tbilisi and Rustavi;
discounts in Zugdidi and Batumi

No fee on BOG ATM withdrawal

Loyalty programme: accumulation of sCool points

Special offers: discounts, cashback, more loyalty points at select partner merchants.

We usually have around 30 active lifestyle offers for school students each month. Some are education-related, including discounts on educational courses/

trainings, special offers from book shops and publishing houses. In 2022, more than 14K school students used educational offers.

Active sCool Card holders
(Dec-22)

88K

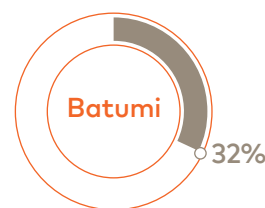
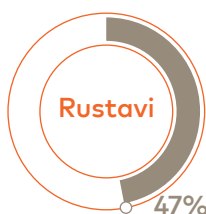
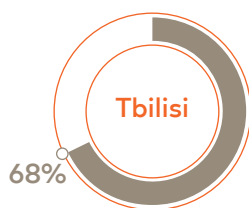
+118.0% y-o-y

Active users of sCool Card
for payments (Dec-22)

64K

+179.0% y-o-y

Reaching school students in Georgia's regions



Share of total number of pupils having a sCool Card

To increase financial literacy among the youth, together with the National Bank of Georgia, we participate in Global Money Week Challenge – where we have reached more than 4,500 children. We have

also held talks on financial topics in Ideathecas – multifunctional libraries we sponsored in Georgia's regions.

In 2022, we also sponsored the Komarovi School STEM camp, which included lessons on economic topics in different

schools. In 2023, we plan to expand our focus on financial education and will create video tutorials and instant experiences of banking products, as well as guides and savings recommendations.

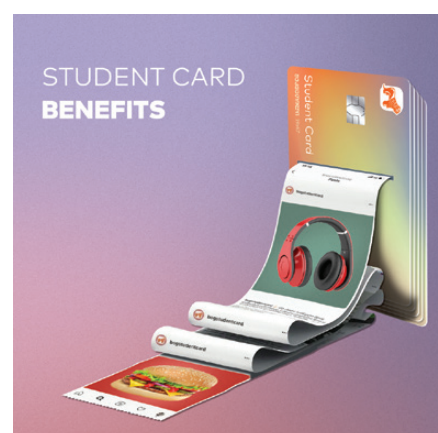
Students

Onboarding and increasing engagement with university students in Georgia is one of our priorities. Our value proposition for students includes a free Student Card and daily banking services, public transport benefits, and special offers throughout the year from partner merchants.

According to an independent third-party research, we are the most trusted and top-of-mind bank for young people aged 18-24 in Georgia¹. Everyone in this age group is aware of Bank of Georgia.

Ten Georgian universities are enrolled in Bank of Georgia's payroll programme. Bank of Georgia's partnerships with universities enables us to reach more students and involves different activities, including:

- Distributing student cards directly from university buildings.
- Financial support in organising student graduations and anniversaries.
- Designing student spaces.
- Short-term internship programmes for students, along with 'Leaderator' – Bank of Georgia's flagship programme for motivated undergraduates.



Monthly active Student Card holders (Dec-22)

169K

+25.7% y-o-y

Monthly active digital users (Dec-22)

161K

+26.9% y-o-y

Monthly active users of Student Card for payments (Dec-22)

125K

+26.9% y-o-y

1. Based on fall 2022 independent research by IPM Georgia.

YEAR IN REVIEW – EMPOWERING BUSINESSES

Fulfilling business customers' needs



We serve a variety of business clients, including micro businesses, small and medium-sized enterprises, and large corporations. We understand that there is no 'one-size-fits-all' approach to address the needs of each business client because business needs and attributes differ, depending on the business model, size, complexity of operations, operating and financial environment and a variety of other micro factors. Needs also evolve as businesses grow and develop. Bank of Georgia aims to be a 360° trusted partner

for businesses in Georgia, support them at different stages of their development through a suite of products and services, including third-party solutions, and deepen customer relationships and engagement.

Bank of Georgia provides not just financial services, but also value-added services, including consulting and access to education. We engage with our business clients in a variety of ways, from dedicated relationship managers

and a dedicated business branch, 4B, to our digital channels – Business mBank and iBank.

Throughout 2022, we enhanced our processes, providing our clients with faster access to finance, fostering their growth, and offering tailor-made solutions. As a result, we have grown the number of active business clients during 2022 by 26%.

81K

Monthly active business clients

+25.7% y-o-y

3K

Corporate Banking

+17.0% y-o-y

78K

MSME

+26.2% y-o-y

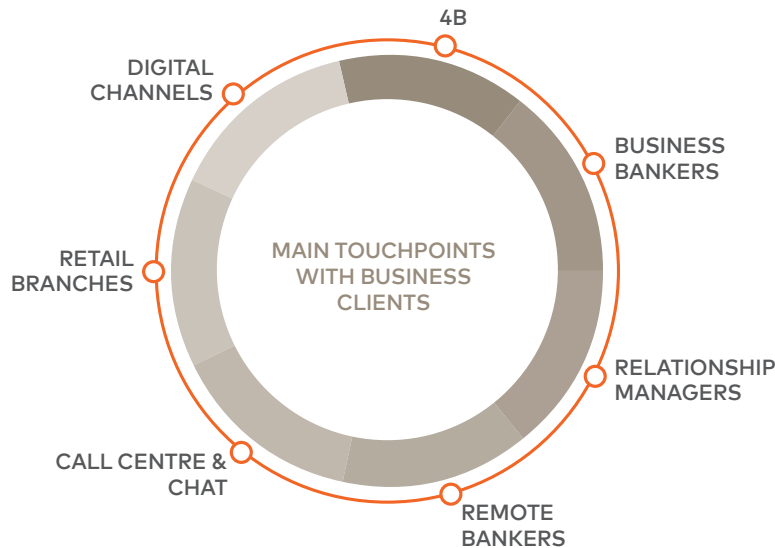
Coverage of business clients

We serve our business clients through multiple channels and touchpoints, aiming to provide a superior digital experience and excellent customer care.

For MSME clients, we have dedicated relationship managers who take a

holistic view on clients and are focused on providing end-to-end support for business development or bankers covering a portfolio of clients, focused more on supporting clients in their banking needs. Based on certain criteria, other clients are served by remote bankers, or fully through

digital channels. In 2020, we opened a special business branch, 4B, designed to create unique experiences, including events and networking opportunities, for our business customers.



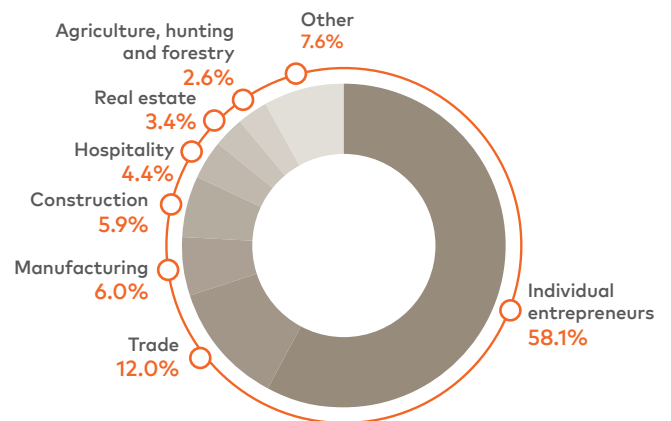
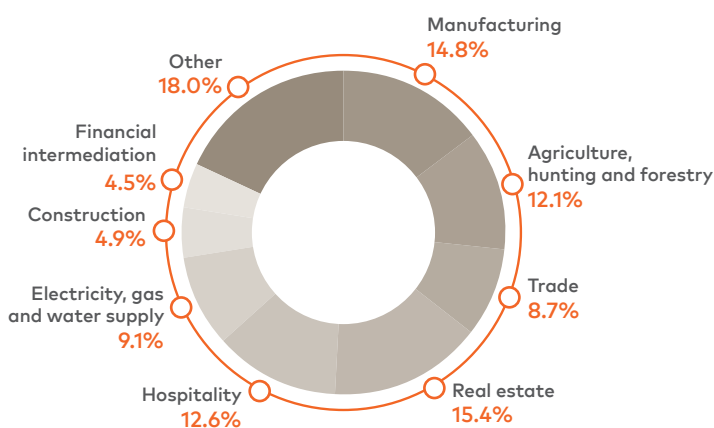
For big corporate clients, we have an established proactive customer coverage model led by a relationship manager. Our relationship managers are highly skilled professionals fully equipped with financial structuring tools and deep sector-specific

knowledge, able to offer quality advisory service. Strengthening sector-specific expertise is one of Corporate Banking's top priorities. In 2022 we created a construction sector-specific team in Corporate Banking (CB) that monitors

development and construction projects on-site. The formation of this team has led to improved oversight of ongoing projects and better financing of the real estate sector.

Corporate Banking gross loans by sector¹:

MSME Banking gross loans by sector¹:



While face-to-face interactions and relationships are often key to driving shared success in this customer segment, we continuously develop our digital platforms so that clients can carry out

daily tasks quickly and on their own, leaving more time for tailored advice and business support that they receive from the Bank.

In addition to support provided at the Bank, our business clients, especially big corporates, benefit from corporate advisory services of the Group's fully-owned subsidiary, G&T.

1. As at 31 December 2022.

Advisory services, business education and support

The most effective way to support our business clients, MSMEs and bigger corporates, is by pairing financial support with value-added services that drive success. This includes tailored one-on-one support, especially relevant in CB, where dedicated bankers with strong sector-specific expertise provide a portfolio of clients with expert advice and end-to-end support. For MSMEs, we have different

coverage models for different clients – some are served by dedicated relationship managers, while others are served remotely.

Irrespective of business size, we run a number of initiatives supporting clients in different ways – including capability-building programmes (for example, enhancing digital, marketing

and leadership skills), advice from experts on how to navigate the market, and introductions and networking opportunities. We believe that education, information sharing and professional network development are crucial during the entire business lifecycle.

A snapshot of our support in 2022

Advisory

We have built a network of quality advisory service providers, available to our clients for free or at a significant discount.

70 professional consulting firms involved.

171 MSME clients benefitted.

Information sharing

Webinars

18 webinars attended by around 4,000 businesses, covering relevant macroeconomic and business topics including financing options, export strategies, accounting practices, digital accounting, human resources (HR) strategy. Webinars were open to all Bank of Georgia customers.

Business advice

In 2022 we started a social media series called **Business Advice**. In short videos, business managers share their insights and experience. We published five videos in 2022 and plan to continue this series in 2023.

Galt & Taggart research:

G&T publishes **weekly, monthly and quarterly insights and analyses** related to global and local macroeconomic development as well as sector-specific reports. G&T also provides reports tailored to clients' needs, including analyses on investment opportunities.

In 2022, **G&T enhanced its weekly global equity markets analysis**, providing weekly updates on developments in key economies and global equity markets, and **organised several conferences/meetings** for clients.

G&T published **more than 100 reports** (available at <https://galtandtaggart.com/en>), **reaching 8,000 unique subscribers**, and enlarged its custom research client-base – with projects commissioned by international development organisations.

Education

We continued to develop our educational platform – businesscourse.ge.

31 courses are now available on this platform. **14 new courses** were added in 2022.

Courses cover topics including ESG, human capital development, digital marketing, exports, sales, finance and accounting.

9,000 business managers used the content on this platform.

Business development

Export and sales programme (together with USAID)

We organised a trade mission in Uzbekistan for **11 Georgian ICT companies** interested in exporting their services, and they had the opportunity to network with more 50 Uzbek companies.

Digitalisation

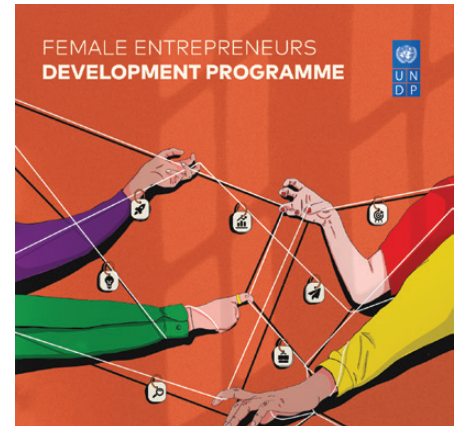
We continued our partnership with Visa and a Group's subsidiary JSC Digital Area, **helping 40 women-owned businesses** digitise inventory management and sell on e-commerce marketplace extra.ge **(60 businesses participated in this programme in 2021).**

85 of participating businesses (most of them operating in production of jewellery, toys, clothes and crafts) still continue to use these digital platforms.

Empowering women entrepreneurs

In the beginning of 2022 we signed a memorandum with the United Nations Development Programme (UNDP), committing to individually coach 200 women entrepreneurs. Throughout the year **70 women entrepreneurs** from the production, education, HORECA, and healthcare sectors – **85% of which had a registered business** – were involved in the programme. It comprised online trainings, five-day offline sessions in marketing, digital marketing, financial management, leadership, sales management, and individual coaching.

In December 2022, together with the European Fund for Southeast Europe (EFSE), we started a new project for women entrepreneurs, in which successful women entrepreneurs share their experience. We had a session in digital sales and marketing moderated by the founder of Phubber – a digital marketplace connecting buyers and seller of fashion items and a 500-Georgia participant – and we plan to continue the project in 2023, inviting speakers to empower women to digitise their businesses.



Corporate advisory and DCM/ECM support through Galt & Taggart

G&T provides financial advisory services to private and public companies, private equity houses, and high net-worth individuals in both domestic and cross-border transactions. In 2022, G&T's corporate advisory unit was involved in the Capital Market Support Programme funded by the European Union (EU) and implemented by the European Bank for Reconstruction and Development (EBRD)'s Capital & Financial Markets Development team. This programme intended to raise awareness of capital markets, develop incentives for companies to access capital markets, and implement a mechanism to co-finance costs related to capital markets access. During the

year, more than ten webinars and boot camps were organised on capital market topics. In addition, 21 companies from 12 different sectors were registered – 15 are potential new issuers, tapping the capital market for the first time. G&T also obtained M&A mandates for large local corporates in the real estate, FMCG, hospitality, and retail sectors.

G&T's DCM/ECM services include support in accessing local, regional and international debt, and equity capital markets. During the past ten years, the team has assisted local corporates and International Financial Institutions (IFIs) in raising GEL 3.2 billion bonds through the local capital market. G&T has also

acted as a co-manager for more than US\$ 2.3 billion Eurobonds since 2016. In 2022, G&T acted as a placement agent for seven corporate bonds amounting to around GEL 500 million – five of these corporates were Bank of Georgia's CB clients – and an IFI bond of GEL 100 million.

Fostering financial inclusion for MSMEs

One of the biggest obstacles MSMEs face when they need access to finance is a lack of proper accounting. Bank of

Georgia runs an Accounting Development Programme to help such businesses implement proper accounting practices

– enabling the Bank to access relevant financial information quickly for faster, more efficient decision-making.

Accounting Development Programme:

145 MSMEs have already participated in our Accounting Development Programme since it was introduced in 2022. The programme has three core components:

1. Digitalisation – giving our business clients discounted access to accounting software.
2. Full accounting services – helping our business clients partner with top local service providers to outsource their accounting.
3. Quick sharing of financial information with the Bank – integrating clients' accounting software with the Bank's internal systems.

This initiative has raised awareness of the role proper accounting software plays in facilitating business operations and, together with Visa and USAID, we have

made two **accounting software packages available for businesses that could not otherwise afford them.**

We have also collaborated with **Georgia's top accounting firms** to provide special opportunities to our clients.

Within the scope of our partnerships, Japan International Cooperation Agency (JICA) has enabled **ten women entrepreneurs** to implement good accounting practices in their companies, while Nexia TA helped them digitise their accounting, develop individual policies and minimise tax risks – **eight of these women-owned companies** have continued to collaborate with Nexia TA following the programme's completion.



Agro accounting

Primary production in Georgia is VAT-exempt, and the lack of tax obligation can translate into lack of reporting – leading to low transparency for both businesses and financial institutions. We have partnered with EFSE and Nexia's Georgian representatives to help

streamline the accounting process for **19 clients** in the agricultural sector.

Most of these businesses were startups, owned by young entrepreneurs. In collaboration with EFSE and Nexia, we helped train owners and managers

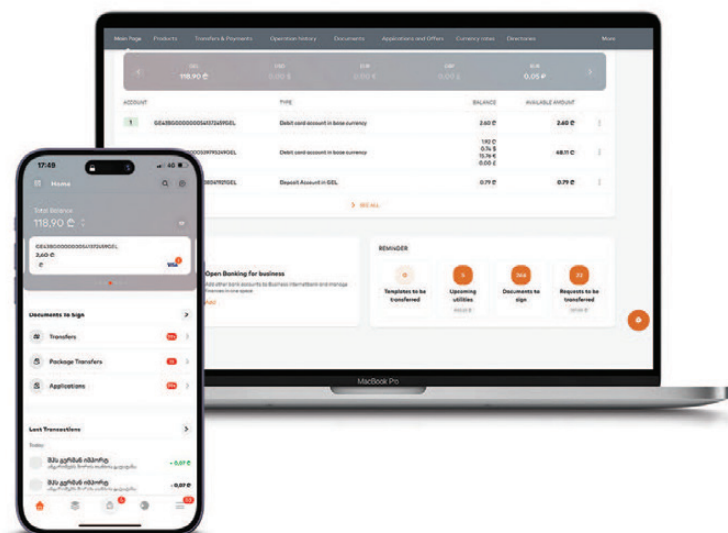
on sound accounting practices, and **five of these companies** have continued working with Nexia following the programme's completion.

Business mobile application and internet banking platform

71% of our monthly active business customers are monthly active users of our business mobile application and internet banking platform. More than a third of monthly active digital users

log into mBank and iBank daily¹. For business users, iBank has been a more popular platform because people who actually do the operations have preferred desktop views, but Business mBank has

also gained traction and is particularly relevant for business owners who want to have a full view of their business on the go.



MAU (Dec-22)

58K

+39.0% y-o-y

Number of transactions

14.8M

+37.9% y-o-y

Customer satisfaction score (mBank)

85 (4Q22)

(79 in 4Q21)

Customer satisfaction score (iBank)

82 (4Q22)

(73 in 4Q21)

What we did in 2022



POS TRANSACTIONS

Merchant view of all POS operations (online and offline) available in digital channels – piloted.



SME CREDIT LIMIT
ACTIVATION

Businesses can now apply for and activate a credit limit in Business iBank.



PERSONALISED
FINANCIAL OFFERS

AI-based personalised offers for businesses available in Business internet bank.

1. As at December 2022.



OPEN BANKING

Businesses can link other bank accounts to BOG's internet bank and get a 360° view of their financial assets.



DIGITAL CARDS

Digital business card is available and can be activated instantly from internet and mobile bank.



LOAN PREPAYMENTS

Businesses can prepay loans directly from Business mBank and iBank.



FRAUD MANAGEMENT SOFTWARE

AI-based engine that analyses customer behaviour and detects potential fraud.



Global Finance

The Best Mobile Banking App in Central and Eastern Europe for 2022 (Corporate)

Merchant solutions

We enable thousands of businesses in Georgia to grow their business in-store and online by accepting payments through a variety of innovative methods. Bank of Georgia has more than a 50% market share in terms of volume of payments processed throughout the country.

In 2022 we focused on enhancing the user experience and service quality for our merchants by providing solutions to the key issues they face – as shown in the table below. A better customer experience will lead to more merchants using our services to accept cashless payments,

helping facilitate the cashless economy and growing e-commerce in Georgia.

Merchant issues

How Bank of Georgia solved them

Complex onboarding process with cumbersome paperwork

Quick and frictionless onboarding – c.90% of merchants are on-boarded online, with POS equipment in most cases delivered **within one business day**.

Settlement delay

Instant settlement. 97% of merchants use this functionality to receive funds in real time.

Technical hardware and software glitches

Continuous SLA control to ensure proper functioning of our terminals. We measure merchants' satisfaction quarterly:
POS terminal CSAT was 76% in 4Q22 (up from 69% in 1Q22);
E-commerce CSAT was 73% in 4Q22 (up from 63% in 1Q22).

Lack of data and analysis to inform business decisions

We piloted a payments manager platform – simplifying and digitising daily operations to give merchants a full picture of transactions statistics – and a campaigns manager platform, helping businesses set up campaigns targeting preferred customer segments.

Complex online payments integration

Ready-made plugins for popular web platforms, allowing integration of payment methods within a few hours.

We offer a variety of online and offline payment solutions:

In store

POS terminal (standard, Android-based)

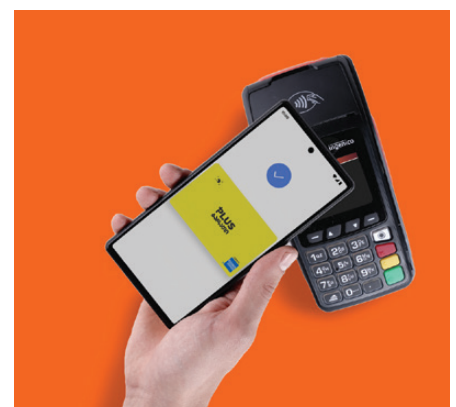
Diversity of payment methods including Apple Pay, Google Pay, all international payment cards, BNPL and loyalty points (PLUS/MR).

POS terminal with cash register

Two-in-one solution – cash register is integrated with POS terminal.

Soft POS terminal on any Android NFC device

Fully certified application for any Android phone, with 'PIN on glass' functionality and no monthly fee (we use a transaction-based fee model).



Online

All international cards	Loyalty points (PLUS and MR)	Apple Pay	Google Pay
BNPL	Instalments	Recurring payments	E-invoicing

Highlights of 2022

14.5K

Active merchants (total)

+26.8% y-o-y

467

Active e-commerce merchants

+30.4% y-o-y

GEL 10.2B

Volume of transactions in BOG's acquiring in 2022 (total)

+48.9% y-o-y

51.3% market share (Dec-22)

+6.7 pts y-o-y

Lending

Lending is one of the key enablers of profitable growth for our MSME banking business, and we have focused on digitising the customer journey and reducing touch-time to improve operational efficiency and customer satisfaction. We are continuously developing and improving our products and processes so we can make decisions faster and more effectively, and are moving more lending-related activity to digital channels.

In 2022 we started a project to incorporate pre-approved credit limits to our digital channels for our business customers, so that SME clients could see existing credit limits and activate a so-called fast loan digitally. Over the past few years, business clients have increasingly been using our mobile and internet banking platforms

for transactional banking, however, unlike in retail segments, the loan disbursement process happened offline through the branches. We are now moving away from a traditional way of loan disbursements and aim to increase product activations through our business digital channels. The addition of credit limits is our first and important step in this direction that will allow us to increase efficiency and customer satisfaction. In 2023, we will focus on enhancing this process and adapting it, as required, to specific needs of our clients in different economic sectors.

Other improvements throughout 2022 included the addition of a digital credit line activation functionality, so our SME clients do not need to call a banker or visit a

branch now. Customers can also pay their loans in advance through digital channels.

Within the framework of the Accounting Development Programme, we are working on integrating our internal systems with clients' accounting software to enable faster sharing of financial information, which will speed up the decision-making process.

State and special programmes

Bank of Georgia participates in a number of state-supported programmes enabling MSMEs to access credit products tailored to their needs, including the 'Preferential Agrocredit Project' and 'Produce in Georgia', which are based on the co-financing of an interest, and the 'State Guarantee Scheme', which provides credit guarantees.

We also partner with IFIs to fund lending to local businesses. Funding mechanisms include offering cashback and guarantees, and are aimed at supporting business development.

As at 31 December 2022, the outstanding loan portfolio under state and special programmes was GEL 623 million.

Segment snapshot

Mass Retail¹

Net loans

GEL 3.8 BN

+8.9% y-o-y

Client deposits

GEL 4.7 BN

+19.9% y-o-y

Profit³

GEL 194 M

+124.9% y-o-y

ROAE³

31.8%

(17.9% in 2021)

NPS² (4Q22 average)

77

(76 – 4Q21 average)

Share of active customers using
mBank/iBank

67.4%

+7.0 ppts y-o-y

Premium Banking¹

Net loans

GEL 3.2 BN

+6.2% y-o-y

Client deposits

GEL 6.3 BN

+38.6% y-o-y

Profit³

GEL 208 M

+57.9% y-o-y

ROAE³

35.7%

(25.5% in 2021)

NPS² (SOLO)

78

(79 in 4Q21)

NPS² (WM)

83

(70 in 4Q20)
(latest available)

Share of active customers using
mBank/iBank

91.0%

+1.5 ppts y-o-y

Wealth Management AUM

GEL 2.0 BN

+30.0% y-o-y

Best Private Bank in Georgia Global Finance 2023

1. Figures given for JSC Bank of Georgia standalone.

2. NPS is a monthly average during the fourth quarter.

3. Figures were adjusted for one-off items. Mass Retail, Premium Banking, and MSME figures were adjusted for a one-off income tax expense, and Corporate and Investment Banking figures were adjusted for a one-off other income and a one-off income tax expense.

MSME¹

Net loans

GEL 4.4 BN

+13.5% y-o-y

Client deposits

GEL 1.5 BN

+30.9% y-o-y

Profit³

GEL 159 M

+24.8% y-o-y

ROAE³

23.5%

(22.4% in 2021)

NPS² (SME)

78

(77 in 4Q21)

NPS² (Micro)

76

(77 in 4Q21)

Share of active customers using
mBank/iBank

70.0%

+6.9 ppts y-o-y

Best SME Banking in Central and Eastern Europe Global Finance 2022

Corporate and Investment Banking

Net loans

GEL 4.9 BN

-3.4% y-o-y

Client deposits

GEL 4.8 BN

+20.2% y-o-y

Profit³

GEL 494 M

+35.0% y-o-y

ROAE³

39.1%

(34.6% in 2021)

NPS² (CB)

85

(85 in 4Q21)

Share of active customers (CB)
using mBank/iBank

92.7%

+1.1 ppts y-o-y

Galt & Taggart AUM

GEL 1.5 BN

+0.8% y-o-y

1. Figures given for JSC Bank of Georgia standalone.

2. NPS is a monthly average during the fourth quarter.

3. Figures were adjusted for one-off items. Mass Retail, Premium Banking, and MSME figures were adjusted for a one-off income tax expense, and Corporate and Investment Banking figures were adjusted for a one-off other income and a one-off income tax expense.

Digital Area snapshot

Digital Area is a group of companies within our Group that includes an e-commerce marketplace [extra.ge](#) and other beyond-banking offerings for businesses.

Extra.ge

Merchants

500+

Products (SKUs)

100K+

Annual gross merchandise value (GMV) growth

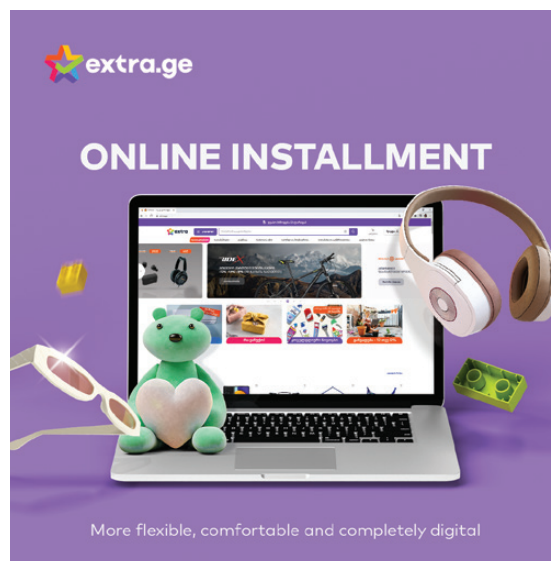
+42.3% y-o-y

MAU

350K

(up 5.1% y-o-y)

In 2022, Extra.ge redesigned its website and improved its mobile application in response to customer feedback. The redesigned user experience and user interface and better operational processes are reflected in an NPS of 86 at the end of 2022 (versus 84 in 2021).



Moitane.ge

Moitane is an on-demand daily goods delivery platform, offering a variety of products, including groceries, packaged food, healthcare products, beauty

products and gifts, all delivered within 30 minutes. In the fourth quarter of 2022, JSC Digital Area became a partner of the company, having invested growth

capital that will enable Moitane's further development.



Optimo

Optimo is an inventory and sales management software for traditional retail and e-commerce businesses.

Optimo's digital inventory management and POS solution with integrated

software and a variety of functions and analytical tools enable businesses to easily manage sales and inventory. Clients can access data and insights on sales transactions, inventory, revenues, and profitability, anytime and anywhere,

so they can make timely decisions with relevant information at hand. Optimo covers two main business lines: software as a service and data monetisation.

Merchants

2,050

+97.1% y-o-y

Number of transactions

12.7M

+135.2% y-o-y

GMV

GEL 135M

+141.9% y-o-y

KEY ENABLERS OF VALUE CREATION

Our people and culture

Our people drive our shared success. We want to recruit, retain, and engage talented people with different perspectives and life and career experiences, providing a safe and inclusive environment that enables personal and professional development and teamwork, supporting our longer-term success. We are committed to equal opportunities and do not tolerate discrimination, bullying, harassment or victimisation based on any grounds.

We are focused on hiring people with the skills and competencies to support our strategic priorities. We have strong relationships with local talent pools and continue to upskill local students through our special, rotation-based internship programme – Leaderator.

We aim to cultivate a culture of feedback and lifelong learning and work on providing

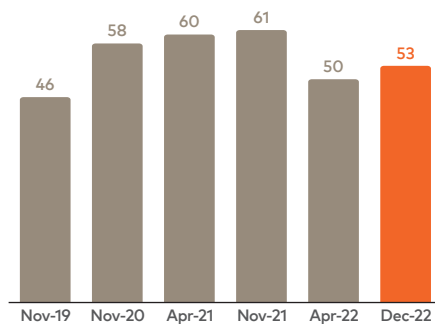
a wide range of development opportunities to our employees, including semi-annual development reviews, personal coaching and leadership programmes.

With help from our Employee Experience Management (EXM) team, we proactively engage with our employees and place an equal weight on listening to our people and on keeping them informed. We also run employee surveys throughout the year and consider the results during the conversations at the Board and Executive Management levels. These surveys help us assess our culture and how we run our organisation.

During 2022, the Bank's eNPS score decreased to 53 (from 61 at the end of 2021), slightly below our targeted range of 54-62 for 2022. We aim to have eNPS in the range of 54 – 62 during 2023.

The decrease was mainly driven by the adverse impact of inflationary pressures on our lower paid employees, especially those in front office roles, as well as by some dissatisfaction with workplace arrangements as we moved back office staff to a hybrid working model in 2022, following a fully remote work mode during the Covid-19 pandemic. As our staff increases, we recognise the need to have comfortable work spaces to support employee wellbeing and productivity, and we are working on adding and renovating new office space to address the concerns raised by some of our colleagues. We also continue to monitor the labour market and remuneration practices at comparable companies to ensure that we remain a competitive employer of top talent and to adjust our remuneration practices if and when necessary.

eNPS



Customer-centricity

We believe the success and sustainability of our organisation depend on maintaining a positive customer experience as people interact with Bank of Georgia across touch points. We have become a truly customer-centric organisation by implementing the organisation-wide processes, including management-level regular CX reviews, and KPIs to monitor and act on customer feedback.

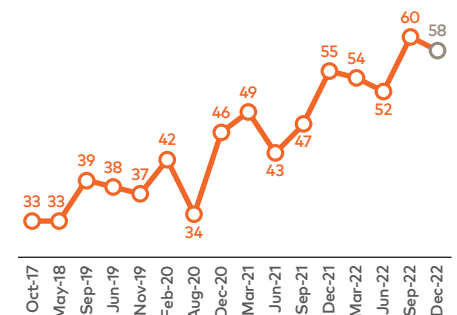
A key metric that we monitor is the Bank-wide NPS, measured by an independent third party – interviewing people who may not be our active clients. During the past few years, we have seen a substantial increase in customer satisfaction, and we aim to keep improving our service and the overall experience with the Bank.

In 2019, we purchased a leading customer experience management platform, Medallia, to support the Bank's team in optimising customer experience management practices, capturing and prioritising large amounts of customer feedback in real time, sharing valuable insights across teams, and driving actions to improve the overall customer experience across all segments and channels.

We collect feedback in real-time across digital channels (mBank, iBank, Business iBank and Business mBank, website) via pop-up questionnaires, and we use SMS surveys to connect with customers who have used our call centre or a retail branch.

We monitor the feedback received and customer satisfaction with different channels, and analyse data by segments, using Medallia dashboards.

NPS



We use 'alerts' for customers who were not fully satisfied with our channels or services to 'close the loop' efficiently: we provide immediate help and support – get in touch with them, answer questions and resolve their issues. We also use the 'close-the-loop' process to identify actionable insights and then work closely with various teams to implement systemic improvements.

Since launch, we have added Medallia to all key channels

550K+

Customer responses were collected and analysed

44K+

Customers engaged during the 'close-the-loop' process (when a client was not satisfied or left a comment)

Data and AI-powered business

During 2022 we continued to strengthen the Bank's advanced analytics and AI capabilities to enable better decision-making, efficiency, and customer engagement and satisfaction. We use machine learning models to anticipate

financial and lifestyle needs, wants and behaviours so we can offer services tailored to each customer's unique context and positive experiences across diverse physical and online ecosystems. As a customer-centric organisation, we

aim to offer highly personalised solutions facilitated by intuitive, simple, and fast interactions.

Our data team

More than 100 data professionals, including more than 40 data scientists.

48% (Dec-22)
of total product sales
enabled by AI
47% (Dec-21)

37% (Dec-22)
of inquiries handled
by chatbot¹
end-to-end
25% (Dec-21)

96% (Dec-22)
automation rate
in consumer lending
91% (Dec-21)

Data lab

Our data research lab focuses on speech, reasoning and vision technologies, which provide vital components to smart virtual assistants and decision engines. Currently, we are developing Georgian Natural Language Understanding (Georgian NLU), Georgian Speech-to-Text (Georgian S2T), Answer Retriever (Georgian AR), Topic Modelling and Sentiment Analysis, based on cutting-edge algorithms and technologies.

The NLU component is already present in Bank of Georgia's chatbot, which is responsible for dynamic understanding of customer intents and needs as conversations progress. We have also matured Georgian S2T technology and plan to operationalise it during 2023 – one of the use cases will be automatically transcribing customer calls for quality monitoring and flagging for reviews,

enabling offloading from human agents and faster discovery and resolution of customers' pain points.

Data culture

A strong data culture is key to our long-term growth and value creation, and we aim to foster continuous improvement and innovation to differentiate the customer and employee experience. We want more people to use data to support their day-to-day work and decision-making, so our data teams collaborate with others across the business daily, as well as have monthly syncs – exchanging ideas and sharing feedback to keep this top-of-mind.

One of our main objectives is to create a culture that will attract top talent in data and related fields.

The Bank's internship programme – Leaderator – attracts the best students from Georgian universities. We offer three tracks: data science, data engineering and data product testers. Around **90% of our Leaderator** participants are later hired full-time.

To popularise Bank of Georgia as an employer of choice for data professionals, in 2022 we organised two **Data Challenges** asking people to find solutions for various machine learning problems. The prize pool was GEL 50,000 – at least five times the sums usually offered at similar competitions in Georgia. This has attracted a great selection of potential

employees, and we have successfully hired outstanding participants.

In 2023, we plan to concentrate on maturing our data analytics function and translating analytics results into business impact. We plan to focus on strengthening collaboration between business and data analytics teams and introducing a standardised way of measuring business impact of analytical products. On the talent development side, we plan to define clearer career paths for professionals and managers, build competence development programmes, and help our analytics leaders develop their leadership skills.

1. The average value of the last week of December.

KEY PERFORMANCE INDICATORS

We track and analyse a broad range of financial and non-financial metrics that reflect our strategic priorities to assess the success of our strategy and ensure that we are aligned with our medium-term objectives. Some of these

performance metrics are also linked to the way we pay our employees, including at executive management level. For more information, please see Directors' Remuneration Report on pages 202 to 222. Key metrics used in the 2022

assessment include the metrics presented here as well as the broader discussion of our performance in this report, including in the Sustainable Business section.

Financial KPIs

Profitability KPIs

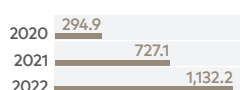
The Group posted a profit (adjusted for one-off items) of GEL 1,132.2 million in 2022, reflecting strong franchise growth and the growth momentum of the Georgian economy.

Profit (adjusted)

(GEL million)

1,132.2

+55.7% y-o-y



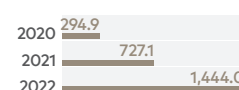
The 2022 profit is adjusted for a one-off GEL 391.1 million other income due to the settlement of an outstanding legacy claim, and a one-off GEL 79.3 million tax expense due to an amendment to the corporate taxation model in Georgia.

Profit (reported)

(GEL million)

1,444.0

+98.6% y-o-y

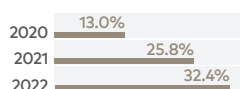


Profit is calculated in accordance with IFRS and represents operating income and profit (loss) from associates, less operating expenses, cost of risk, non-recurring items and income tax expense.

Return on average equity (adjusted)

32.4%

+6.6 ppts y-o-y

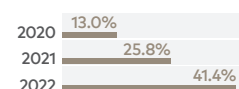


ROAE has been adjusted based on the adjusted profit as described above.

Return on average equity (reported)

41.4%

+15.6 ppts y-o-y



Profit attributable to shareholders divided by monthly average total equity attributable to shareholders. Total equity attributable to shareholders comprises share capital, additional paid-in capital, treasury shares, retained earnings, and other reserves.

Net interest margin

5.4%

+0.5 ppts y-o-y



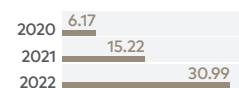
Net interest income for the year divided by monthly average interest earning assets, excluding cash, for the same year.

Basic earnings per share

(GEL)

30.99

+103.6% y-o-y



Profit attributable to shareholders divided by weighted average number of outstanding shares less treasury shares.

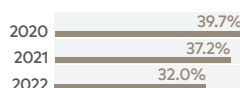
Efficiency KPIs

In 2022 the cost to income ratio (adjusted for one-off items) improved to 32.0% vs. 37.2% in prior year, reflecting strong revenue growth and efficient cost control.

Cost to income ratio (adjusted)

32.0%

-5.2 ppts y-o-y

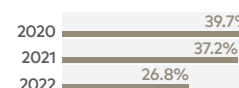


The 2022 adjusted cost to income ratio excludes a one-off GEL 391.1 million other income due to the settlement of an outstanding legacy claim.

Cost to income ratio (reported)

26.8%

-10.4 ppts y-o-y



Operating expenses divided by operating income.

Growth KPIs

On a constant currency basis, loan portfolio was up by 12.9% y-o-y, and in nominal terms, it increased by 4.3% y-o-y as at 31 December 2022. The main drivers of the nominal growth were Retail Banking's consumer loans and SME loans. During 2022 we had a significant growth of client deposits and notes, reflecting increased client and migrant inflows and the strength of Bank of Georgia's customer franchise.

Net loan book growth (nominal)

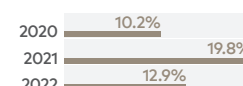
4.3%



Net loans to customers and finance lease receivables at the end of the year compared with the end of the previous year.

Net loan book growth (constant currency)

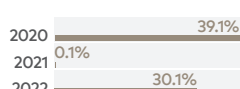
12.9%



Net loans to customers and finance lease receivables at the end of the year compared with the end of the previous year, excluding the foreign exchange rate effect.

Deposits growth (nominal)

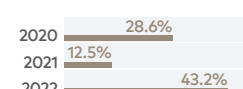
30.1%



Client deposits and notes at the end of the year compared with the end of the previous year.

Deposits growth (constant currency)

43.2%



Client deposits and notes at the end of the year compared with the end of the previous year, excluding the foreign exchange rate effect.

Asset quality KPIs

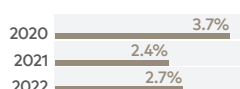
Cost of credit risk ratio for the full year 2022 was 0.8%, driven by Retail Banking.

NPLs to gross loans increased from 2.4% at 31 December 2021 to 2.7% at 31 December 2022, and the NPL coverage ratio decreased from 95.5% at 31 December 2021 to 66.4% at 31 December 2022. The increase of NPL ratio and the decrease of NPL coverage ratio were driven by a one-off methodological change as we are aligning our internal NPL definitions more closely to IFRS Stage 3 definitions.

NPL ratio

2.7%

+0.3 ppts y-o-y

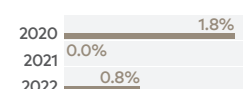


NPL ratio equals non-performing loans divided by total gross loans.

Cost of credit risk ratio

0.8%

+0.8 ppts y-o-y



Cost of credit risk ratio equals expected credit loss on loans to customers and finance lease receivables for the year divided by monthly average gross loans to customers and finance lease receivables for the same year.

Capital and liquidity KPIs

As at 31 December 2022, the Bank's Basel III Common Equity Tier 1, Tier 1, and Total capital adequacy ratios stood at 14.7%, 16.7%, and 19.8%, respectively, all comfortably above the minimum requirements of 11.6%, 13.8% and 17.2%, respectively. The Bank's risk-weighted assets increased by 12.8% y-o-y as at 31 December 2022.

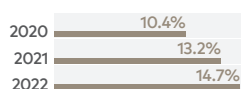
Bank of Georgia also maintained strong liquidity and funding positions throughout the year.

CET1 capital adequacy ratio (NBG, Basel III)

14.7%

+1.5 ppts y-o-y

NBG (Basel III) CET1 capital adequacy ratio equals CET1 capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia.



Leverage (times)

5.8

Leverage (times) equals total liabilities divided by total equity.

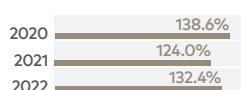


Liquidity coverage ratio (NBG, Basel III)

132.4%

+8.4 ppts y-o-y

NBG (Basel III) liquidity coverage ratio equals high-quality liquid assets divided by net cash outflows over the next 30 days, both calculated in accordance with the requirements of the National Bank of Georgia.

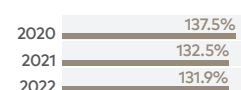


Net stable funding ratio (NBG, Basel III)

131.9%

-0.6 ppts y-o-y

NBG (Basel III) net stable funding ratio equals available amount of stable funding divided by the required amount of stable funding, both calculated in accordance with the requirements of the National Bank of Georgia.



Non-financial KPIs

Non-financial figures are given for JSC Bank of Georgia standalone.

Customer satisfaction and employee empowerment

We regularly analyse customer satisfaction across channels through Medallia and also through external and internal surveys. We use customer feedback to identify root causes of problems and improve our products and processes. As a customer-centric organisation, we invest in technology and advanced-analytics capabilities to deliver more positive and personalised customer experiences. The Bank's NPS, measured quarterly by an independent third-party agency, was 58 by the end of 2022.

We know we cannot have happy clients without engaged and empowered employees. Since 2019 we have been measuring eNPS at least twice a year. In November 2022 eNPS was 53, up from 50 in April 2022, but slightly down from the highest result of 61 recorded in November 2021.

Net Promoter Score (NPS) – latest

58

+3.0 points y-o-y



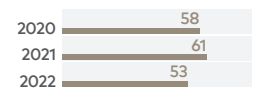
NPS asks: on a scale of 0-10, how likely is it that you would recommend our Bank to a friend or a colleague?

The responses: 9 and 10 – are promoters; 7 and 8 – are neutral; 1 to 6 – are detractors. The final score equals the percentage of the promoters minus the percentage of the detractors.

Employee Net Promoter Score (eNPS) – latest

53.0

-8.0 points y-o-y



eNPS asks: on a scale of 0-10, how likely is it that you, as an employee, would recommend our Bank as an employer to a friend or a colleague?

The responses: 9 and 10 – are promoters; 7 and 8 – are neutral; 1 to 6 – are detractors. The final score equals to the percentage of the promoters minus the percentage of the detractors.

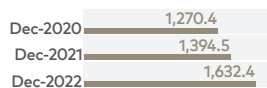
Number of active retail customers and digital engagement

The monthly active clients grew 17.1% y-o-y and amounted to 1.6 million individuals as of 31 December 2022. Growth rates of digital MAU and daily active digital users DAU were even higher, 31.5% and 41.4%, respectively, reflecting increasing digital uptake. DAU/MAU stood at 47.6%, up by 3.4 ppts, reflecting greater daily engagement of our clients.

Monthly active individual clients (thousands)

1,632.4

+17.1% y-o-y

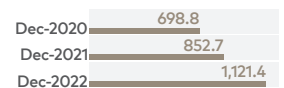


An individual who meets pre-defined activity criteria.

Digital MAU (individuals) (thousands)

1,121.4

+31.5% y-o-y

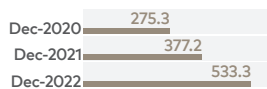


An individual who logged in to mBank/iBank at least once within the past month.

DAU (individuals) (thousands)

533.3

+41.4% y-o-y



Average number of daily active mBank and iBank users by logins within the past month.

DAU/MAU

47.6%

+3.4 ppts y-o-y



Daily active digital users divided by monthly active digital users.

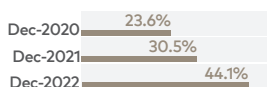
Digitalisation

We continue to launch new products and features in our mobile app and internet banking platform to promote increasing use of the Bank's digital channels for daily banking as well as product activations.

Share of products activated through digital channels (Dec-22)

44.1%

+13.6 ppts y-o-y

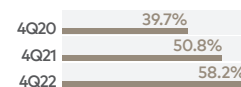


Number of products activated through digital channels divided by total product activations for the period.

Share of transactions through mBank and iBank (4Q22)

58.2%

+7.4 ppts y-o-y



Number of transactions through mBank and iBank divided by total number of transactions for the same period.

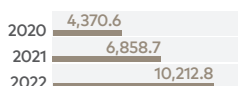
Acquiring

Bank of Georgia is the leader in the acquiring business in Georgia, with more than 50% of all payments going through BOG's POS and e-commerce terminals. As at 31 December 2022, the Bank had 34.9K active terminals (in-store and online) at 14.5K active merchants (up 27.2% and 26.8% y-o-y, respectively).

Volume of payment transactions in BOG acquiring (GEL billions)

10,212.8

+48.9% y-o-y

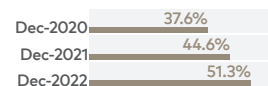


Volume of POS and e-commerce payment transactions executed in BOG's POS terminals (in-store and online).

Acquiring market share (December)

51.3%

+6.7 ppts y-o-y



Volume of payment transactions in BOG's terminals (in-store and online) divided by total volume of payment transactions in POS and e-commerce terminals on the local market.

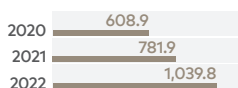
Loyalty

In 2022 the number of monthly active card users exceeded 1 million. With our loyalty programme benefits, we incentivise our customers to be 'cashless' and use cards for payments. More than 486 thousand clients – almost 50% of active loyalty programme members – exchanged PLUS points during 2022.

Payments MAU (individuals) (thousands)

1,039.8

+33.0% y-o-y

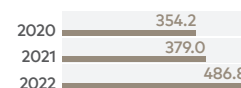


An individual who used a BOG card for payments at least once within the past month.

Clients who exchanged loyalty points (thousands)

486.8

+28.4% y-o-y



Number of customers who exchanged PLUS points during the past year.

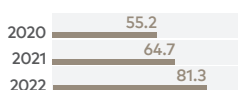
Number of active business clients and digitalisation

Our business clients are also becoming more digital, and we are focused on building product activation capabilities into our digital channels.

Number of active business clients (thousands)

81.3

+25.7% y-o-y

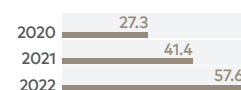


A business client that meets pre-defined activity criteria.

Monthly active digital users (business mBank/iBank) (thousands)

57.6

+39.0% y-o-y



A business client that logged in to Business mBank/iBank at least once within the past month.

RISK MANAGEMENT

Risk management

Overview

Management of risk is critical in the successful execution of the Group's strategy – material risks and uncertainties across business lines and portfolios are key focus areas for management and the Board. We identify, assess, mitigate, and monitor risks through an integrated risk management and control framework, supported by formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms our framework has been in place throughout the year under review and as of the date of approval of this Annual Report, and that it is integrated into both our business planning and viability assessment processes. The Board, supported by its Audit and Risk Committees and Executive Management (EM), is ultimately responsible for the Group's risk management and internal controls.

Our framework

We operate an Enterprise Risk Management (ERM) framework, ensuring the governance, capabilities and methods are in place to facilitate risk management across the Group. By setting out the standards and objectives for risk management and defining the roles and responsibilities, the framework allows the Group to take a holistic view and establishes a routine for risk management, providing visibility of the relationships between the various risk types, a portfolio view of all significant risks, a risk profile, and guiding principles for the treatment of risk.

The framework incorporates risk governance, the 'three lines of defence' model and the Risk function's mandate. It aims to continuously assess risks throughout the lifecycle of key operations, and comprises the following steps:

- a bottom-up risk identification, assessment, and measurement through relevant key risk indicators;
- a risk appetite framework, cascaded down through sets of operational limits;
- risk treatment through mitigation activities (where appropriate); and
- risk monitoring and reporting through ongoing monitoring and control, allowing timely adaptation to any significant changes in the underlying assumptions and/or conditions on which the risk assessments were based. Any identified issues are escalated as needed.

Each business line engages in the risk management process by identifying key risks that are an inherent part of our activity and may significantly influence the Group's performance or prospects. The principal risks and uncertainties faced by the Group are identified through this bottom-up process.

A description of these Principal Risks and Uncertainties, including outlook, recent drivers and mitigation efforts, can be found on pages 62 to 81.

Risk identification

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

Risk assessment and measurement

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

Risk treatment

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

Risk monitoring and reporting

The Group monitors if appropriate actions are taken in a timely, consistent and systematic manner. Executive Management assesses the effectiveness of the implementation of the risk management and internal control policies and procedures, and periodically reviews the output from the bottom-up process.

Key risks are escalated to the appropriate level of authority. Any significant changes and developments affecting our risks and respective mitigating actions are reviewed quarterly (of more often, if necessary) by the Audit and Risk Committees and reported to the Board of Directors. In addition, monthly risk reporting provides senior management with the information they need to manage risks.

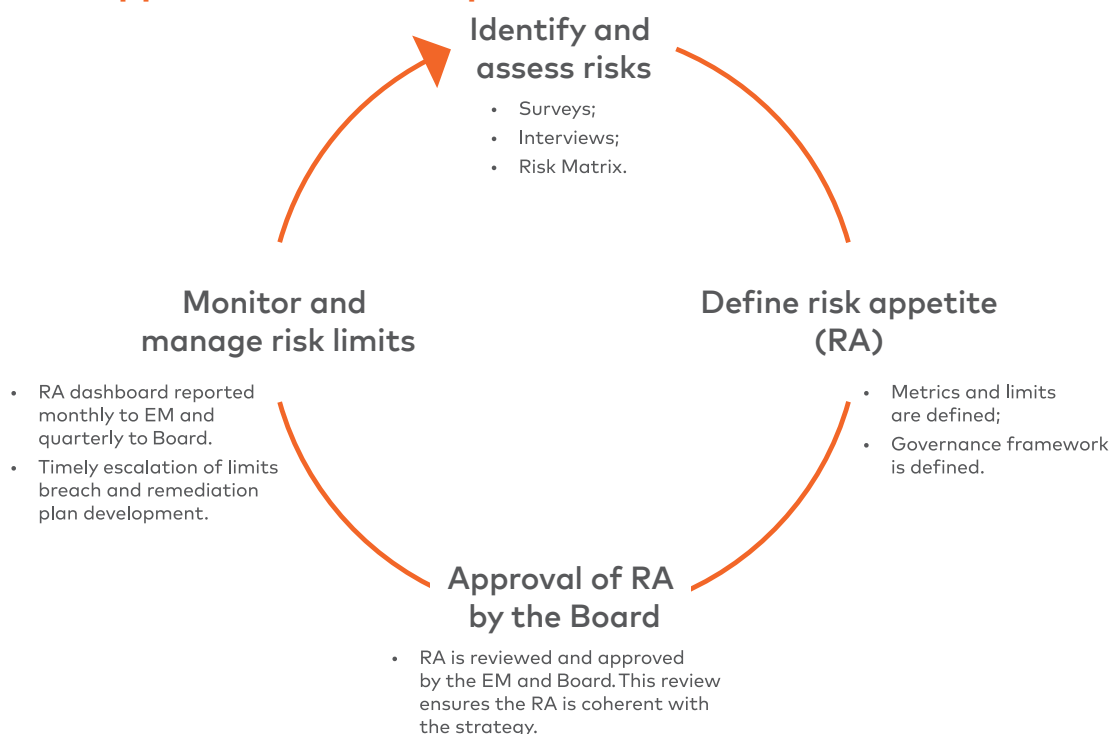
Risk appetite framework

Risk appetite (RA) is the type and level of risk the Group is willing to take in pursuit of its strategic objectives and business plans. The risk appetite framework is a key component of the ERM framework and supports effective risk management by promoting sound risk-taking within agreed limits. The Group has established risk appetite limits for principal risks to ensure it can meet its strategic objectives and medium-term targets even during challenging economic and operating environments.

The risk appetite limits are reviewed and approved annually by the Board of Directors. Our Risk Appetite Statement details the risk parameters within which the Group operates. The risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Board of Directors.

Risk management continued

Risk appetite framework process



Risk culture

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

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

Learning

Enabling employees to have the awareness and capabilities to manage risk is core to the Group's learning strategy. We provide a wide range of training programmes to our employees across the risk disciplines – some are mandatory for all employees, while others are role-specific or part of individual development plans. Mandatory learning is accessible online and ensures we keep our customers, employees and the whole organisation safe. The system allows monitoring at all levels to ensure completion of mandatory training which is now also a KPI in relevant job descriptions. Topics covered

in the mandatory programme include operational risks, business continuity, information security and data protection, health and safety, corporate security, business ethics, and financial crime risks. The completion rate of the risks and compliance training programme at the end of 2022 was 86%.

Our Code and Whistleblowing Policy

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

Our whistleblowing tool allows employees to report any concern confidentially. Responsibility for the Whistleblowing Policy resides with the Board who, together with Audit Committee, receive reports on its operation quarterly.

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

Internal controls

Our Board is responsible for reviewing and approving the Group's system of internal controls, and its adequacy and effectiveness. Controls are reviewed

to ensure effective management of the risks we face. Certain matters – such as the approval of major capital expenditures, significant acquisitions or disposals, and major contracts – are reserved exclusively for the Board. The full schedule of matters specifically reserved for the Board can be found on our website at <https://bankofgeorgiagroup.com/governance/documents>. For other matters, the Board is often assisted by both the Audit and Risk Committees.

With respect to internal controls over financial reporting, including the Group's consolidation process, our financial procedures include a range of system, transactional and management oversight controls. The Group prepares detailed monthly management reports that include analyses of results, comparisons, relevant strategic plans, budgets, forecasts and prior results. These are presented to, and reviewed by, the Executive Management. Each quarter, the Bank's Chief Financial Officer and other members of the Finance team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Board. The Audit Committee also reviews quarterly, half-year and full-year financial statements and corresponding results announcements, and advises the Board. The external and internal auditors attend each Audit Committee meeting, and the Audit Committee meets them regularly both with and without the presence of the Executive Management.

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

Effectiveness review

Each year we review the effectiveness of our risk management processes and internal controls, with the assistance of the Audit and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year ended 31 December 2022 and

obtained assurance from the Executive Management and Internal Audit. The Board concludes with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively during 2022, and that these systems continued to operate effectively up to the date of approval of this Annual Report. The review did not identify any significant weaknesses or failures in the systems. We are satisfied that our risk management processes and internal control systems comply with the UK Corporate Governance Code 2018 and the Financial Reporting Council (FRC)'s guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Committee reports

The Audit and Risk Committees play key roles in implementing effective risk management and internal control systems. Each Committee has described its work in its Committee Report, which

can be found on pages 192 to 197 for the Audit Committee and 198 to 201 for the Risk Committee.

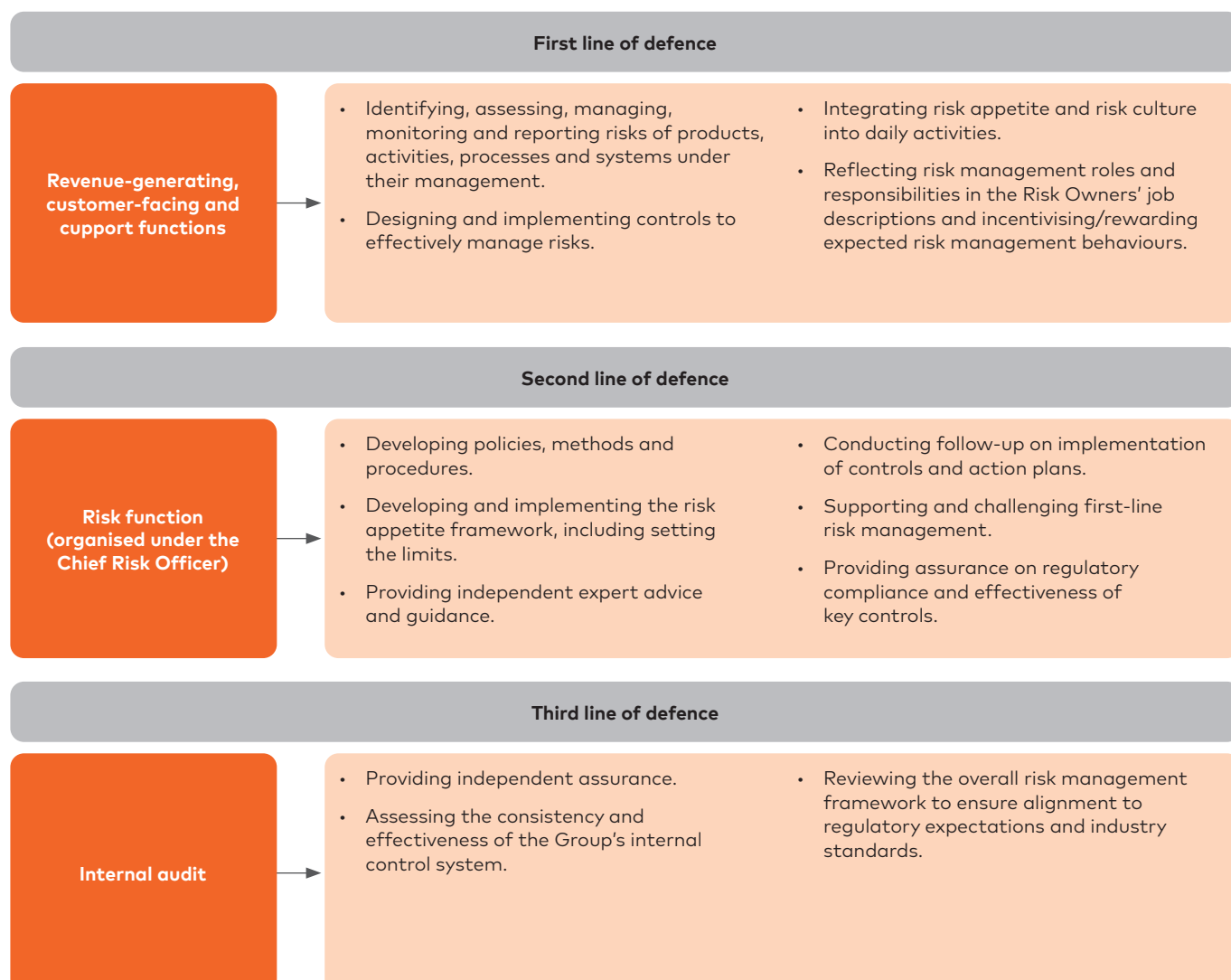
Viability statement

The Board has undertaken an assessment of the Group's prospects to meet its liabilities by considering its current financial position and principal risks. The Group's going concern and viability statements are on page 83.

Risk management structure

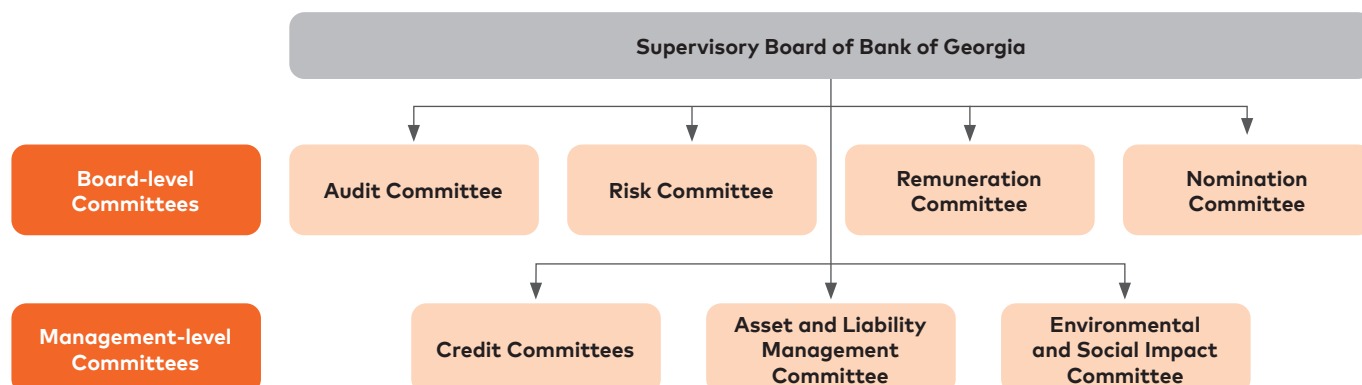
The Group's risk management framework is based on the industry-standard 'three lines of defence' model for risk management. All roles below the CEO fall within one of the three lines. All employees are responsible for understanding and managing risks within their individual roles and responsibilities.

Risk management structure



Risk management continued

Risk management bodies of Bank of Georgia



Risk management bodies

Bank of Georgia is the principal driver of the Group's revenue and operates in the financial services sector. The work undertaken by the Bank's risk management bodies feeds back directly to the Group. The main risk management bodies of the Bank are the Supervisory Board, Audit Committee, Risk Committee, Executive Management, Credit Committee, Asset and Liability Management Committee (ALCO), and Environmental and Social Impact Committee. The Supervisory Board, Audit Committee and Risk Committee mirror the Group Board, Group Audit Committee and Group Risk Committee.

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

The Group Internal Audit function is an internal independent, objective assurance and consulting provider designed to add value and improve the Group's operations through independent and objective assessment of the effectiveness and the adequacy of Group-wide processes, controls, governance and risk management, as the third line of defence. The Head of Internal Audit, also known as Chief Auditor, is appointed by Non-executive Board members and reports directly to the Audit Committee and administratively to the Chief Executive Officer. The Internal Audit function evaluates the Group's risk management, control and governance practices based on a systematic, disciplined, and risk-based approach. The Chief Auditor reports to the Audit Committee at least quarterly on significant risk exposures and control issues if any are identified through audit engagements.

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

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

The Corporate Recovery Committee is chaired by the Bank's Chief Risk Officer and is responsible for monitoring all the Bank's exposures to loans managed by the Corporate Banking and Recovery department. The Corporate Banking and Recovery department reports to the Bank's Deputy CEO – Corporate and Investment Banking.

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

Another committee managing the Bank's credit risk is the Credit Assets Management Committee, which comprises three tiers of subcommittees and is chaired by either the Head of the Credit Assets Management department, the Bank's Chief Operations Officer, or the Bank's Chief Risk Officer. The Credit Assets Management department manages the Bank's exposures to problem loans and reports to the Bank's Chief Operations Officer.

The ALCO is the core asset liability management (ALM) and financial risk management body establishing policies and guidelines with respect to capital adequacy, market risks, funding liquidity risk, interest rate and prepayment risks and respective limits, money market general terms, and credit exposure limits. The ALCO reviews scenario analyses and stress tests, regularly monitors compliance with the pre-set risk limits, and approves treasury deals with

non-standard terms. Specifically, the ALCO:

- sets and monitors credit exposure/ lending limits;
- sets and monitors open currency position limits with respect to overnight and intra-day positions;
- monitors compliance with the established risk limits for capital, FX, interest rate and funding and liquidity risks;
- sets standard rates for different maturity loans and deposits;
- approves certain non-standard loans and deposits;
- sets ranges of interest rates for different maturities at which the Bank may place its liquid assets and attract funding; and
- reviews capital and liquidity forecasts, scenario analyses and stress tests prepared by the Finance function, the ALM unit and the Capital Adequacy and Financial Risk Management (CFRM) unit.

The ALCO is chaired by the Bank's CEO and meets on an ad hoc basis, with decisions made by a majority vote of its members. The ALCO members include the Bank's CEO, Chief Financial Officer, Chief Risk Officer, the Head of the ALM unit, the Head of the Treasury department and the Head of the CFRM unit. The Head of the Finance function acts as secretary to the ALCO. Other Executive Management members attend meetings and vote as required.

The ALCO approves financial risk policies prior to approval by the Supervisory Board. The Committee reviews the Financial Risk Appetite report once a month and, in case of breaches, reviews and approves mitigation strategies proposed by the ALM unit. In addition to monthly reports, the ALCO reviews capital and liquidity forecasts, budgets and stress scenarios.

The management-level Environmental and Social Impact Committee is responsible for the development and implementation of the Bank's ESG strategy, including its climate risk and opportunity management strategy. It includes members of Executive Management and senior management, and the CEO is its Chairman. The Committee manages the Bank's climate, environmental and social impacts, focusing primarily on those associated with its lending activities. The Committee reports on the Bank's ESG objectives and performance to the Supervisory Board twice a year.

Stress testing

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

We perform different types of stress tests:

- Viability stress tests – scenario assumptions for all relevant macroeconomic and financial market variables are set, and potential impacts are assessed against the viability of the Group. These stress tests include reverse stress testing, where the Group identifies circumstances that may lead to business failure. This type of test is performed at least annually and reported to the Board of Directors.
- Risk-specific stress tests – depending on the tendencies on the market, specific portfolios are tested for various market-wide scenarios. In 2022, the Bank performed interest rate stress tests as a response to rising market interest rates. The impact of various shocks was assessed against portfolio quality, profitability, liquidity and capital.
- Idiosyncratic stress-tests – these are conducted on an ad hoc basis, based on certain idiosyncratic factors that may arise in the business over time.
- Regulatory stress tests – these are mandated by the central bank, which also provides the context and methodology for stress tests.

Stress test methodologies vary by type and objective. Depending on the risk type, respective risk management units are

responsible for performing the analysis. If unacceptably high risks are identified, risk units adopt measures to mitigate them and reflect those measures in their strategic plans. The ERM department is responsible for results aggregation, analysis and reporting.

Emerging risks

Information compiled from all the businesses is examined and processed to identify, assess and manage emerging risks. This information is presented and discussed with the Executive Management and the head of each business division as appropriate. We also consider wider macroeconomic risks and escalate these to the Supervisory Board or Board of Directors, as appropriate, in regular presentations.

The Group has identified climate risk as an emerging risk. We continue to assess climate-related risks, both transition and physical, for our client base and determine potential impacts on the Bank. We are describing and managing climate-related risks in line with recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). See more details on the Group's planned actions on this matter on pages 103 to 107.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties

We outline the principal and emerging risks and uncertainties most likely to have an impact on our business model, strategic objectives, operations, future performance, solvency and liquidity. We also disclose the potential impact, the key drivers and outlook associated with these risks, and the actions we take to mitigate them.

The order in which the principal risks and uncertainties appear does not denote

their priority. It is not possible to fully mitigate all our risks. Any system of risk management and internal control is designed to manage – rather than eliminate – the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group is exposed to risks wider than those listed. Additional risks and

uncertainties, including those the Group is currently not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the Group's securities. We disclose the risks we believe are likely to have had the greatest impact on our business, and which have been discussed in depth at the Group's recent Board, Audit or Risk Committee meetings.

Macro risk

Principal risk/ uncertainty

Macro risk is the risk of deterioration of the business's financial position due to macroeconomic and political factors related to Georgia.

Key drivers and developments

The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. Key sources of macro risk related to Georgia are changes in GDP, inflation, interest rates, exchange rates, and political events. These factors may have a material impact on our business by affecting the Group's financial performance and position.

According to a preliminary estimate published by Geostat, real GDP growth in Georgia was 10.1% in 2022 – driven by robust consumption spending, increased investment expenditure, and strong external inflows. Despite the lingering uncertainty around the Russia-Ukraine war, the growth outlook for 2023, which according to IMF is estimated at 4% of real GDP growth, is underpinned by the lasting impact of inbound migration, continued recovery in tourism inflows and improved investor sentiment.

High inflation remains a challenge for Georgia as the war in Ukraine and related supply disruptions have exacerbated global commodity price pressures. Average CPI inflation in Georgia was 11.9% in 2022, significantly above the 3.0% target. Although inflation was mainly driven by supply-side factors, demand pressures have also intensified – higher rent being paid on houses on the back of inbound migration and the complete elimination of pandemic-related restrictions. In response to persistently high inflation, the NBB increased the refinancing rate by an additional 50 bps to 11.0% in March 2022. Given the tight monetary policy and the transitory nature of supply-side price pressures, inflation is expected to move towards the 3.0% target in 2023.

In response to increasing inflation pressures globally, western central banks hiked interest rates during 2022. As of 31 December 2022, since the beginning of the year the Federal Reserve had increased the fed funds rate by 425 bps and the European Central Bank (ECB) had increased its key interest rate by 250 bps. As inflation remains elevated in western economies, central banks are expected to deliver further interest rates hikes, leading to tighter global financial conditions. Emerging markets and developing economies, such as Georgia, are particularly vulnerable to tighter global financial conditions as a considerable share of their debt is denominated in foreign currency. Furthermore, such conditions may induce capital outflows and result in depreciation pressures on local currencies.

Tight monetary policy and strong external inflows have supported GEL in 2022. As at 31 December 2022, the Georgian currency had gained 12.5% against the US dollar year to date. Going forward, the GEL exchange rate may be influenced by the dynamics of external inflows, monetary policy developments, and changes in market sentiment. Volatility of the Lari may adversely affect the quality of our loan book and increase ECL provisions – and thus the cost of credit risk. At 31 December 2022, 33.6% of Bank of Georgia's gross Retail Banking loans and 73.2% of its Corporate Banking loans were denominated in foreign currency. 4.8% of Retail Banking gross loans and 39.0% of Corporate Banking gross loans were issued in foreign currency, with minimal exposure to foreign currency risk.

Overall, business and investment conditions are sound, and Georgia favorably compares to the regional peers. However, the concerns regarding the integrity of the judicial appointment process and the capacity of the courts to deliver quality outcomes continue to affect investor confidence in the court system. This issue was also highlighted by the European Commission, which stated that it was ready to grant the status of candidate country to Georgia once certain priorities specified in the Commission's opinion on Georgia's EU membership application have been addressed. One of the priorities is adopting and implementing a transparent and effective judicial reform by ensuring the proper functioning and integrity of all judicial and prosecutorial institutions. The Government of Georgia has already initiated a strategy and action plan and a subsequent draft law to reform the judiciary. A complex reform of the judiciary may take time, however, demonstrating a positive trajectory to the EU will be important. Furthermore, one of the main hindrances to the fulfilment of the European Commission's conditions is promoting political depolarisation by reducing political tensions between the ruling party and the opposition. If ongoing tensions escalate, this may negatively affect market sentiment and the growth outlook.

Principal risks and uncertainties continued

Macro risk continued

Mitigation

The Group continuously monitors macroeconomic conditions and performs stress and scenario analyses to test its position under adverse economic conditions, including adverse currency movements. We assess sensitivities of certain portfolios towards macroeconomic factors and geopolitical situations, which feeds into the impact assessment of P&L, liquidity, and capital. Scenarios include assumptions about GDP growth, changes in loan interest rates – both in domestic and foreign currencies – and changes in inflation and exchange rates. This helps us take portfolio-related actions where necessary, including enhanced monitoring and amending our credit risk appetite. We regularly review key portfolios to assess risk and ensure our ability to manage the level of facilities offered through any downturn is appropriate.

Due to local legislation, loans of up to GEL 200,000 are issued only in Lari. Additionally, the NBG determined a currency induced credit risk (CICR) capital buffer that aims to reduce systemic risks caused by dollarisation. This buffer is created for risk positions denominated in a currency different from that used to cover those positions. For individuals' loans, the NBG's payment-to-income (PTI) and loan-to-value (LTV) requirements are more conservative for foreign currency loans – mitigating borrower-level exchange rate-induced credit risk. Versus those denominated in Lari, PTI requirements for foreign currency loans are tighter: 5 ppts higher for income below GEL 1,500; 20 ppts higher for income above GEL 1,500. The LTV requirement for foreign currency mortgage loans is 15 ppts tighter than those issued in Lari.

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

The Group continues to closely monitor the local political situation, related risks, and the Georgian Government's response. The Board of Directors is updated quarterly on major political and macroeconomic developments and their potential impacts on the Group.

Geopolitical risk

Principal risk/ uncertainty

Geopolitical risk is the risk that the Group will be unable to execute its business strategy, which will result in a deterioration of its financial position due to regional tensions and ensuing economic instability.

The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. One of our subsidiaries is located in Belarus (JSC Belarusky Narodny Bank (BNB)), but it only accounted for 3.2% of the Group's total equity as at 31 December 2022. The Georgian economy is well-diversified with no significant dependency on a single country. Georgia's key trading partners among others are Russia, Turkey, Azerbaijan, and Armenia. The Group's ability to deliver its strategy may be impacted by conflicts in the region, especially due to the ongoing Russia-Ukraine war.

Key drivers and developments

International government sanctions against Russia have been evolving, impacting strategic sectors of the Russian economy and increasing sanction compliance risk for the financial sector. The current situation highlighted the need to focus more heavily on compliance with sanctions, especially given the level of exposure and associated penalties. The NBG and Georgian financial institutions act fully in accordance with the financial sanctions imposed on the Russian Federation. At 31 December 2022, the Bank did not have any exposure to the Russian banks impacted by the US, UK, or EU sanctions. The Group has significantly expanded resources dedicated to enhancing sanctions compliance.

Another risk driver that has emerged in the context of the Russia-Ukraine war is the expansion of sanctions against Belarus. There is an expectation of further limitations on business activity of companies operating in Belarus. In November 2022, the government of Canada sanctioned additional individuals and entities, including BNB. BNB did not have exposure to Canada, therefore we did not experience any significant impact on BNB's operations or financial position. The Group has actively engaged with Global Affairs Canada to investigate the reasons – as of today, these are solely due to the fact BNB is located in Belarus, and the Group is actively seeking delisting of its subsidiary from the Canadian sanctions list, on the basis of no grounds existing for sanctioning it under the relevant regulations.

The exposure of the Georgian economy to the Russian and Ukrainian markets is considerable, but manageable. Despite the unprecedented regional disruption, Georgia's external inflows have remained resilient. Tourism has recovered and commodity-led export revenues increased on the back of higher commodity prices. Furthermore, remittances increased significantly by 86.1% in 2022, mostly reflecting the inflows related to tourists and migrants from the region. Further expansion of international sanctions across the region can have a detrimental effect on the ability to transact and correspondingly on the economic activity.

Russian troops continue to occupy Abkhazia and the Tskhinvali/South Ossetia region. Russia is opposed to the eastward expansion of NATO to include its neighbours, such as Georgia. Georgia's progression towards integration with the EU and NATO may intensify tensions between Georgia and Russia.

Geopolitical risk continued

Mitigation

The Group actively monitors the situation around the Russia-Ukraine war and its repercussions for the region, especially Georgia and Belarus. The Group conducts stress testing analysis to ensure early risk indicators are identified and mitigation plans implemented in a timely manner. Georgia's resilience to external shocks has been supported by a stable macroeconomic environment, prudent monetary and fiscal policies, a business-friendly environment, and a healthy banking sector. The NBG has claimed that it would act to mitigate the impact of market turbulence, if needed. The Belarus market is more vulnerable towards the Russia-Ukraine war, therefore we conduct more active analysis in this regard.

We do not expect a significant negative impact on our business due to the ongoing war. Our CB loan portfolio is well-diversified. Our wine producer clients, who export to Russia and Ukraine, have healthy equity and working capital structure, and we believe this would enable them to manage through the potentially challenging external environment. Another sector that may be affected by regional instability is hospitality. However, during 2022 tourism recovered, which started in the second half of 2021, supported by migrant inflows and Georgia's positioning as an affordable and attractive destination. Notably, in 2022 tourism revenues increased, surpassing 2019 levels by 7.6%.

Despite the ongoing war and the sanctions directly or indirectly imposed on BNB, the Bank is operating with strong financial results. BNB has demonstrated resilience and a focus on maintaining solid liquidity and capital positions. At 31 December 2022, BNB's Tier 1 and Total capital adequacy ratios stood at 9.5% and 16.7%, respectively, above the National Bank of the Republic of Belarus (NBRB)'s minimum requirements of 7.0% and 12.5%, respectively. We are closely monitoring the risks and paying close attention to the portfolio. We monitor current sanction developments and are prepared for possible scenarios. In line with the Group's zero tolerance policies with respect to sanctions risk, the BNB is operating in compliance with the local and international sanction laws, therefore we do not expect further sanction extensions.

With the fast-growing list of sanctions imposed against Russia and Belarus, it is important for us to stay on top of the latest developments to navigate and mitigate risk while doing business and increase scrutiny on third parties to manage compliance with the US, UK, and EU sanctions. We, as part of our Know Your Customer (KYC) and compliance risk governance and procedures, are monitoring the situation daily to be aware of all relevant updates and adapt the Group's operations in accordance with the changing requirements. The changes have resulted in increasing expenses related to sanctions compliance. The Group has limited risk appetite in relation to customers from Russia and Belarus and transactions related to these countries. Therefore, customers from Russia and Belarus are subject to the appropriate enhanced due diligence measures, while transactions related to these jurisdictions are subject to enhanced sanctions screening.

The Board of Directors is regularly updated on major regional developments and on their potential impact on the Group.

Credit risk

Principal risk/ uncertainty

Credit risk is the risk that the Group will incur a financial loss because its customers or counterparties fail to meet their contractual obligations. Credit risk arises mainly in the context of the Bank's lending activities.

Key sources of credit risk are:

- the inability of borrowers to make scheduled principal and interest payments;
- portfolio concentration risk; and
- collateral devaluation.

Key drivers and developments

ECL and, in turn, the Bank's cost of credit risk, could increase if an idiosyncratic risk for any single large borrower materialises, or a sectorial or systemic event causes the default of a substantial group of borrowers. In addition, if the fair value of the collateral declines significantly in the future, the Bank may be required to post additional provisions and may experience lower-than-expected recovery levels on collateralised loans. Furthermore, changes to laws or regulations may lead to collateral impairment.

Redesigned lending processes in digital channels resulted in an increase in unsecured consumer loans and a higher-than-normal ECL in the Retail Banking segment. As a result, the Group's cost of credit risk ratio was 0.8% in 2022, versus 0.0% in 2021. At 31 December 2022, the NPL-to-gross-loans ratio stood at 2.7%, versus 2.4% at 31 December 2021.

Mitigation

The Bank has implemented Credit Policies which outline credit risk control and monitoring procedures and the Bank's credit risk management systems. They are reviewed annually or more frequently, if necessary. The credit risk appetite statement and supporting limits help the Bank mitigate credit risk, and is approved by the Supervisory Board. The statement consists of quantitative limits that monitor and control the overall quality of the Bank's portfolios.

Principal risks and uncertainties continued

Credit risk continued

Mitigation continued

Evaluation of customer creditworthiness: Prior to disbursing loans to customers, the Bank performs a rigorous assessment of their debt-paying ability – assessing relevant quantitative and qualitative measures (including PTI, LTV, debt to EBITDA and other ratios), including the limits defined by the NBG. The assessment process differs depending on transaction complexity: corporate, SME and larger retail and micro loans are assessed individually; smaller retail and micro loan decisions are largely automated. The performance of all models used in credit risk is monitored in line with the Bank's model risk management framework – see model risk on page 79.

During the year a new model of unsecured consumer loans was developed, resulting in a better predictive performance and reducing retail segment portfolio risk. Furthermore, the Bank had initiated project with global management consulting company McKinsey & Company, who assessed unsecured consumer lending process and its risks, helping us to transform processes in digital channels.

In the case of loans individual assessment, the risk manager ensures all risks and mitigating factors are identified, and that the loan is properly structured. The loan is then reviewed and approved by multi-tiered credit committees, with different approval loan limits to consider the customer's overall risk profile.

The Bank also reviews external credit rating scores when available, and otherwise assigns internal ratings. The Bank has developed internal scoring models for evaluating the creditworthiness of Retail and MSME customers.

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

Retail and MSME loans are subject to periodic reviews, and the Bank monitors exposures to identify customers with signs of potential financial difficulty. We have initiated the development of internal behaviour scoring models for MSME customers to predict their debt-repaying ability.

For CB loans above US\$ 5 million, the Bank updates the financial information of borrowers and reviews significant non-financial changes quarterly. Exposures up to US\$ 5 million are monitored semi-annually, or as needed if signs of credit stress are detected.

The Bank strictly adheres to customer exposure limits set by the NBG for CB loans and limits set internally, monitors the level of concentration in the loan portfolio and the financial performance of its largest borrowers, and maintains a well-diversified loan book. The Bank's top ten borrowers accounted for 5.9% of gross loans to customers and finance lease receivables at 31 December 2022, versus 8.3% at 31 December 2021.

The Bank provides monthly updates to the Board of Directors on the Bank's exposures and loan portfolio quality, and detailed information on its largest Corporate and Investment Banking borrowers.

Collateral valuation: Property and other security arrangements are used to mitigate credit risk across portfolios. The main forms of collateral in Corporate and Investment Banking and MSME segments are liens over real estate, property, plant, equipment, inventory, transportation equipment, corporate guarantees, and deposits and securities. The most common form of collateral in Retail Banking for loans to individuals is a lien over residential property. As at 31 December 2022, 82.3% of the Group's gross loans were collateralised.

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

Restructuring and collections: The Bank provides solutions to help borrowers experiencing financial difficulties to meet contractual obligations. Cases are managed on an individual basis, with the circumstances of each customer considered separately. The Bank may initiate a loan restructuring process, modifying the contractual payment terms, to support customers and transfer loans back to the performing category. Helping the customer return to financial health and restoring a normal banking relationship is always the preferred outcome. However, where a solvent outcome is not possible, insolvency may be considered as a last resort.

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

Credit risk continued

Mitigation continued

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

The Bank uses a three-stage model for ECL measurement and classifies its borrowers in three stages:

- The Bank classifies its exposures as Stage 1 if, at the reporting date, it is not credit-impaired and credit risk has not increased significantly since initial recognition.
- The exposure is classified as Stage 2 if, at the reporting date, it is not credit-impaired and credit risk has increased significantly since initial recognition.
- The exposure is classified as Stage 3 if, at the reporting date, it is credit-impaired.

The Bank determines ECL of financial assets on a collective basis, and for individually significant loans on an individual basis, when a financial asset or a group of financial assets is impaired. The Bank creates ECL provisions considering a borrower's financial condition, days past due, changes in credit risk since loan origination, forecasts of adverse changes in commercial, financial or economic conditions affecting the creditworthiness of the borrower, and other qualitative indicators – such as external market or general economic conditions. If ECL subsequently decreases, the previously recognised loss is reversed by an adjusted ECL account.

Under the Bank's internal credit loss allowance methodology, which is based on IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Credit Risk Management departments assess all defaulted significant loans individually. Non-defaulted significant loans are given a collective assessment rate. For provisioning purposes, all loans are divided into different groups (such as mortgage, consumer, and micro loans).

Loans up to US\$ 1 million secured by real estate are subject to a write-off once overdue for more than 1,460 days. Unsecured loans and those secured by collateral other than real estate are subject to a write-off once overdue for more than 150 days. Corporate loans and those above US\$ 1 million secured by real estate may be written off as assessed by the Bank's Chief Risk Officer and the Credit Risk Management departments.

Counterparty risk: By performing banking services, including lending on the inter-bank money market, settling a transaction on the inter-bank FX market, entering into inter-bank transactions related to trade finance, or investing in securities, the Bank is exposed to the risk of loss due to failure of a counterparty to meet its contractual obligations. To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty based on an external credit rating and overall risk profile, as well as country limits to manage concentration. Counterparty credit risk exposures are monitored daily and any breaches are escalated in line with escalation policies to senior management. As at 31 December 2022, 92.0% of the Bank's inter-bank exposure was to 'Investment Grade' banks (based on Fitch, Moody's and Standard and Poor's assessments).

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

Principal risks and uncertainties continued

Liquidity and funding risks

Principal risk/ uncertainty	<p>Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.</p> <p>Funding risk is the risk that the Group will not be able to access stable and diversified funding at an acceptable cost.</p>
Key drivers and developments	<p>The availability of funding in emerging markets is significantly influenced by the level of investor confidence and thus any factors that affect investor confidence – including a downgrade in credit ratings, state interventions, or debt restructurings in a relevant industry – could affect the price and/or availability of funding for the Group's companies operating in any of these markets.</p> <p>The Group's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Group to provide liquidity become illiquid or their value drops substantially, the Group may be required – or may choose – to rely on other sources of funding to finance its operations and future growth. However, only a limited amount of funding is available on the Georgian inter-bank market, and recourse to other funding sources may pose additional risks – including the possibility that other funding sources are more expensive and less flexible.</p> <p>The Group is also exposed to the risk of unexpected, rapid withdrawal of large volumes of deposits by its customers and/or drawing on off-balance sheet commitments, adversely impacting the Group's business, financial position and performance. This may happen in the case of severe economic downturn or a period of political, social, and economic instability, a major deterioration in consumer confidence, or an erosion of trust in financial institutions.</p>
Mitigation	<p>Liquidity risk is managed through the ALCO-approved liquidity risk management framework, which models the ability of the Group to meet its payment obligations under both normal and stress conditions. The framework is reviewed regularly to ensure its appropriateness given the Group's current and planned activities, and encompasses sets of limits on various liquidity indicators, closely monitored by the ALCO. The Group performs weekly liquidity forecasts and applies scenario analysis and stress testing to ensure it holds adequate stock of liquidity. Additionally, the Bank has developed a liquidity contingency plan defining risk indicators for different scenarios and mitigation actions to identify emerging liquidity concerns at an early stage.</p> <p>The concentration of funds by currency, maturity, commodity, and counterparty is monitored regularly and, where concentrations do exist, is managed as part of the planning process and limited by the internal funding and liquidity risk management framework, with analysis regularly provided to the ALCO.</p> <p>Liquidity and funding risk is managed by the Treasury department and ALM unit. The CFRM unit is responsible for developing and maintaining standards and guidelines on funding and liquidity risk management, and for setting the risk appetite. Furthermore, the CFRM is responsible for conducting risk profile reviews and communicating results to the ALCO.</p> <p>The Bank maintains a comfortable buffer on top of the liquidity coverage ratio (LCR) requirement of 100% mandated by the NBG. A strong LCR enhances the Group's short-term resilience. The Bank also holds a comfortable buffer on top of the net stable funding ratio (NSFR) requirement of 100%, providing stable funding sources over a longer time span. This approach is designed to ensure the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. Notably, the LCR and NSFR measures as implemented by the NBG are already more conservative than the minimum levels required under the Basel III framework. At 31 December 2022, the Bank's LCR ratio stood at 132.4% (versus 124.0% at 31 December 2021) and its NSFR ratio was 131.9% (versus 132.5% at 31 December 2021).</p> <p>The Group maintains a diverse funding base comprising short-term sources of funding (including Retail Banking and Corporate and Investment Banking customer deposits, inter-bank borrowings and borrowings from the NBG) and longer-term sources (including Retail Banking and Corporate and Investment Banking term deposits, borrowings from international credit institutions, and long-term debt securities). At 31 December 2022, 51.0%, 40.2% and 8.8% of the Group's long-term funding sources were deposits, amounts owned to credit institutions, and debt securities respectively.</p> <p>Client deposits and notes are one of the key sources of funding. At 31 December 2022 and 31 December 2021, 90.3% and 88.8% of client deposits and notes respectively had contractual maturities of one year or less, of which 66.8% and 56.1% respectively were payable on demand. As of the same dates, the ratio of net loans to client deposits and notes was 92.3% and 115.2% respectively, and the ratio of net loans to client deposits and notes and DFIs was 83.8% and 100.0% respectively.</p> <p>The Bank has strong support from IFIs. The Bank signed a number of new local and foreign currency long-term borrowings during 2021 and 2022 – approximately US\$ 400 million in total, part of which was drawn down during 2021 and 2022. At 31 December 2022, the Bank had approximately GEL 689 million undrawn long-term facilities from DFIs with maturity of up to 12 years, as well as a strong pipeline to secure resources needed for the next 12 months.</p>

Capital risk

Principal risk/ uncertainty

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

Key drivers and developments

Bank of Georgia is subject to the NBG's capital adequacy regulation, which is based on Basel III guidelines with regulatory discretion applied by the NBG. Current capital requirements include Pillar 1 requirements, combined buffer (systemic, countercyclical and conservation buffers) and Pillar 2 buffers (concentration, GRAPE, CICR and stress-test buffers). Increased capital requirements are phased in gradually, with fully loaded capital adequacy requirements effective by the end of March 2023.

Our ability to comply with existing or amended NBG requirements may be affected by several factors, including those outside our control, such as an increase in risk-weighted assets, our ability to raise capital, losses resulting from the deterioration of asset quality, and a reduction in income levels and/or an increase in expenses and local currency depreciation.

Mitigation

The Bank maintains an actively managed, robust capital base to cover the risks inherent to its business. As part of our capital adequacy management framework we continuously monitor market conditions and perform stress testing to test our position under adverse economic conditions and market and regulatory developments. Capital risk management is underpinned by a Capital Management Policy outlining key principles of capital management, monitoring and control, defining roles and responsibilities of the three lines of defence, and defining capital mitigation plans in line with the risk appetite framework. The ALM unit executes daily capital risk management decision-making, while the CFRM establishes the capital risk management framework and challenges its effective implementation. The Bank's capital position and capital planning is continuously monitored by the Board of Directors to ensure prudent management and timely actions when necessary.

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

The Bank regularly undergoes capital optimisation exercises to strengthen its capital position and enable the realisation of potential upsides. In May 2022, the Bank signed a US\$ 50 million Additional Tier 1 Capital Perpetual Subordinated Syndicated Facility with EBRD and Swedfund International AB (Swedfund).

In 2022 the Group delivered strong operating performance, with strong top- and bottom-line growth, reduced cost-to-income ratio and robust asset quality, resulting in a ROAE (adjusted for one-off other income and one-off tax expense) of 32.4%. The Bank maintained capital adequacy ratios well above the minimum regulatory requirements. Given the Group's strong performance and capital position during 2022, the Group paid an interim dividend of GEL 1.85 per ordinary share in respect of the period ended 30 June 2022. In addition, during 2022 the Group commenced a share buyback and cancellation programme, having repurchased and cancelled 1,670,446 ordinary shares. The total cost of the programme was GEL 112.7 million. In February the Board has approved an increase of the share buyback and cancellation programme by up to GEL 148 million. In addition, at the 2023 AGM, the Board also intends to recommend for shareholder approval a final dividend for 2022 of GEL 5.80 per share payable in Pounds Sterling at the prevailing rate. This would make a total dividend paid, from the profits of JSC Bank of Georgia, in respect of the Group's 2022 earnings of GEL 7.65 per share.

Principal risks and uncertainties continued

Market risk

Principal risk/ uncertainty	Market risk is the risk of financial loss due to fluctuations in fair value or future cash flows of financial instruments due to changes in market variables.
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Market risk exposure arises from mismatches of maturity or currency between assets and liabilities, all of which are exposed to market fluctuations.

Key drivers and developments	The volatility of the Lari may adversely affect the Bank's financial position. The Bank's currency exchange risk is calculated as an aggregate of open positions and is limited by the NBG to 20% of regulatory capital.
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The Bank has exposure to interest rate risk due to lending at fixed and floating interest rates in amounts and for periods that differ from those of term borrowings. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

Mitigation	<p>General principles of the Bank's market risk management policy are set by the ALCO. The ALCO sets limits on market risk exposures by currencies and closely monitors compliance with the Bank's risk appetite framework. Exposures and risk metrics are regularly tested for various plausible scenarios.</p> <p>Currency exchange rate: The Bank's currency risk is calculated as an aggregate of open positions and is controlled by daily monitoring of open currency positions and the value-at-risk (VAR) historical simulation method based on 400-business-day statistical data. In addition, open positions in all currencies except for Lari are limited to a maximum of 1% of the Bank's total regulatory capital as defined by the NBG. The open currency position is also limited by the ALCO to an annual VAR limit of GEL 50 million with a 98.0% 'tolerance threshold'.</p> <p>Interest rate: To minimise interest rate risk, the Bank monitors its interest rate (re-pricing) gap and maintains an interest rate margin (NII before impairment of interest-earning assets divided by average interest-earning assets) sufficient to cover operational expenses and risk premium.</p> <p>Within limits approved by the Bank's Supervisory Board, ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. As per a regulatory requirement, the Bank assesses the impact of interest rate shock scenarios on economic value of equity (EVE) and NII. The Bank's EVE sensitivity with respect to Tier 1 capital remains comfortably below the maximum regulatory limit. At 31 December 2022, the Bank's EVE ratio stood at 5.9%, below the maximum limit of 15.0%. EVE and NII sensitivities are further limited by the Supervisory Board risk appetite. In addition, the ALCO sets limits on EVE and NII ratios by currency with respect to CET1 capital and monitors those monthly.</p> <p>In the wake of upward trends in market interest rates, the Bank actively performs various stress tests and scenario analyses to assess the potential impacts of interest rate shocks on portfolio quality and profitability.</p> <p>Prepayments: The Bank reviews prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product individually, applying the historical rates to the outstanding carrying amount of each loan product as of the reporting date, and then multiplying the product by its weighted average effective annual interest rate. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.</p>
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Regulatory and legal risk

Principal risk/ uncertainty	Regulatory and legal risk is the risk of financial loss, regulatory censure, criminal or civil enforcement action or damage to the reputation as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.
Key drivers and developments	<p>The Group is subject to increasing legal and regulatory requirements, and the competitive landscape in which we operate may change as a result – the extent and impact of which may not be fully predicted.</p> <p>Since the Group is listed on the London Stock Exchange (LSE)'s main market for listed securities, it is subject to the UK Financial Conduct Authority's regulations and listing rules. The Group's core entity, JSC Bank of Georgia, is also subject to laws of Georgia and regulatory oversight of the NBG. Furthermore, Group companies are subject to relevant laws and regulations in Georgia, and the banking subsidiary in Belarus, BNB, is subject to the laws of Belarus and regulatory oversight of the NBRB.</p>
Mitigation	<p>The Group undertakes the following key mitigating actions to manage regulatory and legal risk:</p> <p>Compliance policies: The Group maintains compliance policies and procedures enabling the integration of compliance risk management principles across the operations in line with relevant regulations. These policies set the principles and standards for managing compliance risks across the Group and define key roles and responsibilities of an independent compliance function. Our compliance risk management framework and policies are subject to review by the Bank's Internal Audit function. Adherence to the policies is mandatory for all employees and, to increase awareness, the Bank runs a mandatory compliance training programme. The completion rate of the programme at the end of 2022 was 86%. The trainings are easily accessed online and assigned to each person according to their role. The compliance programme is integrated with our HR management system, and each manager has daily access to their staff's compliance trainings status as well as the team's overall KPI. Reminders are sent regularly to employees who do not complete trainings timely. Additionally, relevant process owners receive quarterly Bank-wide reports and, when needed, escalate issues accordingly.</p> <p>Regulatory change management: In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes during our formal risk identification and assessment processes. Our legislative and regulatory change management system is designed such that changes in laws and regulations are proactively identified by the Legal and Compliance departments. In addition, we maintain a standardised process to design and implement appropriate changes by generating workflows, assignments, tasks, and automated follow-ups. As part of the regulatory change management process, we engage in constructive dialogue with legislative and regulatory bodies where possible, and seek external advice on potential changes in legislation. We have a formal link and a coordinated communication process with the NBG. Significant regulatory and legal changes as well as material regulatory inspections are regularly discussed with the Group's Audit Committee.</p> <p>Related party transactions monitoring: The Group ensures related party transactions are identified, assessed and monitored in line with the requirements of the NBG. Controls are defined and the process is organised based on the three lines of defence.</p>

Principal risks and uncertainties continued

Conduct risk

Principal risk/ uncertainty	Conduct risk is the risk that the conduct of the Group and its employees towards customers will lead to poor or unfair customer outcomes or adversely affect market integrity, will damage the Group's reputation and competitive position.
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Key drivers and developments	Conduct risks can impact our customers directly or indirectly and could arise from a number of areas:
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- insufficient business and strategic planning that does not consider customer needs;
 - ineffective development, management and monitoring of products, their distribution (including the sales process, fair value assessment) and post-sales service, including the management of customers in financial difficulties;
 - unclear, unfair or untimely customer communications; and
 - ineffective management and resolution of customers' complaints or claims.
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Mitigation	To effectively mitigate conduct risks the Group remains focused on delivering a leading customer experience, and undertakes the following actions:
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Treating customers fairly: Our Code of Conduct and Ethics and Customer Protection Standard covers all stages of the product and services lifecycle, and includes requirements related to transparent product offerings and clear and accurate communications to enable customers to make informed decisions. The Customer Rights Protection unit serves as a second line of defence, ensuring the Bank's processes are compliant with applicable laws and regulations and in line with internal policies and procedures.

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

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

Financial crime risk

Principal risk/ uncertainty	Financial crime risk is the risk of knowingly or unknowingly facilitating illegal activity, including money laundering, fraud, bribery and corruption, tax evasion, sanctions evasion, the financing of terrorism and proliferation, through the Group.
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Key drivers and developments	Financial crime risks continue to evolve globally, and the Group faces stringent regulatory and supervisory requirements related to its management. Failure to comply with these requirements may lead to enforcement action by the regulator, leading to financial loss and/or damage to the Group's reputation.
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The main sources of financial crime risk are:

- an inherent risk related to providing products and services to customers that may expose the Group to financial crime;
- inadequate controls to detect risk and/or reduce the residual impact and likelihood of financial crime risk; and
- business activities with an unacceptable level of risk exposure that may not be adequately managed.

Globally, increased volume and speed of transactions together with increasing digital transformation in financial services are fuelling the following trends in financial crime risk management:

- as transactions are being executed more quickly, the Group needs to use more advanced detection techniques and data to mitigate risks;
 - the number of identity frauds, account takeovers and fabricated customer accounts is expected to rise globally. The Group will need to combine the breadth of available information with more advanced data analytics and machine learning capabilities to mitigate the risk;
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Financial crime risk continued

Key drivers and developments continued

- diagnosis products (new and non-traditional) for money laundering. Criminals are more likely to shift their attention to non-traditional products, including trade finance, securities and transaction laundering, cryptocurrencies and the Group will need to implement more advanced technological solutions and comprehensive policies to prevent and detect money laundering;
- the financial crime risks related to the use of innovative fintech are not yet fully understood, while the changing sanctions and regulatory landscape presents execution challenges; and
- recent events around the Russia-Ukraine war have raised sanctions compliance risks.

Mitigation

The Group's financial crime risk management programme aims to ensure all business units, support functions and subsidiaries consider the impact of their activities on the risk profile and take effective measures to ensure alignment with the Group's risk-taking approach for financial crime. We aim to prevent harm to customers and the economy caused by criminals and terrorists, and actively monitor our exposure to financial crime risks, reporting all issues in a timely and proactive manner.

Anti-money laundering: We have an AML/counter-terrorist financing (CTF) framework that reflects a risk-based approach towards money laundering / financial terrorism (ML/FT) risks. The framework complies with the local legislation, international standards (Financial Action Task Force recommendations) and international financial sanctions programmes. Annual training on ML/FT policies and procedures is mandatory for all relevant employees and the completion rate for AML training was 85% at the end of 2022. The progress of completion is being monitored. We make sure that the employees cover the training material according to the timeline.

To mitigate risks related to ML/FT, we have established a risk governance structure based on the three lines of defence model. To strengthen our ability to detect and prevent financial crime, we continue to enhance our ML/FT risk management function. We have updated policies and procedures to make our ML/FT risk management activities more robust, and we have invested significant resources to improve our ML/FT risk management capabilities, including implementing screening and filtering tools supported by advanced analytics and transaction monitoring solutions, as well as reinforcing the staff dedicated to the AML function.

Bribery and corruption: We are committed to preventing bribery and corruption by implementing appropriate policies, processes and effective controls. We expect all our employees to adhere to our Code of Conduct and Ethics. The Group has zero tolerance towards non-compliance with anti-bribery and anti-corruption policies and procedures.

All employees receive annual mandatory training on anti-bribery and anti-corruption policies and procedures, including information on how to use the Bank's anonymous whistleblowing channel. The completion rate for anti-bribery/anti-corruption training was 88% at the end of 2022. Reminders are sent regularly to employees who did not complete trainings timely and completion is monitored by relevant managers.

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

Due diligence: The Group continues to improve customer due diligence practices and transaction monitoring capabilities, including monitoring supported by risk-based scenarios, handling alerts and reporting suspicious activities where required. Our KYC procedures for customer screening and transaction monitoring ensure compliance with international financial and economic sanctions regulations as well as procedures for verifying customer identity to protect the Group against money laundering and terrorism financing. High-risk clients, including politically exposed persons and virtual asset service providers, those subject to adverse media coverage or performing unusual or crypto currency-related transactions, or those living and working in countries or sectors with an inherently higher risk of financial crime, undergo additional due diligence.

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

- Know Your Employee procedures, which include screening requirements at recruitment, employment and departure stages of employment, allow us to have a clear understanding of an employee's background and actual or potential conflicts of interest;
- mandatory training for all new employees to increase awareness regarding fraud risk; and
- communication channels to inform our customers about fraud risk.

The Bank's Internal Audit function, utilising a risk-based approach, provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems. Financial crime risks are on the regular agenda of the Joint Audit and Risk Committees.

Principal risks and uncertainties continued

Information security and data protection risks

Principal risk/ uncertainty

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

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

Key drivers and developments

Information security risk is a top risk globally for organisations, especially in financial services. The Bank remains a subject to attempts to compromise its information security. The external threat profile is continuously changing, and we expect threats to increase. Alongside the human toll, the invasion of Ukraine is a salient reminder of the omnipresent danger of state-sponsored cyber attacks that aim to disrupt and disable IT systems.

In light of the ever-evolving hostile cyber threat environment, we understand the importance of continuously investing in administrative and technical controls that help prevent, detect, and respond to existing and potential threats. Nevertheless, opportunities remain for malicious actors, with respect to:

- zero-day attacks, which exploit a previously unknown vulnerability;
- brand impersonation attacks, which use sophisticated techniques;
- cases where we do not have direct control over the cybersecurity of the systems targeted (such as those of our customers and third-party service providers), limiting our ability to effectively defend against certain threats; and
- failure by employees to adhere to our policies, procedures and technical controls.

On 1 January 2022, as a result of legislative amendments, the Bank was recognised as one of Georgia's critical information system subjects, which means that its uninterrupted operation of the information system is essential to the defence and/or economic security of the country, as well as to the maintenance of state authority and/or public life. Current legislation imposed a considerable number of obligations on the Bank, leading to the need for minor amendments to existing procedural documents and established practices.

Mitigation

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

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

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

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

- integrating information security and data protection due diligence in the third-party service provider's selection process, to determine the level of risk posed by a potential third-party service provider;
- ensuring necessary contractual and technical controls are implemented to mitigate identified risks, prior to engaging with third-party service providers; and
- monitoring existing third-party service providers at least annually to assess the fulfilment of agreed information security and data protection requirements. The termination of a relationship is subject to exit procedures to ensure the protection of the confidentiality, integrity and availability of the Bank's information.

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

Annual information security and data protection training is mandatory for all relevant employees, and includes a tailored course on mitigating information security risks while working remotely. We provide continuous, role-based data protection training to keep employees aware of data protection risks and to explain their role in mitigation.

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

Information security and data protection risks continued

Mitigation continued

Finally, we recognise that, regardless of our efforts to enhance information security controls Bank-wide, in limited cases there may be a justified business need for controlled exceptions to existing policies, procedures and technical controls. To this end, we have improved our approach to information security exception management, which allows noted flexibility, a holistic view of overall risks resulting from the exceptions, and their proactive management.

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

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

Information security incident response: To successfully mitigate the above-mentioned key risks we have further aligned our incident response plan with the industry standard and accepted best practices as provided by the National Institute of Standards and Technology in its Computer Security Incident Handling Guide. We also conduct continuous breach and attack simulations, which allow us to see our network through the eyes of malicious actors, verify our defences and security configuration, and continuously monitor and improve our defensive posture. We are also in the process of refining our information security incident response plans. We use additional metrics such as mean time to detect, mean time to respond, and false positive ratio, to better track the performance of our Security Operations Centre. These metrics are tracked with respect to the entire Security Operations Centre and each of its team members.

Russia-Ukraine war: In response to the ongoing Russia-Ukraine war, the Bank has increased its monitoring efforts with respect to threats coming from Russia. While the intensity of attempts to compromise have increased, we do not expect them to lead to any significant negative impact on the Bank.

During 2022, we have enhanced our capabilities by implementing a vandal-protected backup storage. As a result, neither external nor malicious internal threat actors can harm the Bank's core database backup in any way.

Information security risk is measured against predefined risk appetite metrics and thresholds, and performance is reported quarterly to the Risk Committee. It aims to minimise our exposure to the data and security breaches to the lowest in order to achieve our main strategic objectives: (i) delivering excellent customer experience and (ii) maintaining the Group's financial strength. The Bank's Internal Audit function, on a risk-based approach, provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems. Information security is on the Risk Committee's regular agenda, and we engage external auditors to conduct cybersecurity audits.

Data protection policies: We maintain a comprehensive set of data privacy policies and standards to ensure we operate in compliance with applicable privacy regulations and state-of-the-art principles. These policies and procedures outline privacy principles and standards we observe while processing personal data, and are:

- regularly revised to ensure they reflect current legal, regulatory, best practice and internal policy requirements;
- annually reviewed and approved by relevant governance bodies; and
- aligned with recognised industry standards.

Effective implementation of the privacy strategy requires a strong organisational structure. To this end, we have appointed the industry's pioneering Data Protection Officer ('DPO') whose responsibilities include but are not limited to:

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

Privacy matters are considered in all new processes and projects. We are increasingly seeing employees proactively engaging the DPO and undertaking data privacy impact assessments. These assessments ensure our projects comply with data protection legislation when they go live.

Principal risks and uncertainties continued

Information security and data protection risks continued

Mitigation continued

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

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

Operational risk

Principal risk/uncertainty

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

Operational risk may result in losses emerging from the following events, among others:

- internal and external fraud;
- business disruption and system failures;
- employment practices;
- clients, products and business practices;
- damage to physical assets and infrastructure; and
- execution, delivery and process management.

Key drivers and developments

Deficiencies or ineffectiveness in operational risk management may result in inaccurate financial, regulatory or risk reporting, which may have an adverse effect on accurate and timely visibility of the Group's risk profile for our key stakeholders. The trends driving the need to transform, other than above-mentioned emerging risks, stem from multiple sources:

- Customer expectations of banking products and services will change with the emergence of new technologies and service models that will force banks to rethink their business models and deal with new operational risks.
- Accelerating digitalisation and automation will make IT and operational resilience more sophisticated. The speed of change and the need to innovate has spurred the introduction of technologies whose deployment needs careful management.
- The talent pool will need to shift to more IT- and data-savvy profiles to catch up with the increased level of digitalisation and automation of processes.

The Group has implemented policies and procedures and has established an operational risk framework for anticipating, mitigating, controlling and communicating operational risks and the overall effectiveness of the internal control environment across the Group. The operational risk framework includes the risk and control self-assessment ('RCSA') process, risk impact likelihood matrix, key risk indicators, risk appetite, operational event management, and operational loss process. The RCSA process acts as a specific control through which operational risks and the effectiveness of controls are assessed and examined, providing reasonable assurance that all business objectives will be met. Through effective alignment of roles and responsibilities related to operational risks among the three lines of defence, the Group identifies, monitors, measures, reports on and manages risks and related controls.

The prime responsibility for the management of operational risk and the compliance with control requirements rests within the business units where the risk arises. They are required to report their operational risks on both a regular and an event-driven basis. The Operational Risk department is a second line of defence, and is responsible for defining and overseeing the implementation of the framework and monitoring the operational risk profile. The Operational Risk department alerts the Board of Directors when risk levels exceed acceptable tolerance in order to drive timely decision.

Operational risk continued

Mitigation

Internal controls: We have designed internal controls that ensure the Bank has efficient and effective operations, safeguards its assets, produces reliable financial reports, and complies with applicable laws and regulations.

The following elements of the internal control framework enable us to mitigate operational risks:

- established clear authorities and processes for approval;
- close monitoring of key risk indicators and the alert system to ensure adherence to thresholds or limits;
- infrastructure security;
- appropriate employee recruitment, learning and development practices to maintain expertise;
- continuous processes to identify business lines or products that appear to under- or over-perform in comparison with reasonable expectations; and
- regular verification and reconciliation of transactions and accounts.

Policies and standards: The Operational Risk department develops and maintains a framework and comprehensive set of policies and standards reviewed and approved by the relevant governance bodies to ensure they are aligned with recognised industry standards, such as Basel and the European Banking Authority (EBA), and are made available to all relevant employees through internal channels. The Operational Risk Management Committee is responsible for setting and overseeing qualitative and quantitative parameters of operational risk appetite and tolerance. The Bank's Management Board and Risk Committee are also responsible for setting an overall risk appetite.

Business resilience and continuity: We are exposed to disruptive events which could be severe and affect our ability to fulfil some or all of our business obligations. Incidents that damage the Bank's assets, including IT infrastructure, may result in significant financial losses for the Group, as well as for the local industry. To ensure resilience against such risks, the Group has established a business continuity plan appropriate for the nature, size and complexity of our operations. The plan takes into account different scenarios to which the Group may be susceptible, including system and technology failures.

The Group continuously performs business impact analyses, testing, training and awareness programmes, communication and crisis management programmes, and develops recovery strategies. We identify and reassess critical business operations, cyclically or as needed, key internal and external dependencies, and appropriate resilience levels. The identified plausible disruptive scenarios are assessed for their financial, operational and reputational impact, and the resulting risk assessment is the foundation for recovery objectives and measures, and ultimately for a recovery plan.

Events and loss data management: The Group has an operational risk event and loss data management process with the goal to identify and record the operational risk of financial and non-financial events. A single event can result in multiple losses (or recoveries). The Group purchases insurance against specific losses to comply with statutory or contractual requirements.

Third-party relationships: The Group's policy ensures third-party relationship initiatives follow a defined process, including due diligence, risk evaluation and ongoing assurance. The following aspects support effective monitoring and management of third-party risk:

- standards that define whether and how activities can be outsourced;
- due diligence standards to select potential service providers and processes for identifying, managing and monitoring the associated risks, including the financial condition of the service provider; and
- sound contracting of outsourcing arrangements.

Awareness programmes: We conduct awareness campaigns and mandatory training to help our employees identify existing and potential risks. The Group's fraud awareness programme remains a key component of its fraud control environment, and awareness of fraud risk is supported by mandatory training for all colleagues. This is further strengthened by material annual investment into both technology and colleagues' personal development needs.

The Bank's Internal Audit function, on a risk-based approach, provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems. Operational risks are reviewed quarterly by the Risk Committee.

Principal risks and uncertainties continued

Human capital risk

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

We are exposed to the following key risks:

- failure to recruit, develop and retain employees, including failure to identify a talent pipeline and put the right people in the right roles;
- ineffective leadership, weak performance, employee disengagement and detachment resulting in high turnover;
- inappropriate and unfair remuneration policies;
- failure to meet all employee-related legal and regulatory requirements; and
- failure to effectively design people processes that ensure equal opportunity and diversity across the Group.

Key drivers and developments Employees are one of the key enablers of the success of our business. To be able to learn and innovate quickly, organisations globally have focused more on building rigorous talent management capabilities, including building a data analytics capability to hire, develop, and retain the best employees and match the right people to the right roles. Demographic changes have also highlighted the need to think more deeply about what kind of experiences employees value and how best to align their values and motivations with the values and objectives of an organisation, and which are the best channels for active communication with various segments of prospective candidates to get in touch with and keep them connected with the Group.

Increasing digitalisation and the growing focus on and importance of advanced data analytics and AI in business processes across the organisation have made the recruitment, development, and retention of IT and data science professionals one of our priorities. Globalisation and the shifting working patterns accelerated by the pandemic make it even more challenging to recruit top talent in these areas due to the scarcity of qualified candidates and availability of jobs both locally as well as globally. Georgia has a relatively limited talent pool which, while developing, may not keep up with the skills required in a digital, fast-moving and financially sophisticated organisation.

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

- We attract young talent by participating in job fairs and running extensive internships and student development programmes. We actively partner with leading Georgian business schools and universities to recruit top talent in different fields. We have a student development programme, Leaderator, that gives talented undergraduates the opportunity to have a 360° view of the Bank in action, work on real projects, and receive coaching and support from the Bank's executives and middle managers. The programme also helps us to attract IT, digital and data science and analytics students as it guarantees high qualification and fast professional growth within one of the best tech teams in Georgia.
- We offer our employees learning and personal development opportunities to enhance their competencies and skills throughout their careers, and support their career progression. Internal mobility remains a priority in our talent strategy to ensure having the right person in the right position at any given time. In 2022 we launched the Front2IT retraining programme enabling our front-office employees to move to a new profession in the field of technology. We expect that this approach will positively affect turnover keeping employees within the Bank and increasing motivation, engagement and overall productivity.
- We enhance our talent pool with those with international experience where appropriate and utilise training programmes including in-house, local and international courses to ensure employees learn about best practices and enhance their skills and knowledge.
- We offer competitive remuneration and benefits packages and support work-life balance. We monitor employee pay trends via labour market compensation surveys in the financial sector. Our remuneration structure is based on employee performance reviews, part of our continual feedback process. We continue to fine-tune our job architecture and grading structures by further advancing the job levelling project to ensure our remuneration system and practices are fair, clear and transparent for employees, allowing them to fairly plan their career moves and progression.

Human capital risk continued

Mitigation continued

- We have forums and communication channels enabling employee voices to be heard across the organisation, like CEO vlog on Workplace – regular live sessions with employees on current developments, Employee Voice meetings with the Board of Directors, town hall meetings and agile quarterly business reviews (QBRs).
- We ensure that HR policies and practices are developed and implemented to support our business activities and are in line with Georgian legislation and relevant international standards. We regularly review our policies and procedures to ensure that they reflect best practices, organisational changes, and legal requirements. You can see some of our HR-related policies on www.bankofgeorgiagroup.com.
- We offer hybrid working arrangements, giving a majority of back-office employees the flexibility to combine working from home with working from the office.
- We monitor human capital risk through a series of quantitative and qualitative indicators, such as ongoing deep interviews with each individual employee, Bank and team/division level eNPS, engagement scores, internal mobility, retention, and employee turnover. In addition we have Risk Committee-approved risk appetite metrics and limits in place which we regularly monitor and quarterly report to the Risk Committee. During 2022, our EXM team had already implemented action plans based on results of mentioned measures; some other initiatives are being elaborated (please see the Empowering Our Employees section, page 122).

All violations of ethical principles and standards related to the Code of Conduct and Ethics and Standards of Professional Conduct for Commercial Banks are reported quarterly to the Bank's Audit Committee.

Model risk

Principal risk/uncertainty

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

We recognise the importance of proper model risk management processes and controls to effectively address the above-mentioned risks.

Key drivers and developments

As banking operations become more complex and digital, models are becoming more prominent in decision-making. Increased adoption of statistical, machine-learning models and AI helps us improve decision-making and gain competitive intelligence. To sustain the benefits of model use in banking operations it is crucial to have sound model risk assessment frameworks and validation practices in place.

In May 2022 the NBG's updated regulation – Managing Risks for Data-based Statistical, Artificial Intelligence and Machine Learning Models – came into effect. The regulator has set additional requirements for model development, validation, monitoring and application. Within the scope of the regulation, all relevant new and existing models must be in line with the new requirements.

Mitigation

The Bank is actively enhancing the model risk management framework, which is continuously reviewed and refined to adequately address key model risks. The Bank's Model Risk Management Policy further defines:

- the segregation of roles and responsibilities of those involved in the model development lifecycle, including ownership of model development, independent oversight and approval; and
- key controls with respect to data integrity, model development, validation, implementation, backtesting and monitoring.

The Bank's model risk and control structure is based on the three lines of defence approach. Model Risk Owners in the first line are responsible for model approval and ongoing performance monitoring. The Bank's independent Risk function, in the second line, is responsible for validating new models and monitoring their compliance with regulatory requirements by focusing on the soundness of the algorithms used, the model's predictive ability and complexity, sustainability, consistency with business objectives, assumptions, and data quality. Further, to ensure effective model performance, the Bank has implemented automated processes for the ongoing monitoring of model performance. Based on the significance of model risk, automated notifications are generated on a model's performance for relevant stakeholders cyclically (monthly, quarterly, ad hoc).

The Bank maintains a structured model development lifecycle, including recalibration. All new models or changes to existing models are authorised by the Chief Risk Officer. Significant model-related issues are reported to the Bank's Supervisory Board, and the Bank's senior management is aware of major model risks.

Principal risks and uncertainties continued

Strategic risk

Principal risk/uncertainty	Strategic risk is the risk that the Group will be unable to execute its business strategy and create value for its stakeholders as a result of poor decision-making, ineffective resource allocation, or a delayed or ineffective response to the changes in the external environment.
Key drivers and developments	The Group faces strategic risks due to changes in the legal, regulatory, macroeconomic and competitive environments. The Covid-19 pandemic and the emergence of global fintech have changed customer, shareholder and employee expectations, indicating the need for strategic and forward-looking risk management.
Mitigation	<p>The Group has a sound corporate governance framework and its strategy is approved by its Board of Directors. Customer-centricity, people and culture, brand strength, and data and AI-driven decision-making are key enablers of the Group's sustainable value creation. The Group assesses and monitors strategic risk implications in its day-to-day activities, ensuring they respond appropriately to internal and external factors – including changes to regulatory, macroeconomic and competitive environments.</p> <p>Strategic planning: The Group conducts an annual strategic planning process to review its performance, discuss the internal and external environment, and develop a medium- and short-term strategic plan, considering potential financial and non-financial risks. This process is supported by risk appetite statements, a capital plan and a recovery plan.</p> <p>Monitoring: We conduct annual strategic review sessions involving top and middle management. During the year, execution of business strategies is monitored quarterly to assess performance against targets. The Group takes corrective measures to mitigate risks arising from significant variance.</p> <p>Periodic strategic challenging reviews: Our strategic options or decisions are systematically discussed and challenged with our Board of Directors, including during an annual dedicated strategic seminar session.</p>

Reputational risk

Principal risk/uncertainty	Reputational risk is the risk of damage to stakeholder trust and our brand image due to negative consequences arising from internal actions or external events.
Key drivers and developments	The Group's operations are subject to inherent reputational risk, with primary drivers identified as: failure in internal execution; failure to manage cyber and phishing cases; and a difference between the Group's values and public opinion.
Mitigation	<p>To mitigate potential reputational risks, effective systems and controls are in place to ensure high levels of customer service and compliance. For each material risk identified at any level of the business, the risk is measured, mitigated and monitored in accordance with our policies and procedures.</p> <p>To protect and build our brand, our Marketing team monitors media coverage daily and our Legal team makes sure marketing communications are fully compliant with internal policies, and reviews and confirms the compliance of products and services from a legal and regulatory perspective. The Group regularly tracks and measures customer satisfaction with both internal and external surveys, and monitors its compliance with risk appetite limits, reporting to Executive Management monthly.</p> <p>We also engage with our customers on information security-related matters through multiple channels, including our website, digital platforms and text messages. We regularly create and share content, including articles, interactive games and questionnaires through various media. We support and contribute to the development of information security in Georgia by regularly participating in collaborative efforts with our financial industry peers, law enforcement authorities, regulatory bodies and the Government to share knowledge and prevent negative impacts.</p>

Climate-related risk

Principal risk/uncertainty Climate-related risk is the risk of financial loss and/or damage to the Group's reputation as a result of accelerating transition to a lower-carbon economy as well as the materialisation of actual physical damage as a result of acute or chronic weather events. Among other things, transitional and physical risks may impact the performance and financial position of our customers and their ability to repay their loans.

Key drivers and developments Key stakeholders, including investors and lenders, are increasingly demanding more climate-related disclosures, including climate risk assessment and greenhouse gas (GHG) emissions reporting. Since 1 January 2021, the Group, as a premium-listed UK company, has been required to make disclosures in line with the TCFD recommendations.

In 2021, Georgia launched its updated Nationally Determined Contribution, published its Fourth National Communication under the United Nations Framework Convention on Climate Change (including updated Greenhouse Gas Inventory), adopted its Climate Change Strategy (2030) and Action Plan (2021-2023) and developed its National Energy and Climate Plan (2021-2030) and Long-Term Low Emission Strategy. In 2022, Georgia began work on a climate change law that will regulate climate-related issues and distribute responsibilities. These strategies and regulations and their implementation may drive change across the Georgian economy and increase the importance of climate change mitigation and adaptation.

We recognise climate change as an emerging risk and are working on integrating climate-related risks, both physical and transitional, into the overall risk management framework and decision-making processes across the Bank.

Mitigation In 2022, we continued to integrate climate-related risks into our risk management framework and business resilience assessments. We are working on each of the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets. We have focused on mitigating climate-related risks by:

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

Other initiatives to further embed climate risk and opportunity management into the Bank's operations include the establishment of an Environmental and Social Impact Committee comprising Executive and senior management of the Bank. The Committee is responsible for monitoring the Bank's climate, environmental and social risks and impacts, arising primarily as a result of our lending activities. The Committee meets quarterly and reports to the Supervisory Board twice a year.

GOING CONCERN AND VIABILITY STATEMENTS

Going concern statement

In adopting the going concern basis for preparing the consolidated financial statements, the Directors have considered the Group's business activities, strategy and objectives, principal risks and uncertainties, and the performance as set out on pages 17 to 81 and 149 to 162. The Directors have performed a robust assessment of the Group's financial forecasts across a range of scenarios over a 12-month period from the date the financial statements are authorised for issue by carrying out stress testing, incorporating extreme downside scenario and reverse stress testing, which involved examining the level of disruption that may cause the Group to fail. The assessment specifically incorporated an analysis of the implications of the ongoing Russia-Ukraine war on the Group's projected performance, capital, liquidity and funding positions, including the impact of scheduled repayment of borrowings and other liabilities. Based on these, the Directors confirm that they have a reasonable expectation that the Group, as a whole, have adequate resources to continue in operation for the 12 months from the date the financial statements are authorised for issue. Therefore, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the accompanying consolidated financial statements.

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Board is required to make a statement in the Annual Report and Accounts regarding the Group's viability over a specified time horizon.

In assessing Bank of Georgia Group PLC's viability, the Board considers a period of three years to be appropriate as the budget and business planning processes are based on a three-year horizon and it also considers that uncertainty increases as the time horizon extends.

In assessing the Group's viability over the three-year time horizon, the Board has considered different types of information including:

- The Group's business model and strategic plans.
- Current capital position and projections over the relevant period.
- Liquidity and funding profile and projections over the relevant period.
- The Group's risk profile, including any breaches of risk appetite, and principal and emerging risks that could have a significant negative impact on the Group.

- The effectiveness of the Group's risk management framework and internal control processes.
- Stress testing and reverse stress testing, as described in this section.

Bank of Georgia Group PLC's business and strategic plans, which are reviewed at least annually, provide long-term direction and assess resilience to a range of risks across the planning horizon. These plans include three-year forecasts assessing the Group's expected financial position throughout the planning period. A suite of economic scenarios supports the Group's financial planning processes. Stress testing is also integrated with financial planning processes. It is used to quantify and evaluate the potential impact of material risks on the financial strength of the Group, including its liquidity and capital positions.

For those risks considered sufficiently severe to affect our viability, we performed stress testing for the assessment period, which involved modelling the impact of a combination of severe yet plausible risks. In addition, we performed reverse stress testing, which involved examining the level of disruption that may cause the Group to fail. The Group has examined, among others, the impact of the following risks over the assessment period:

- The risk of deterioration of macroeconomic environment and regional instability:
 - Decline in real GDP growth rate.
 - Depreciation of Georgian Lari against the US dollar.
 - Increase of unemployment rate.
 - High and sustained levels of inflation and increased interest rates (the NBG's monetary policy rate, a US Fed rate, and an ECB rate).
 - Substantial drop in real estate prices
- Liquidity risk (one-off withdrawal of customer funds).
- Increased operational losses, including from materialisation of cybersecurity risk and regulatory fines.
- Increased risks related to the Group's operations in Belarus, leading to a full write-off of BNB operations.

Applying the stress testing scenarios to the Group's capital, liquidity and funding positions did not result in a breach of any regulatory requirements.

The reverse stress testing scenario is currently deemed to be implausible.

The stress test scenarios were reviewed against the Group's current and projected capital adequacy position and solvency, and liquidity position, considering current committed funding. The testing also took into account the availability and the likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group is exposed. These actions included a decline in lending activity, a partial suspension of share buybacks for the share-based compensation scheme and dividend distribution. It also took into account the assumption that the Group will be able to prolong or refinance existing borrowings, or increase the financing from DFIs, on terms worse than the existing ones. As mitigating actions in the case of the reverse stress testing scenario, we also considered a full suspension of share buybacks for the share-based compensation scheme and dividend distribution, the write-off of the Bank's AT1 capital notes and AT1 capital perpetual subordinated syndicated facility, a partial use of mandatory reserves placed at the NBG, the release of all Pillar 1 and Pillar 2 buffers under the Basel III capital requirements set by the NBG.

The Directors have also satisfied themselves that they have the necessary evidence to support the statement in terms of the effectiveness of the Group's risk management framework and internal control processes in place to mitigate risk.

Based on these analyses, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of from 1 January 2023 to 31 December 2025.

SUSTAINABLE BUSINESS

Empowering people by creating sustainable opportunities

We believe in shared success. Sustainability for us means acting in ways that empower our customers, our employees and our communities, and doing the business the right way – following the highest standards of corporate governance and robust risk management practices. This ensures we effectively mitigate the negative impacts we may have, directly or indirectly, on the economy, people, and the environment – and that we contribute to the sustainable development of the communities where we operate.

Bank of Georgia is a leading financial institution in Georgia, providing innovative products and solutions to more than 1.7 million active customers. Innovation and responsibility go hand in hand, and we recognise the role the Bank can play in supporting sustainable development and inclusion in all its forms. We believe understanding and managing ESG risks is crucial to maintaining our financial strength, so our approach to ESG has been integrated in the work we do across the business. The management of ESG-related issues is subject to

the governance and oversight of our Executive Management team and the Board of Directors.

We continue to make progress in understanding climate-related risks and opportunities, and putting in place practices to identify, assess, monitor and manage climate-related issues – focusing on the Bank's loan portfolio, as the main risks and impacts are associated with lending. We continue to support our business customers in their transition towards greener and more sustainable ways of doing business.

Supporting the transition with business solutions

We support retail and business clients with a variety of financial products – including credit and non-financial offerings, such as expertise and networking.

Transforming our own business

Our goal is to continuously improve the way we do business, by aligning our operations with the highest standards of business conduct and best practices.

Being a leader

We are known for our innovative products and great customer experience. We believe we can build on our customer franchise strength, to continue contributing to a more sustainable future.

Empowering local communities

We are a leading organisation when it comes to actively supporting our communities. We do so through educational projects, brand campaigns and sponsorships.

Our approach to ESG has been informed by the views of our key stakeholders. In 2021 we conducted an externally facilitated formal ESG materiality

assessment (see details in Annual Report 2021), which included extensive stakeholder outreach – helping us define the Group's material topics and formulate

our key objectives. Our ESG priorities continue to evolve, and we are committed to being transparent about our practices and progress.



ESG strategy

Focus areas			
Employee empowerment	Financial inclusion	Education in communities	Risk management and governance
Objectives			
To be the employer of choice for top talent, providing equal opportunities for development and ensuring the best employee experience based on our values and business principles.	To use the power of technology and product innovation to drive digital financial inclusion in Georgia.	To give more school students in Georgia access to quality educational infrastructure and opportunities.	To effectively manage risk – including climate-related and other E&S risks in our loan portfolio – by doing business in line with the highest standards of corporate governance and highest ethical principles.
Material topics			
<ul style="list-style-type: none"> Human capital development Diversity, inclusion and equity Human rights 	<ul style="list-style-type: none"> Customer satisfaction Customer protection Financial inclusion and empowerment Product innovation Information security and privacy 	<ul style="list-style-type: none"> Financial inclusion and empowerment Product innovation 	<ul style="list-style-type: none"> Ethical business Regulatory and legal compliance Enterprise risk management Board independence and diversity Human rights Climate, environmental and social management of loan portfolio Financial crime Information security and privacy

2022 KPIs and results¹

KPI	Result
eNPS of 54-62	53 (end of period) – see details on page 48
Digital monthly active users (MAU) – 1,000,000	✓
Payments MAU – 1,000,000	✓
Reaching 100,000 school students	✓

2023 KPIs²

Employee empowerment

eNPS of

54-62

Financial inclusion

MAU of sCoolApp in December 2023

70K

Number of self-employed borrowers at 31 December 2023

57K

1. For information on risk management practice and results, see the Principal Risks and Uncertainties section on pages 63 to 81 and the Risk Committee report on pages 198 to 201.

2. The ESG KPIs for 2023 have been updated following the engagement with some of the stakeholders throughout the year on ESG matters including the measures that they consider more appropriate to measure social impact and performance across the key ESG focus areas outlined above. As a result, we have decided to define targets for specific segments to measure the Bank's social impact.

Over the past two years we have focused on enhancing our ESG-related disclosures. This Report is again produced with reference to the Global Reporting Initiative (GRI) standards 2021, and you can find the GRI Content Index at the end of the Annual Report on pages 344 to 347. You can also find the Group's climate-related disclosures, consistent

with the TCFD recommendations and recommended disclosures on pages 103 to 117.

The information throughout this section is presented in relation to Bank of Georgia, unless otherwise stated. The Group's impacts are mainly driven by Bank of Georgia, given the Bank is the core

operating entity representing 94.0% of the Group's total assets.

If you have any questions on our ESG strategy and performance or would like to provide feedback, please reach out to us at esg@bog.ge.

Contributing to the United Nations Sustainable Development Goals

We remain committed to contributing to the five United Nations Sustainable Development Goals (UN SDGs) we linked to our strategy in 2020.

	<p>We fully share the goal to end poverty in all its forms, everywhere. As one of the biggest and most influential financial institutions in Georgia, we are taking responsibility to help achieve this goal. We are known not only as a leading financial services provider and one of the biggest employers, but also as an organisation supporting local communities in ways that go beyond our core business activities.</p>
	<p>Our focus area for community outreach and engagement has been education, because we believe there are countless opportunities made possible by access to high-quality education. Our objective is to enable access to educational opportunities across regions in Georgia, and to encourage more students to pursue them.</p>
	<p>We are committed to inclusion and equal opportunities in our organisation and strive for a gender-balanced workforce. We do not tolerate any form of violence, harassment, or discrimination. We are also committed to ensuring fair and transparent remuneration practices.</p>
	<p>The Bank contributes to Georgia's socioeconomic development through the products and services it provides and salaries and taxes it pays. Financial inclusion is one of our priorities, and we aim to provide accessible financial services to everyone and increase financial literacy among the communities where we operate.</p>
	<p>A changing climate presents both risks and opportunities for Georgia, its people, and its companies – and, thus, for the financial services sector. We recognise our role in addressing this global challenge. Climate change may affect us directly and indirectly, including through the impact on our clients. Bank of Georgia's Climate Action Strategy, published in 2022, describes how we intend to contribute to Georgia's climate-related goals. Assessing and discussing risks with clients, providing green finance, managing GHG emissions and improving our climate-related capacities are some of the key aspects of our climate strategy.</p>

Business ethics and conduct

In everything we do, we are committed to doing business with the highest ethical standards and in line with applicable laws and regulations. Bank of Georgia has a leading customer franchise in Georgia and maintaining the trust of our stakeholders is a top priority, so we monitor the changing legal and regulatory

environment, market conditions, and customer behaviours and preferences.

Getting feedback from employees is one of the ways we can assess the strength of ethics and accountability across our Group. We promote a 'speak-up' culture and aim to ensure our employees

are aware of our whistleblowing and grievance mechanisms, and have full comfort reporting potentially unethical practices without fear of reprisal.

In 2022 we received 35 ethics-related concerns from our stakeholders.

Code of Conduct and Ethics

Our Code of Conduct and Ethics is an integral part of the employment agreement between the Bank and its employees, and is fundamental to fostering company culture based on our values and business principles. The Code clearly sets the expectation

that all employees act legally, ethically and transparently in all their dealings. Employees joining the Bank commit to following the Code in all activities, and failure to do so may lead to disciplinary action up to and including termination of employment. We empower our employees

to act ethically and in line with our values and business principles by giving them detailed information about the resources available to escalate concerns.

Whistleblowing

The Bank has a whistleblowing tool in place that allows employees to report any concerns anonymously or confidentially. The Bank uses an external vendor, WhistleB, an advanced independent whistleblowing reporting channel and

case management tool. We prohibit any form of retaliation against an employee who raises a concerns and against anyone who participates in an investigation.

In 2022 we received seven relevant reports on the WhistleB platform, and a violation related to the abuse of power was confirmed in one case. A severe reprimand was given to the employee and her manager as a disciplinary measure.

Personal data protection and ethics

We are committed to protecting personal data, preserving the integrity, confidentiality and availability of data, increasing control over data protection risks, and giving individuals full control

of their personal data. We maintain a comprehensive set of information security and privacy policies and standards to ensure we operate in compliance with applicable privacy regulations and in line

with best practice. We aim to safeguard human rights, protect customers, and ensure customer data is handled in an ethical and responsible manner.

For more information on data protection and privacy, please see pages 144 to 145.

Anti-bribery and anti-corruption

As an organisation fully committed to the prevention of bribery and corruption, Bank of Georgia ensures that appropriate internal controls are in place and operate effectively. We do not engage in or tolerate unlawful or unethical business

practices, and do not tolerate involvement in or association with corruption under any circumstances. We have KYE procedures in place, including different screening procedures at recruitment, employment and departure stages of

employment. In 2022, there was no bribery and corruption incident registered in the Bank, nor did the Bank incur any bribery or corruption fines.

For more information on financial crime, please see page 143.

Our policies

Inclusive policies and practices lead to improved business performance and a company culture where everyone feels welcome, safe, and respected. Our policies reflect the needs of our customers, employees, and communities, and are designed to safeguard human rights, fair treatment and equal opportunities for everyone.

Our policies reflect our non-negotiable commitment to respecting human rights and taking necessary steps to prevent, mitigate and, where appropriate, remediate any adverse human rights impacts. We are committed to walking the talk on our values and business principles. Our human capital management policies are based on the Labour Code of Georgia, International Labour Organization (ILO)'s core labour standards, principles of professional ethics, the Code of Conduct and Ethics, Standards of Professional Conduct for Commercial Banks of Georgia, effective legislation of Georgia, and relevant international regulations.

Through our policies and practices we aim to cultivate an environment free from discrimination and harassment, where employees and all other stakeholders are treated with dignity and respect. The Bank provides all employees with the Employee Corporate Handbook, with the same conditions of employment specified in the Code of Conduct and Ethics, subject to applicable conditions of employment prescribed by law.

We ensure compliance with fundamental conventions regarding the effective abolition of child and forced labour, freedom of association, the effective recognition of the right to collective bargaining and the elimination of discrimination. All these conventions are ratified by Georgia and Bank of Georgia acts in accordance with the Labour Code of Georgia. We regularly review our policies and procedures to ensure they reflect best practice, organisational developments, and evolving regulatory and legal requirements.

During 2022, we focused on strengthening our policies and practices in line with best practice and feedback from ESG ratings agencies. We prioritised reviewing and developing new policies for sustainability, climate change, human rights, diversity and other material ESG issues. Additionally, to empower our employees and increase the effectiveness of their daily work, we are trying to make our policies and practices simpler to understand and implement. We are planning to migrate our policies to a new platform in 2023, making them easier to access.

ESG governance

Oversight of the majority of material ESG topics and related impacts on the economy, people, and the environment is allocated to specific Board Committees: the Risk, Audit, Nomination, and Remuneration Committees. While the Committees retain continued responsibility for discrete ESG-related matters, the full Board retains primary responsibility for the Group's overarching ESG strategy – which has been framed around material ESG topics. The Board ensures the alignment of ESG strategy with the business strategy, receives updates on progress of the key pillars

of the ESG strategy, and oversees the Group's overall communications strategy around ESG topics and impacts. The Full Board also retains primary responsibility for overseeing the management of climate risks and opportunities, and it oversees the management of other E&S risks and opportunities that may arise in the Bank's loan portfolio. Updates on material ESG topics are regularly reported to the full Board or respective Committees.

Management of ESG topics and implementation of ESG strategy are

delegated to the Bank's Executive Management team. Discrete ESG matters are managed by individual members of Executive Management. In 2022 a management-level Environmental and Social Impact Committee was held for the first time to review and discuss the Bank's ESG strategy and impacts, as well as climate-related matters. The Committee reported to the Supervisory Board of the Bank twice throughout the year.

Key developments of 2022

We updated and developed a number of ESG-related policies, which were approved by the Board of Directors

- Human Rights Policy
- Diversity and Inclusion Policy
- Anti-discrimination and Anti-harassment Policy

We established a Bank-level Human Rights Committee

- The Committee will regularly assess salient human rights risks associated with the Bank's activities and verify that such risks are properly identified, assessed, monitored and mitigated.

The Board of Directors approved the Bank's Climate Action Strategy

- It sets out the Bank's commitments in response to climate change. These include ensuring that our actions support the achievement of Georgia's climate-related goals, including those specified in its updated Nationally Determined Contribution (NDC) through:
 - monitoring and managing climate and environmental risks;
 - supporting the transition to a low-carbon, resilient economy;
 - reducing our operational GHG emissions; and
 - anchoring climate expertise firmly in our employee's skill-set.

Memberships and external recognition

The Bank became a signatory of the UN Women's Empowerment Principles in 2022

In support of

**WOMEN'S
EMPOWERMENT
PRINCIPLES**
Established by UN Women and the
UN Global Compact Office



The Bank is a member of the UN Global Compact



The Bank received two awards in the 2022 UN Global Compact Corporate Responsibility Competition

Bank of Georgia was named winner of the UN Global Compact Georgian Network Corporate Responsibility

Competition – 'Business for Sustainable Development 2022' – in two categories: – 'Quality Education' and 'Decent Work and

Economic Growth'. These awards reflect the Bank's contribution to these SDGs as part of our overall ESG strategy.



The Group has been included in the global responsible investment index FTSE4Good since 2017

This index tracks the business performance of companies that demonstrate strong and transparent ESG practices.

Other memberships of industry and other associations

Georgian Banking Association	Deutsche Wirtschaftsvereinigung (DWV)	Pro Bono Network of Georgia
Business Association of Georgia	International Investors Association	Georgian Stock Exchange
American Chamber of Commerce	Georgian Financial Markets Treasuries Association	International Association of Privacy Professionals
International Chamber of Commerce	Women for Tomorrow	

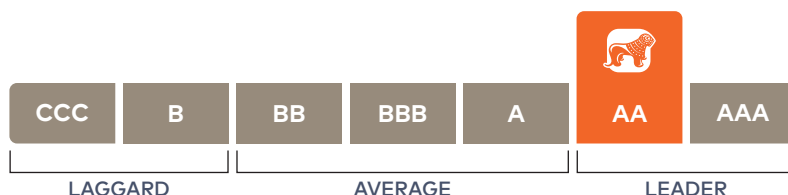
ESG ratings

ISS¹

ENVIRONMENT	3	SOCIAL	3	GOVERNANCE	4
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MSCI²

Bank of Georgia falls into the highest scoring range relative to global peers



1. ISS uses 1-10 scale. 1 indicates lower governance risk, while 10 indicates higher governance risk versus its index or region. 1 indicates higher E&S disclosure, while 10 indicates lower E&S disclosure. Last governance data profile update – 3 March 2023; Last E&S data profile update – 31 August 2022.
2. MSCI score is as of March 2023.

Human rights

We are committed to respecting human rights wherever we do business. We support the Universal Declaration of Human Rights and the ILO's Core Labour Standards. Our commitment is reflected

in our Code of Conduct and Ethics, Human Rights Policy, Anti-discrimination and Anti-harassment Policy, and Diversity and Inclusion Policy.

We believe that, as a leading organisation in Georgia, we are well-positioned to contribute to building communities where human rights are valued and respected.

We screen for human rights risks during lending decisions within the framework of our Environmental and Social Risk Management (ESRM) Policy and in

targeted ESRM portfolio reviews of high-risk sectors. In addition, we identify and address human rights risks that could arise in other areas of our value chain – such

as our supply chain, our workforce, and our retail banking activities. We believe our policies reflect our commitment to respecting the human rights.

We ensure our actions are compliant with regulatory and legal requirements and mitigate any adverse impacts on human rights linked to our business activities. The Bank ensures transactions are reviewed and evaluated against applicable E&S requirements of Georgia, and any of its lenders, should these requirements be more stringent than Georgia's legal requirements. These requirements include the following:

- Bank of Georgia's Environmental and Social Management Policy;
- IFI E&S Exclusion List;
- Georgia's environmental, social, health and safety and labour laws and regulations;
- ILO Core Labour Standards;
- applicable international environmental, social, and health and safety conventions to which Georgia is a signatory;
- IFC Performance Standards;
- EBRD Performance Requirements; and
- relevant E&S requirements of Bank of Georgia's lenders, as reviewed from time to time.

We recognise that our responsibilities go beyond mere compliance, and we continuously work on improving our processes to more effectively mitigate various human rights risks.

Our policies are guided by a wide range of international external standards and principles, including but not limited to:

- the Universal Declaration of Human Rights;
- the ILO's Core Labour Standards;
- the UN Guiding Principles on Business and Human Rights;
- OECD Guidelines for Multinational Enterprises; and
- IFC Performance Standards.

We address human rights as a sustainability issue in all parts of our organisation and in our due diligence process.

Strengthening the focus on diversity and inclusion (D&I)

Being a diverse and inclusive company is an integral part of our success. We believe, as one of the largest banks in Georgia, we are well-positioned to contribute to building diverse and inclusive communities.

For us, diversity is about the respect for and appreciation of differences in personalities and professional and educational backgrounds, as well as in identity. Inclusion means ensuring differences are welcomed and appreciated.

Our ongoing aim is to develop and maintain D&I for our employees, our customers, and the society at large.

We believe that a broad variety of ideas, skills and experiences among our employees will increase our creativity, problem-solving capabilities, and the understanding of customer needs.

We provide products and services to a diverse customer base – from individuals and small businesses to large corporates. We believe that without a diverse workforce we will be unable to provide relevant and personalised experiences to our customers.

One of the main questions for us now is: 'How can we continue to drive progress?' We have developed three principles we apply to our D&I agenda: transparency, accountability, and engagement. We believe these principles will help us take important steps forward.

Transparency

- We will strengthen our understanding of D&I.
- We will enable and encourage our people to voluntarily share their diversity data.
- We will strengthen our understanding and application of various data.

Accountability

- We will continue to leverage our employee engagement surveys.
- We commit to rejecting all forms of discrimination or harassment, and ensuring all employees are treated with respect and provided with equal opportunities.

Engagement

- We will seek to implement best-in-class learning programmes to raise awareness of D&I matters among our employees, customers, and communities.

Our approach to inclusion is organised under three core pillars:

Talent

To ensure we have diversity of thought and mirror the communities we serve, it is crucial that we attract, hire and develop diverse talent.

Data

We will enable and encourage our colleagues to voluntarily share their diversity data, and we will use it to make evidence-based decisions.

We plan to add more questions to our employee surveys to gauge people's perspectives on D&I throughout our organisation.

Customers

We are committed to supporting the diverse communities we serve.

Over the years, Bank of Georgia has consistently initiated and participated in programmes empowering women entrepreneurs with lending, education, coaching, and networking opportunities.

Financial inclusion as one of the key to people's success

A lack of access to financial services is one of the key barriers to people's wellbeing and prosperity, hindering sustainable and inclusive socioeconomic development and reduction of poverty. In 2021, we defined financial inclusion as one of our main impact focus areas closely interlinked with our business strategy. We believe measuring the use of our financial products and services better reflects the level of financial inclusion in a country, rather than focusing on metrics such as the number of cards or accounts. Georgia already has one of the

highest rates of bank card and account ownership compared with its peers¹, but we are focused on increasing the use of our products and services, expanding digital access, and improving accessibility and quality.

According to the Georgian Credit Information Bureau, 85% of adults have had a loan from a formal credit institution in the past five years – and 64% have current loans from commercial banks, which is one of the highest rates in the world based on the IMF's Financial Access

Survey.² The same survey suggests the level of financial inclusion in Georgia is also high in terms of bank deposits and accounts – Georgia has high rates for cashless payments and remote financial services.

Bank of Georgia historically focused on being accessible to people in towns and rural areas, and of different socioeconomic backgrounds, through a wide network of ATMs, Express branches and self-service (BOG Pay) terminals.

1. IMF, Financial Access Survey (2021).

2. National Bank of Georgia, Financial Stability Report (2021).

How we ensure the accessibility of our products and services



Customers can access our mobile app's full functionalities without Wi-Fi or mobile data.



Digital onboarding in our mobile app and internet bank.



Tutorials and instructions for new digital products are available on our website.



Free or low-cost current accounts and debit cards.



Free product bundles for young people (sCool Card and sCool App for school students and Student Card and mBank for students).



Lower fees on payments acceptance solutions for smaller merchants.



A wide network of ATMs and BOG Pay self-service terminals across Georgia.



A digital version of our BOG Pay terminals – bogpay.ge – rolled out in 2022, allowing even non-BOG clients to make payments anytime, anywhere.

Last year we said we would focus on increasing the number of MAU of

our mobile app and internet banking platform, as well as the number of users

who use BOG cards for payments at least once a month.

Focus area	Why we think it's important	2021 results (Dec-21)	2022 target	2022 results (Dec-22)
Financial inclusion – Use of digital channels	<p>Main benefits of using our mobile app:</p> <ul style="list-style-type: none"> Convenience and quick access to our products and services. Visibility of personal finances and access to tools to manage money more effectively. Ability to see all personalised financial and lifestyle offers. Chatbot/chat available 24/7. Access to information and educational content. 	853K	1 million	1.1 million
Financial inclusion – Use of cashless payments methods	<p>Cashless payments enable:</p> <ul style="list-style-type: none"> Increased control over personal finances, giving people a full view of where and how they spend their money. More benefits – personalised offers, ability to save money through our loyalty programme. Greater visibility of customers' financial history, income and behaviour, enabling banks to better assess their creditworthiness. 	782K	1 million	1.0 million

In 2022, we rolled out a new product, sCool App – the first financial mobile app for school students (those aged 6-17) in Georgia. Our goal is to reach more school

students and use the app to empower children with financial literacy skills from an early age. You can read more about how we empower young people with

our products on pages 32 to 33 of this Report.

33K

MAU of sCool App

Dec-22

70K

MAU of sCool App

Dec-23 target

Access to credit

Removing artificial barriers that prevent people from accessing credit is an important aspect of financial inclusion. Throughout 2022, we focused on redesigning the lending process for self-employed customers.

Barriers

- Difficulty in calculating a client's monthly income due to lack of formal employment.
- Lack of a digital process for loan application.
- Limited access to typical retail lending products.
- Self-employed individuals were treated process-wise as business customers and not as self-employed retail customers.

What we changed

- Application origination and disbursement handled in digital channels.
- Full access to retail lending products (mortgages, consumer loans, instalments, credit cards, among others).
- Simplified income validation using video calls and an income matrix and on site validation visits.
- Client coverage and servicing changed to a retail banking model.

Going forward we intend to focus on increasing the number of self-employed borrowers.

46K

Self-employed borrowers

At 31 December 2022

57K

Self-employed borrowers

At 31 December 2023 (target)

ESG REVIEW – ENVIRONMENTAL

Environmental

At a glance

We are committed to lending responsibly, mitigating any adverse impacts our clients may have on the environment and raising awareness in our client base.

We are continuing to better understand climate-related risks and opportunities and set up processes that will enable us to enhance our approach to managing climate risk. We have a dedicated department that develops and implements climate risk management capabilities.

In 2022 the Board approved the Climate Action Strategy of the Bank, which outlines the Bank's main commitments: monitoring and managing climate risks in the client base; supporting a low-carbon, resilient economy; reducing our operational carbon footprint; and anchoring climate expertise in the Bank's skill-set. In 2022 we performed a high-level qualitative assessment of climate risks in hypothetical scenarios. We will continue to enhance our assessment methodologies going forward.

We are also committed to finding ways to support our customers in their transition towards greener and more sustainable ways of doing business. In 2022 the NBG published its Sustainable Finance Taxonomies, covering green and social topics. From January 2023, all Georgian banks are required to report on the amount of lending aligned with these taxonomies. We began to implement the Green Taxonomy in 2023 and are working on finding solutions to the data challenges we have faced during the process.

In this section:

Environmental and social risk management of our loan book	In this part you will read about how we integrate the consideration of E&S risks into the Bank's decision-making processes for extending credit to our business clients.	Pages 97 to 101
Operational environmental footprint	In this part you will read about environmental aspects that are relevant to the Bank's direct operations, including information on consumption and measures taken to reduce the negative environmental footprint.	Pages 101 to 102
Climate-related disclosures	In this part you will see disclosures in line with the TCFD recommendations and read about the Bank's continuously improving approach to understanding and managing climate-related risks and opportunities.	Pages 103 to 117

Environmental and social risk management of our loan book

Indirect E&S impacts are mainly associated with the projects that Bank of Georgia finances whereas direct

environmental impacts are mainly related to the Bank's own operations. This section presents the management approach

towards indirect E&S aspects related to the Bank's lending activities.

Bank of Georgia effectively manages the potential risks for the natural environment and the communities where it operates associated with its lending portfolio.

Bank of Georgia is committed to providing responsible finance. The E&S management of the Bank's loan portfolio encompasses a systematic identification,

assessment, management and mitigation of E&S risks associated with the projects that are financed by the Bank's CB and MSME Banking segments.

Environmental and social management system

At Bank of Georgia, we are committed to prudently managing the risks associated with our lending activities. The Bank's environmental and social management system (ESMS) enables us to identify potential risks and ensure that our customers are properly managing those risks to avoid negative impacts on the environment and the communities where they operate.

The Bank's ESMS integrates E&S risk management into the Bank's decision-making processes for extending credit to our business clients. The Bank's ESMS is based on IFC Performance Standards (PS) and the EBRD Performance Requirements (PR), which have become the benchmark for E&S risk assessments in the lending process. The ESMS enables us to identify, assess, document, mitigate, and monitor the risks and the actual or potential impacts associated with our lending. We also use technical reference documents with general and industry-specific examples of best practices to

identify and manage E&S risks. The ESMS and the associated E&S procedures are periodically updated and approved by the Supervisory Board of the Bank to ensure they remain fit for purpose and reflect changes in the legal and regulatory environment as well as any changes in the Bank's operations or strategic priorities.

In 2022, we updated our ESMS. Further enhancements were made to the E&S risk procedures, E&S covenant and associated risk-based tools to align with specific E&S requirements of the Bank's IFI partners and best practices.

We continue to evolve our approach in response to emerging risks. In 2022, with support from the European Investment Bank ('EIB'), we developed enhanced procedures to start integrating the identification, assessment, and proper management of climate-related risks and opportunities. We continue to refine our disclosures in line with the TCFD's recommendations. For more information on the Bank's climate-related actions, see pages 103 to 117.

Environmental and social risk management system

The Bank follows commercially sound practices to ensure all commercial lending transactions are reviewed and evaluated against applicable E&S requirements of Georgia, and any of Bank of Georgia's lenders, should those requirements be more stringent than Georgia's legal and regulatory requirements, to the extent such compliance is allowed and feasible in accordance with the Georgian legislation. These requirements include:

- Bank of Georgia's Environmental and Social Management Policy.

- Georgia's environmental, social, health and safety, and labour laws and regulations.
- ILO's Core Labour Standards.
- Applicable international environmental, social, and health and safety conventions that Georgia has ratified.
- IFC's Performance Standards and EBRD's Performance Requirements.

- Relevant E&S requirements of Bank of Georgia's funders, as reviewed from time to time.

For the purpose of E&S risk assessment and management, commercial transactions assessed through ESMS are loans, guarantees, letters of credit and overdrafts issued to clients that are managed by the Bank's CB and MSME segments ('commercial transactions').

To ensure effective E&S risk management, we take the following actions:

Transaction qualification



- IFIs exclusion list
- EBRD referral lists

Categorisation



- IFIs categorisation guide (Low, Medium, High, Category A)
- National legislation

Evaluation



- Subsectoral guides
- IFC PS/EBRD PR guides

Control



- Action plan
- Loan covenants

Monitoring



- Monitoring memos
- Annual reports to IFIs

All commercial transaction requests received by the Bank are assessed against the Bank's lending policies, Environmental and Social Policy, and the Exclusion List.

We do not finance environmentally or socially sensitive business activities that do not comply with these policies or that are included in the Exclusion List.

The list of excluded activities can be found in Annex 1 of the Bank's Environmental and Social Risk Management Policy at bankofgeorgia.ge.

- The Bank reviews and monitors the E&S performance of clients with credit exposure of more than US\$ 2 million in accordance with the requirements of the IFC Performance Standards.
- We aim to assess the relative level of E&S risk associated with clients' businesses. We require some customers to implement specific E&S requirements that are set to minimise specific E&S risks. These

requirements are included as covenants in agreements between our customers and the Bank.

- We aim to regularly monitor E&S risks associated with the Bank's activities and assess clients' compliance with the terms of respective agreements. The frequency and type of monitoring

- is determined based on the type of activity being financed and the level of E&S risk.

The level of E&S risk (low, medium, high or category A) varies greatly for different types of financial transactions and by sector. An E&S risk category for the proposed activity is determined by checking the Environmental Assessment Code of Georgia and by using the E&S risk categorisation lists of IFIs.

Category A projects (developments on greenfield land, or major extension or transformation-conversion projects, which may lead to significant or long-term E&S risks and impacts) constituted **4.2%** of total MSME and CB gross loan portfolio, and **2.4%** of the Bank's total gross loan portfolio as at 31 December 2022.

In addition, we engage with our customers and provide information on relevant laws and regulations and the Bank's ESMS during our E&S due diligence (ESDD) processes. Our aim is to increase awareness of E&S risks and impacts and support the capacity building in these matters. In 2022, with the assistance

of a local sustainability third-party consultancy we provided Environmental Management Awareness Trainings to MSMEs and CB clients on local environmental regulations and requirements, as well as on mechanisms for ensuring compliance with these requirements, on legal sanctions, on state control mechanisms, and on the requirements and implementation mechanisms of the international environmental management system standard ISO 14001:2015. The two-day training series was conducted for 145 representatives of local companies from various sectors. We plan to host additional training sessions for our clients in 2023.

With support from external consultants, we also developed a free online course covering the same topics and made it available on our online educational platform for businesses – businesscourse.ge. This was supported by the Green for Growth Fund.

In addition, an information leaflet on Bank of Georgia's approach to managing customers' E&S risks is available on the Bank's website at bankofgeorgia.ge.

Environmental and social risk assessment

The Bank's ESDD includes a review and assessment of E&S risks and impacts and proposes mitigation measures that are commensurate with the impacts and risks identified. ESDD also evaluates a client's measures to avoid, mitigate, or compensate for adverse impacts on workers, affected communities, and the environment.

Bank of Georgia's ESDD identifies actions that are required for a client to address environmental and social risks and impacts, to ensure that transactions comply with relevant national or international standards and legislation, including the IFC Performance Standards, where applicable, and the Bank's loan approval conditions. These are set out in the Environmental and Social Action Plan (ESAP) which describes the actions necessary for a borrower to take such as: (i) implementing mitigation measures or corrective actions; (ii) prioritising these actions; (iii) including the timeline for their implementation; and (iv) describing the schedule for reporting to the Bank on the implementation of the action plan. Implementation of the ESAP is monitored by the Bank and includes a timeline and relevant covenants in the loan documentation. Mitigation measures may also be included as separate covenants in a loan agreement.

Our comprehensive internal ESRM procedures guide how we assess client impacts on air quality, water quality, climate change, biodiversity, local communities, labour, human rights and other E&S issues.

For E&S risk assessment and management, we routinely rely on a variety of publicly available ESRM tools including, but not limited to, EBRD's Environmental and Social Risk Management Manual, IFC's First for Sustainability web-based tools, training modules and guidance for financial institutions available on the IFC's website, as well as IFC and EBRD's sector guidelines.

During the E&S risk assessment process, we engage with our customers to:

- raise customer awareness of environmental, health and safety (EHS) issues and regulations;
- establish a framework for customers to achieve good E&S standards;
- encourage companies to adopt best EHS practices and challenge them on E&S risks;
- support companies to better understand sector-specific EHS risks and impacts;
- make recommendations and measure EHS progress; and
- support customers in fulfilling their E&S obligations.

In 2022, based on ESDD, ESAPs were developed for 308 customers, who as at 31 December 2022 had an exposure of GEL 959 million (10.1% of the Bank's total gross MSME and CB portfolio).

During 2022, our due diligence did not reveal any material E&S risks related to our borrowers.¹

The E&S risk assessment and monitoring process involves a review of periodic E&S performance reports submitted by our customers as well as site visits that our ESRM team undertakes. We pay attention to:

- how effectively the mitigation measures specified in the ESAP have been implemented (if applicable);
- the validity of E&S permits or licenses;
- any fines and penalties incurred for non-compliance with E&S regulations;
- recent reports from relevant regulating or inspection authority confirming compliance with specified laws, including any emissions measurements confirming that emissions are below the permitted limits;
- E&S occurrences, including major accidents or incidents associated with a client's operations, including but not limited to worker injuries and spills;
- media attention to E&S issues related to the client; and
- any complaints submitted by stakeholders.

1. Materiality of E&S risks is identified according to the national legislation.

Environmental and social due diligence data

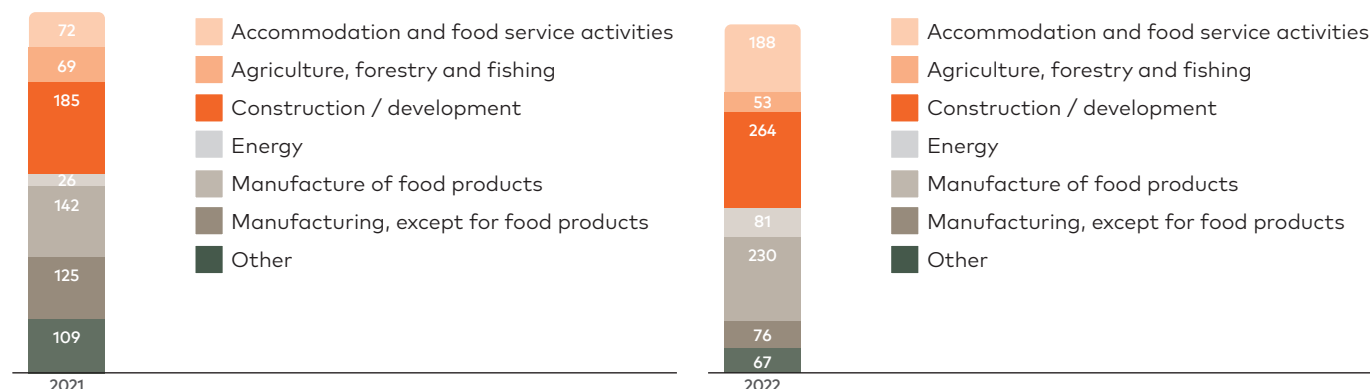
The ESRM team conducts due diligence of new clients that may pose potential E&S risks. The data below show the gross loan exposure as at 31 December 2022 of those borrowings that were screened by the ESRM team during 2022. Out of GEL 959 million portfolio screened, GEL 594 million was assessed against IFC's Performance Standards, while the rest was assessed against local legislation.

727

(GEL million)

959

(GEL million)



Environmental and social monitoring

We regularly monitor the E&S risks associated with our existing lending portfolio. The frequency and type of monitoring are based on the type of transaction being financed and the level of E&S risk. Our E&S risk team conducts portfolio-wide reviews of specific sectors, where E&S risks are considered high and, in some cases, we visit high-risk customers on a regular basis. The monitoring of Category A projects and IFC Performance Standards-triggered transactions happens annually.

When faced with complex E&S issues or those beyond the in-house team's competencies, a qualified external

consultant(s) is hired to undertake the E&S assessment. We ensure that all activities are environmentally and socially prudent and compliant with applicable legal and regulatory environmental and social standards. All high-risk clients are required to provide the Bank with an annual report on their environmental and social performance, and on the implementation of applicable ESAPs. Any Category A client is required to provide the Bank with an annual E&S performance report. For Category A and high-risk projects, our E&S staff visit the sites of operations until major E&S issues are resolved and satisfactorily monitored by our clients.

In 2022, we carried out E&S monitoring for 118 customers, with a total exposure of GEL 1,439 million as at 31 December 2022.

In addition, during 2022, customers who were provided with the action plans to identify, avoid or mitigate environmental and social risks have started to implement our recommendations and consider introducing environmental and social management systems aligned with international standards.

Environmental and social monitoring data

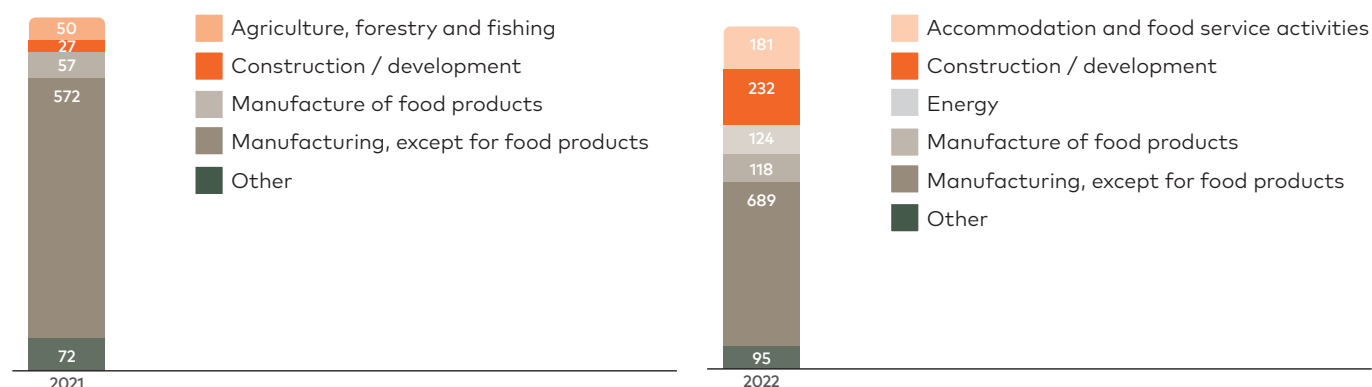
The ESRM team carries out E&S monitoring of clients with identified E&S weaknesses annually. The data on this page show gross loan exposure as at 31 December 2022 of clients that were monitored by the ESRM team during the year. Out of GEL 1,439 million, GEL 1,321 million were assessed against IFC's Performance Standards.

778

(GEL million)

1,439

(GEL million)



The Bank's Environmental and Climate Risk Management department

Our centralised team of E&S risk specialists within the Bank's Risk Management function evaluates transactions that trigger a review under our ESMS.

Furthermore, to address the challenges of climate change and to ensure the screening of proposed projects to identify potential climate-related risks and impacts in addition to other E&S risks and impacts, the Bank has expanded the responsibilities of the ESRM team.

A dedicated E&S team has been in place since 2013. The head of this department reports directly to the Chief Risk Officer.

The team undertakes preliminary environmental, social and climate due diligence of customer operations and projects funded by the Bank and recommends appropriate covenants to be included in credit documents that are monitored throughout the credit cycle. The team ensures the implementation of Bank of Georgia's environmental, social and climate risk management policies,

monitors the Bank's environmental, social, and climate risk profile and performance, ensures data consolidation with respect to environmental, social, and climate-related risks within the Bank, and handles environmental, social, and climate-related communications. The team reports the progress and the performance achieved in the area of environmental, social, and climate-related risk management to the Environmental and Social Impact Committee, comprising members of the Executive Management team, which reports to the Supervisory Board of the Bank semi-annually.

Reporting to our international stakeholders

In 2022, Bank of Georgia reported on its environmental and social performance as part of its commitment to provide annual environmental and social performance reports to multiple international development finance organisations.

These reports take into consideration Bank of Georgia's E&S performance when granting loans. The reports include portfolio information broken down by industry and transaction type, as well as a progress report on the implementation

of Bank of Georgia's ESMS. We value keeping an open dialogue on our ESMS with our partner international financial institutions to get their feedback on our management system.

External communications – grievance mechanism

Procedures for addressing external queries and concerns, developed within the framework of ESMS, enable any stakeholder to submit queries or concerns related to the Bank's E&S Policy or any other aspects related to the Bank's operations. We are committed to responding to those queries in a timely

and effective manner. The grievance mechanism is available on the Bank's website and anyone can send an email with questions or concerns to customerservice@bog.ge (as listed on the website), or can submit their questions or concerns in a written form to the Bank's Chancellery department.

In 2022, no major E&S complaints were received by the Bank. We will continue to engage with our stakeholders and address any issues or concerns raised.

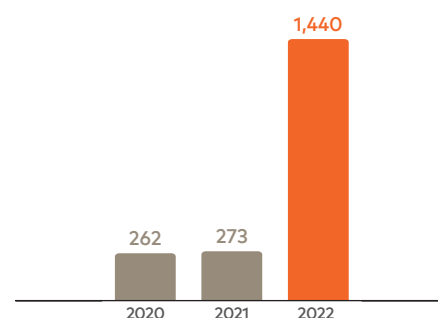
Training

Training activities play a critical role in the effective management of E&S and climate-related risks in our lending portfolio. Each year, to enhance our understanding of environmental, social and climate-related issues and build internal capacity, we held training sessions for key risk and banking personnel involved in environmental, social and climate risk management processes. The trainings covered a variety of topics, including climate and sustainable finance, ESG standards and SDGs, health and safety, green taxonomy, IFC Performance Standards, renewable energy investments and energy efficiency, green and affordable housing. ESRM specialists underwent

GGF Green Finance Expert online training programme and the Climate Ambition Accelerator programme. In 2022, our E&S risk specialists also took a fully accredited programme and were awarded the qualification of labor safety specialists. In total, 360 employees of the Bank had an E&S training during 2022.

A mandatory training course on E&S risk assessment, reflecting key E&S Policy requirements and international standards, is undertaken by relevant new hires.

Training hours spent on environmental, social and climate topics



Operational environmental footprint

We are a service business, and our direct environmental impact is less significant than the impact we have on the environment through our lending activities. Nevertheless, we aim to be a more resource-efficient company, mitigating any negative impacts we may have on the environment through our operations.

We undertake measures to identify and monitor environmental aspects relevant to our direct operations, for instance, how much business travel we undertake and how much electricity we use. We strive to adopt a "reduce, re-use, and recycle" approach. The direct environmental impact of our business activities arises from electricity, natural gas, and fuel

consumption, water use, paper use, as well as through other types of waste produced.

Energy consumption

Types of energy used by the Bank include electricity, natural gas, and fuel oil, the principal type being electricity provided by the national grid. To be more energy-efficient, our branches are equipped with LED lighting. Remote control lighting systems are installed in new

branches. Since 2018, the majority of our newly opened branches have operated remote heating and air conditioning systems, ensuring efficient electricity consumption during non-working hours. Remote-control lighting, heating, and air conditioning systems have been installed

in 50 Retail branches – covering almost half of all Retail branches (excluding Express branches). For information on greenhouse gas emissions, please see pages 114 to 115.

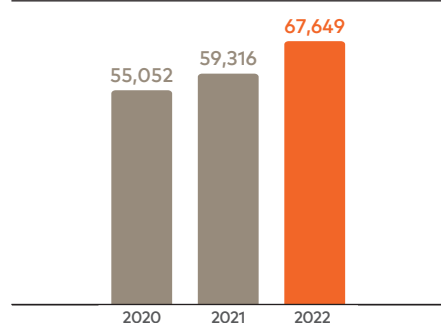
Energy consumption data¹

	2020	2021	2022
Electricity (kWh)	17,104,700	17,489,358	19,623,529
Gas (m³)	432,312	448,718	349,205
Gas (kWh, assuming that 1 m³ gas = 9.7 kWh)	4,193,426	4,352,565	3,387,285
Total energy consumption (kWh)	21,298,127	21,841,923	23,010,813
Total energy consumption (kWh) per square meter of office space	243	243	238

The decrease in gas consumption year-on-year was a result of an upgrade to the heating, ventilation, and air conditioning system at Bank of Georgia headquarters.

The increase in electricity and water consumption vs prior year was mainly driven by the increased office space to accommodate the growing workforce.

Water consumption



Water consumption by the Bank is limited to "domestic-type use" and cleaning purposes.

Water consumption in 2022 amounted to 67,649m³.

Paper consumption

In addition to digital records, the Bank retains paper records of some transactions in line with regulatory requirements. In all other cases, we aim

to reduce paper consumption by using digital media and more efficient printing. Some of the Bank's departments, such as branches and cash centres, are paper-

intensive. In these locations, we have encouraged the use of two computer monitors at work stations, resulting in a reduction of paper waste.



Back-office paper from the Bank's headquarters and several large back-office locations is collected and shredded by a secure paper recycling firm. In 2022, c.1.6 tonnes of paper was collected for recycling in this way. Documentation from the Bank's archive, when retention period expires, is recycled annually. The Bank uses a specialised third-party contractor for this service based on the appropriate service agreement.

Paper use (kg) per employee

2020	34
2021	35
2022	39

The annual increase of paper use per employee was driven by the growing number of our employees, as well as the return to the offices after the pandemic.

Waste management

In 2019, a new project, Development of a Company Waste Management Plan, was launched by the Bank with the support of Green for Growth Fund (GGF) as part of the Green for Growth

Fund Technical Assistance Facility. The aim of this project was to assist Bank of Georgia in developing a company-wide Waste Management Plan aligned with relevant Georgian legislation. A Waste

Management Plan, covering all main locations of the Bank, is in place for 2020-2023. Highlights of the Waste Management Plan include:



Training for the Bank's Operations Support department who are responsible for the Bank's waste management process;



The Bank replaced plastic bags with biodegradable ones, widely used in the cash collections process;



The Bank's old branded material was disposed together with the waste in line with the environmental regulations by a licensed third-party company at the municipal recycling and sanitation landfill.

1. Figures on electricity consumption and gas use were obtained from the Bank's operational support department. To arrive at total energy consumption in KWh, m³ of gas were converted into MWh of gas (1m³ of gas = 0.0097 MWh according to Georgia's Fourth National Communication to the UNFCCC) and figures were multiplied by 1000.

Climate-related disclosures

Background on climate change

In 2015, 197 nations, including Georgia, committed to the goals of the Paris Agreement to limit global warming to 2 degrees Celsius (°C) above preindustrial levels, while pursuing the means to limit the increase to 1.5°C.

Climate change in Georgia

With its rich biodiversity and economic dependence on climate-sensitive sectors such as agriculture and tourism, Georgia is vulnerable to the effects of climate change. As described in Georgia's Fourth National Communication to the UNFCCC (2021), the adverse impacts of climate change have already been observed in Georgia – and they are projected to increase in the future:

- Mean annual temperature has increased by up to 0.58 °C. Under a high emissions scenario, temperature can increase by up to 4.9°C by the 2090s – which will lead to rapid melting of glaciers. The frequency of heat waves is also projected to rise significantly.
- Precipitation in western Georgia has mainly increased, but it has decreased in some eastern regions. In the future, more intense rainfall will increase the likelihood of landslides, floods, avalanches, and mudflows. At the same time, the probability of severe droughts is projected to rise, especially for eastern and central areas.
- The level of the Black Sea rose by 0.7 metres on the Georgian coast between 1956 and 2007, and the frequency of storms increased by more than 50% over the same period. Global sea level may rise by another 0.74 metres or more by the end of the 21st century.

Policies to address climate change

In 2017, Georgia's greenhouse gas ('GHG') emissions amounted to 17,766 Gg CO₂eq, or about 0.03% of the global total. With one of the world's highest shares of hydropower in the electricity mix (75.3% in 2019), GHG emissions from the electricity sector are comparatively low. National emissions are growing, however, particularly in sectors such as transport and industry. To address the impacts and meet the objectives of the Paris Agreement, Georgia has several climate action goals:

- By 2030, to reduce total GHG emissions by 35% compared with the 1990 level – and to limit emissions in sectors such as energy and transportation.
- To support renewable energy generation and transmission.
- To support the development of low-carbon approaches in the building, industry, waste and agriculture sectors.
- To set national energy-saving targets in private and public sectors, particularly in relation to energy efficiency in buildings.

As noted by Georgia's Prime Minister at COP27 in November 2022, Georgia is considering increasing the ambition of its Nationally Determined Contribution (NDC). In 2022, Georgia also launched the work on a climate change law that will regulate climate-related issues and distribute responsibilities.

Changing climate presents both risks and opportunities for Georgia, its people and its companies – and thus for the financial services sector. The Group recognises its role in addressing this global challenge, and initiated its climate journey in 2021. Our climate action and reporting are in line with the four pillars defined by the Taskforce on Climate-related Financial Disclosures ('TCFD'): Governance, Strategy, Risk Management, and Metrics & Targets. This report focuses on the Group's main operating entity, the Bank, which constitutes 94.0% of the Group's total assets as at 31 December 2022. We also provide information on the GHG emissions of several of the Bank's and the Group's subsidiaries.

Sources for background on climate change

Georgia's Fourth National Communication to the UNFCCC (2021), https://unfccc.int/sites/default/files/resource/4%20Final%20Report%20-%20English%202020%2030.03_0.pdf
 Georgia's Updated 2021 Nationally Determined Contribution (NDC), https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Georgia%20First/NDC%20Georgia_ENG%20WEB-approved.pdf
 The World Bank Group and the Asian Development Bank (2021): Climate Risk Country Profile: Georgia, <https://openknowledge.worldbank.org/bitstream/handle/10986/36382/Georgia-Climate-Risk-Country-Profile.pdf?sequence=1&isAllowed=y>
 WBG Climate Change Knowledge Portal (CCKP 2020): Georgia. Climate Data. Projections, <https://climateknowledgeportal.worldbank.org/country/georgia/climate-data-historical>
 OurWorldInData.org: Georgia: CO₂ country profile. <https://ourworldindata.org/co2/country/georgia>
 International Energy Agency (2021): Georgia energy profile. <https://www.iea.org/reports/georgia-energy-profile>
 Agenda.ge (08.11.2022): Georgian PM: climate change "challenge of our generation", "swift, result-oriented" actions needed. <https://agenda.ge/en/news/2022/4354>
 Ministry of Environmental Protection and Agriculture (03.10.2022): Georgia initiates the development of the Climate Change Framework Law. <https://mepa.gov.ge/En/News/Details/21039>

Key messages

Our climate action and reporting are in line with the four pillars defined by the TCFD: Governance, Strategy, Risk Management, and Metrics and Targets. We believe we have made all the required climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures. The following are the key messages from our climate reporting.

Governance

- The Board considers climate when reviewing Bank of Georgia's strategies, policies, budget, opportunities and risks. The Risk, Audit and Remuneration Committees have started to integrate climate considerations into their regular procedures, for example when reviewing risks, disclosures and KPIs for management.
- The management-level Environmental and Social Impact Committee was held in 2022, responsible for monitoring and steering the Bank's ESG-related action – including its climate risk and opportunity management. The Committee reports to the Board twice per year.
- Climate-related responsibilities have been defined for relevant business, risk and support units.

Strategy

- In 2022 we assessed our strategy's resilience to climate risks for the second time, using three timeframes and scenarios:
 - The effects of climate change and policy on our strategy are perceived to be low over the coming years. Reputational risks can occur if our climate action lacks ambition and credibility.
 - The future may hold greater risk for our clients and, thus, for the Bank. Both a 'delayed transition' scenario (meaning ambitious but late and abrupt climate action) and unabated climate change (where no climate action is taken beyond 'current policies') are expected to have negative effects on various sectors covered in our portfolio. Overall, risks are greater under the climate change scenario, illustrating that well-coordinated and ambitious climate action is crucial.
- Tackling climate change can be an opportunity for financial institutions such as Bank of Georgia. We already provide green finance to clients that invest in a low-carbon, climate-resilient future. However, much room is left to increase the amount and visibility of our climate finance – Georgia's new Sustainable Finance Taxonomy will be among the key tools to help us monitor and grow this.
- Our Climate Action Strategy, <https://bankofgeorgia.ge/en/about/management#docs>, published in 2022, addresses both risks and opportunities of climate change, and describes how we intend to contribute to Georgia's climate-related goals. Assessing and discussing risks with clients, providing green finance, managing GHG emissions and improving our climate-related capacities will play key roles.

Risk management

- Bank of Georgia is committed to addressing climate risks through risk identification, evaluation, and management.
- In 2022, we reassessed how transition and physical risks can affect traditional Bank-wide risks, from credit to reputational risk. We also reviewed and improved our qualitative analysis of risks for different sectors covered in our portfolio, and calculated financed emissions for 26% of the corporate portfolio – providing valuable insights for transition risk management.
- From 2023, we will start collecting first-hand information from all business clients to better assess the climate-related risks they might face. High-risk clients will be addressed to help raise their awareness and inspire change.
- Our new Climate Risk Management (ClIRM) framework institutionalises climate risk assessment and management at the Bank by specifying methodologies, processes and responsibilities.

Metrics and targets

- Bank of Georgia uses metrics recommended by the TCFD to measure its impact on climate change and the effects climate change may have on its business model and operations.
 - GHG emissions are an important indicator to help us understand our direct and indirect impact on the climate and exposure to potential transition risks. We have a clear picture of our Scope 1 and 2 emissions and are currently working on expanding our understanding of Scope 3 emissions.
 - Measuring the percentage of lending that could become vulnerable to climate risks under different scenarios helps us understand risks to the Bank's strategy and take corrective measures.
 - Measuring the amount of green lending provided by Bank of Georgia allows us to monitor and drive our contribution to Georgia's sustainable development.
-

Governance

Board and Committees

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

- The Board is responsible for reviewing the Group's strategies, policies and budgets. In 2022, it reviewed and approved the Bank's Climate Action Strategy and CliRM framework (internal).
- The Board regularly examines opportunities and risks as well as the measures taken as a result. In 2022, the Board reviewed Bank of Georgia's 2021 Annual Report and provided feedback and guidance for enhancing the Bank's climate risk and opportunity management. The Board was also informed of the Bank's progress on climate action during one of its quarterly meetings. From 2023, the Bank's new climate-related due diligence will generate more detailed information on climate risks and opportunities in the portfolio (see 'Risk management' chapter), the results of which will be reviewed by the Board.

- The Board also considers performance against the objectives defined in the Bank's strategies. From 2023, the Board will review the Bank's progress in implementing its Climate Action Strategy.
- The Supervisory Board of the Bank, as exemplified in its statute adopted in accordance with the NBG's Corporate Governance Code, bears the overall responsibility for the Bank's E&S strategy and its implementation. This includes overseeing the Bank's E&S risk management framework and building governance structures to ensure proper attention to E&S issues, and fulfilment of the Bank's strategic goals in this regard.

In December 2021 the Supervisory Board decided to maintain the primary decision-making and reporting on E&S matters at the full Board level. The Bank's management created the Environmental and Social Impact Committee, which began its work early in 2022. The Committee is responsible for reporting to the Board on the progress of the Bank's implementation of its environmental, social and climate strategies and policies semi-annually, as well as on the due functioning and enhancement of the Bank's ESMS.

The Bank's performance is regularly monitored by the four Board-level Committees that report to the full Board. Starting in 2022, three of these Committees take the following responsibilities for climate-related issues:

- Risk Committee: Primary responsibility for risk management at Board level, including climate change as an emerging risk throughout the Bank's portfolio.
- Audit Committee: assesses the quality of disclosures, including the quality of data and whether the information provided is sufficient for stakeholders to assess how the Group is managing climate-related matters.
- Remuneration Committee: Considers how the Bank's Chief Risk Officer performs against climate-related targets – integrated into KPIs on ESG aspects.

The Nomination Committee may take climate-related expertise into account when approving Board and management positions in the future.

Management

At the instruction of the Supervisory Board, to anchor climate change and other sustainability-related topics, a Management-level Environmental and Social Impact Committee was established and held for the first time in 2022, comprising the Management Team and senior managers, including the Bank's CEO, CRO, COO, CFO, CLO, Head of HR, Chief Marketing Officer, Head of Investor Relations, and Head of Funding.

The Committee is responsible for managing the Bank's climate, environmental and social impacts, focusing on those arising from its lending activities. It holds overall responsibility for designing, implementing, and enhancing environmental, social and climate strategies and policies, and for setting and monitoring targets. The Committee intends to further embed E&S risk management in the Bank's daily operations. The Committee met twice in 2022, with one meeting focusing on climate-related matters.

Its work has been supported by a cross-functional Climate Working Group ('CWG') established in 2021, which continued to work through 2Q22 to develop Bank of Georgia's Climate Action Strategy, design new processes and methodologies, and contribute to preparing climate-related disclosures. Key people from the Bank's CB and MSME Banking segments, the Risk function, Legal, ECRM, Investor Relations and Funding departments participated in regular meetings. The CWG can be flexibly reconvened if needed.

Our climate-related governance



Topic	Responsibilities
Full Board	<ul style="list-style-type: none"> Reviews progress in the implementation of the Bank's Climate Action Strategy. Reviews and approves any changes to the Strategy and the CLiRM framework. Examines climate-related opportunities and risks as well as measures taken as a result.
Environmental and Social Impact Committee	<ul style="list-style-type: none"> Reviews progress in the implementation of the Bank's Climate Action Strategy and CLiRM framework and stipulates appropriate measures. Reports to the full Board on climate management and other ESG topics every six months.
Chief Risk Officer	<ul style="list-style-type: none"> Holds overall responsibility for risk management, including of climate-related risk.
Enterprise-wide Risk Management (ERM)	<ul style="list-style-type: none"> Assesses the impact of specific climate scenarios on principal risks. Ensures climate risks are well integrated into the Bank's overall risk management framework and management responses. In the future, this may entail coordination and/or implementation of climate-related stress testing, and integration of climate-related considerations into the Bank's Risk Appetite Statement and policies.
Environmental and Climate Risk Management (ECRM)	<ul style="list-style-type: none"> Conducts research on climate-related matters (policies, risk assessment methods, etc.). Assesses climate-related risks for the Bank's clients, based on a standardised due diligence process. Together with CB department, calculates financed emissions. Supports other departments in conducting climate-related tasks. Prepares climate-related disclosures.
Business	<ul style="list-style-type: none"> Collects data from clients for climate-related risk assessment and GHG calculation.
Credit risk	<ul style="list-style-type: none"> Checks whether information collected by bankers during initial climate-related screening is reasonable before projects are submitted to the Credit Committee. In the future, possibly conducts climate-related stress testing (alongside ERM).
Operational support	<ul style="list-style-type: none"> Collects relevant data and calculates GHG emissions from the Bank's own operations, including Scope 1, 2 and 3 (except financed emissions).
Investor Relations	<ul style="list-style-type: none"> Notifies the ECRM department of climate-related requirements and/or expectations of investors and stakeholders that could lead to reputational risks for the Group.
Legal	<ul style="list-style-type: none"> Conducts research on new climate-related regulation that could lead to legal risks for the Group.

Strategy

Risks and opportunities for Bank of Georgia under different scenarios

Climate-related risks may adversely impact the Bank both directly and indirectly.

- **Direct:** Risks impacting the Bank through damages to its physical assets, activities and operations.
- **Indirect:** Risks impacting the Bank primarily through its loan portfolio.

Such risks arise from the physical or transitional effects of climate change

and manifest through more common risk types, including credit risk, market risk, operational risk and reputational risk.

Physical risks result from climate and weather-related events (such as floods and droughts), while **transition risks** arise from the move towards a low-carbon economy (new climate policies or changes in consumer preferences, for example).

The transition to a low-carbon, climate-resilient economy also creates

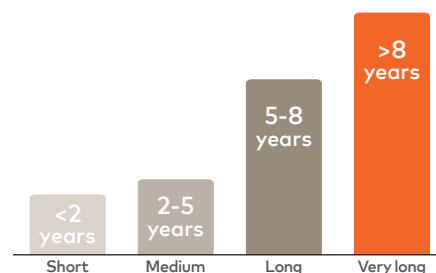
opportunities for the financial sector to support innovative green products and services that meet growing sustainable investment needs, such as climate-smart agricultural technology or more energy-efficient buildings.

Bank of Georgia continues to integrate these risks and opportunities into its risk assessment and management framework as part of an ongoing commitment to building more resilient and sustainable communities.

Reassessing our resilience against various timeframes

Climate risk identification informs Bank of Georgia's regular risk management processes and considers our standard time horizons. The short-, medium- and long-term time spans were defined to reflect internal procedures and indicators, such as financial planning, strategic planning and average loan maturity. The majority of our loans will be paid

back before 2030. Nevertheless, climate change risks have to be mitigated before they arise, making it necessary to expand our horizons. We have defined a fourth timeframe ('very long') to ensure climate risks that may manifest over the longer term are adequately identified and managed.



Updating our analysis of potential future scenarios

Scenario analysis assists in the identification, measurement and ongoing assessment of climate risks, so we can better evaluate potential threats to the Bank's strategic objectives and its ability to create value over the longer term.

We started to use qualitative scenario analysis in 2021, combining our research of climate change and climate policies in Georgia with selected terminology, assumptions and narratives from the scenarios developed by the Network for Greening the Financial System (NGFS).

In 2022, we updated the methodology for assessing Bank-wide climate-related risks under different scenarios (see next page), in line with updated NGFS's scenarios.

Transition risks, 2022–2030. 'Nationally Determined Contribution' scenario: ■

The effects of climate change will become more clearly tangible over the next decades but, in the meantime, it is important for Bank of Georgia to understand its more immediate impacts. This period was assessed assuming the Georgian Government will drive action to achieve the unconditional GHG reduction goals identified in its updated NDC (2021).

Transition risks, 2030–2050. 'Delayed Transition' scenario: ■

This period was assessed using the 'Delayed Transition' scenario, which assumes Georgia will initiate highly ambitious climate change mitigation and adaptation policies from 2030 onwards – building on and enhancing the climate policies described in the climate background part on page 103. After 2050, assuming most relevant technologies and systems are low or zero carbon, the transition will slow down. Transition risks would be highest under this scenario.

Physical risks, from 2040 onwards. 'Current Policies' scenario: ■

Projections show that, under the 'Current Policies' scenario, temperatures and related physical risks will start to significantly rise in 2040 compared to the 'Delayed Transition' scenario. The 'Current Policies' scenario assumes governments do not increase the level of ambition of their climate policies beyond today's level. Physical risks would be highest under this scenario.).

We have identified Bank-wide climate-related risks over the short, medium, long and very long term.

Type of risk	Definition	Drivers (physical and transition risks)	Risk score		
			<2030	>2030	>2040
			Nationally Determined Contribution	Delayed Transition	Current Policies
Credit	The risk that the Bank incurs a loss because its customers fail to fulfil their contractual obligations.	Both climate policy (transition risks) and climate change (physical risks) can negatively affect borrowers' repayment capacity and the value of collateral.	Low	Low/medium for many sectors but high for others (such as electricity generation and agriculture – see heatmap on the next page); location-specific risks to be determined from 2023	
Liquidity	The risk that the Bank is unable to meet its payment obligations when they fall due under normal and stress circumstances.	Affected borrowers cannot pay back loans or they withdraw deposits, reducing the Bank's liquidity. If sovereign or bank credit ratings are downgraded, the availability of wholesale funding decreases and cost of funding increases.	Low	Medium	Medium
Capital	The risk that the Bank fails to meet the minimum capital adequacy requirements set by the regulator.	Borrowers' repayment issues can negatively affect the credit quality of the Bank's portfolio, requiring increased loan loss provision and adjusted risk-weighted assets.	Low	Medium	Medium/High
Market	The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange, and equity prices.	The Bank is mostly exposed to foreign exchange and interest rate risks. Physical and transition risks can cause global economic downturn and an increase in market volatility affecting interest rates and currencies.	Low	Medium	Medium
Operations	The risk of loss arising from systems failure, human error, fraud or external events.	Climate change can interrupt the Bank's regular operations and increase the cost of maintaining effective business resilience (especially back-office processes and data centres). Affected borrowers could potentially conduct fraud.	Low	Low/Medium	Medium
Reputation	The risk of damage occurring due to failure to meet stakeholders' expectations.	Lack of meaningful climate action could affect the Bank's reputation among investors and customers. Reputation could also suffer if the Bank struggles with other climate-induced challenges that affect the continuity and quality of its services.	Medium	High	Medium

Notes on methodology: In 2022, climate-related risks were assessed by answering the following questions:

1. Identification of risk drivers and transmission channels: How does climate change interrelate with and increase existing banking risks?
2. Assessment of impact: How strongly will Bank of Georgia be affected by the identified risk drivers if they emerge?
3. Assessment of likelihood: How likely is it that the identified risk drivers emerge under the three scenarios?

Impact and likelihood values range from one (insignificant/remote) to five (critical/almost certain), with the definition of

values differing between risk types. The resulting risk scores can be low, medium, high or critical, as shown below. In some cases, risk scores can lie between these categories (low/medium, medium/high, high/critical), because the risk is judged to be right on the border between two categories, for example, or to illustrate that different risk drivers lead to different risk scores under the same scenario.

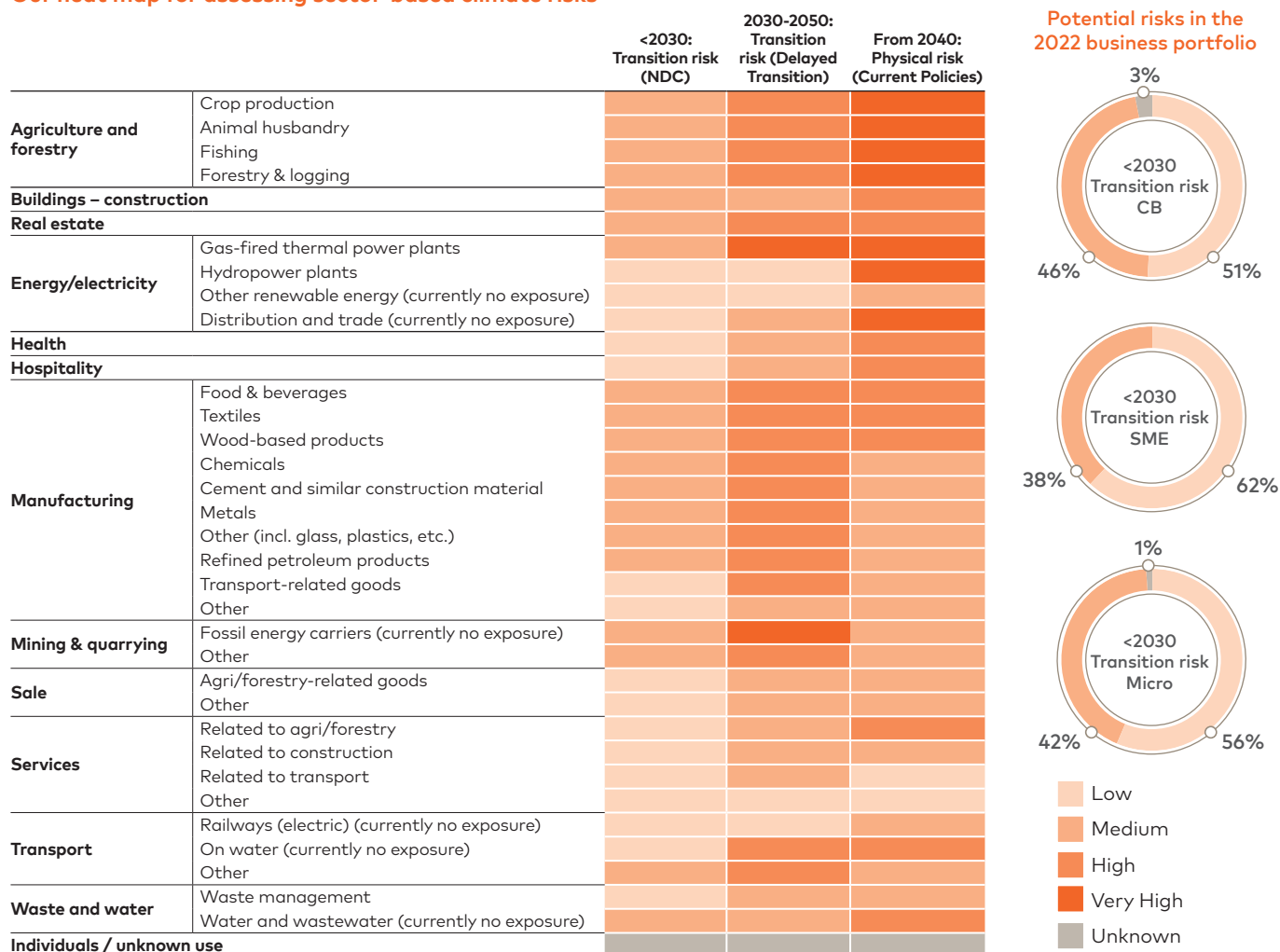
	1	2	3	4	5
5					
4					
3					
2					
1					

In our analysis we have found that risks will not differ significantly between the defined short-, medium- and long-term timeframes – that is, within the next eight years – which is why results are presented together under '<2030'. We will continue refining our approach to Bank-wide climate-related risk assessment going forward.

1. Note on the likelihood of climate scenarios: Theoretically, an important driver of the likelihood of climate-related risks is the likelihood of the scenario being used. However, providers of climate-related scenarios do not usually determine the probability of individual scenarios – they are simply considered plausible.

Climate change can especially affect Bank of Georgia through its impact on the lending portfolio. A preliminary, portfolio-level qualitative analysis of our corporate and MSME portfolios – making up 57.1 % of the Bank's total gross loan portfolio at 31 December 2022 – has helped us understand hypothetical risks for different sectors.

Our heat map for assessing sector-based climate risks



Notes on methodology: Figures are as at 31 December 2022. Delayed Transition and Current Policies are extreme scenarios for transition and physical risks, respectively. We assumed the structure of the balance sheet stays the same to assess long-term risks for our portfolio. The assessment was conducted at the level of more than 650 individual activities, based on NACE2 codes, and aggregated for the sectors presented above. For transition risks, estimated GHG emissions and potential contribution to their efficient reduction were evaluated. For physical risks, basic parameters such as the activity's

dependence on water, vulnerability against extreme weather events and the need for raw materials were considered. Results were compared against the Climate-related Risk Radar for Georgian Economic Sectors and its possible Application for the Financial Sector¹, and were found to be in line. Location-specific risks and individual borrowers' characteristics, such as existing low-carbon transformation plans or adaptive capacities, were not considered in 2022 due to lack of data. However, we updated our management systems in 2022 to allow for collection of relevant data and

understanding of risks at location- and counterparty-level from 2023. Risks for our Mass Retail and Premium Banking portfolio have not yet been assessed in detail, as they depend to a high degree on individual borrowers' characteristics and the location of the activity or asset financed. We aim to also understand climate-related risks for our mortgage portfolio, using location-specific data.

1. National Bank of Georgia and German Sparkassenstiftung for International Cooperation 2022, <https://nbg.gov.ge/en/page/climate-risk-radar>.

% exposure to carbon-related assets² in the Bank's gross loan portfolio

18.2%

2. As at 31 December 2022 this equals GEL 3,018 million. We define 'carbon-related assets' as those tied to the four non-financial groups identified by the TCFD. The following industries are included: Oil and Gas, Coal, Electric Utilities, Air Freight, Passenger Air Transportation, Maritime Transportation, Trucking Services, Automobiles and Components, Metals and Mining, Chemicals, Construction Materials, Real Estate Management and Development, Beverages, Agriculture, and Food, Paper and Forest Products.

% exposure to fossil fuel- and coal-related assets³ in the Bank's gross loan portfolio

1.2%

3. As at 31 December 2022 this equals GEL 197 million. This number includes exposures to wholesale of solid, liquid and gaseous fuels and related products, retail sale of automotive fuel, electricity production from natural gas, and cement production which uses coal as a fuel. We have no exposure to prospecting, exploration and mining of fossil fuels or electric utilities using coal.

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

Bank of Georgia works with its lenders such as GGF and EBRD to provide green finance. Through our 'Energy Credit' initiative, we offer companies credit to buy solar panels. Other green finance is directed mostly at large-scale renewable energy (hydropower plants) and construction projects.

In 2022, we conducted a market analysis to identify opportunities for green financing. We analysed relevant regulation, interviewed companies from different sectors to determine their interest in green investments and green loans, and identified green service providers in Georgia (for the installation

of energy-efficient equipment, for example). The findings will be used to expand our climate-friendly lending in the years to come.

The analysis showed that solar panels, material recycling, energy efficiency measures, installation of air filters, and adoption of electric and hybrid transport vehicles are among the most attractive investments for our clients. Products and services to realise such measures can be procured from local green service providers, while more innovative or newly marketed services and products must be sourced from international markets. Our work also showed that Bank of Georgia's

visibility as a provider of green loans is perceived as low, requiring better marketing and communication in the future.

Total outstanding green finance¹ (GEL million)

503.1

1. As at 31 December 2022, this equals 3.0% of the Bank's gross loan portfolio. This includes the portfolio identified based on the NBG's Green Taxonomy criteria as well as the portfolio based on BOG's lenders' eligibility criteria.

In 2022 the NBG published its Sustainable Finance Taxonomies, covering green and social topics. From January 2023, all Georgian banks are required to report on the amount of lending aligned with these taxonomies. Bank of Georgia prepared for implementing the taxonomy by updating its internal classification system to NACE2 – the European classification system used by the NBG's taxonomies

for identifying sectors and activities that are or could potentially be green – and by operationalising selected taxonomy criteria so bankers can determine whether clients are compliant. We started reporting in January 2023, we may not be able to assess compliance with all taxonomy criteria yet – possibly leading to a situation in which we report less taxonomy-aligned lending than we

might actually have. This is due to several criteria being highly complex (for example, referring to European Directives that are implemented differently in different Member States of the European Union), making it difficult or impossible to check compliance during a standard loan appraisal process. We will address such barriers in 2023 and beyond.

How climate change affects our strategy

Bank of Georgia has committed to supporting Georgia's climate-related goals

The Bank has already developed and published a Climate Action Strategy. We acknowledge the financial sector is a crucial player in supporting the decarbonisation of economies, and Bank of Georgia is committed to taking an active role.



We plan to meet our outlined ambition through the following commitments:

Monitoring and managing climate and environmental risks: Bank of Georgia will regularly assess climate-related physical and transition risks across our portfolio. In 2022 we started collecting relevant data from borrowers to understand their GHG emissions and related risks. In 2023 we will begin using this data to systematically identify clients with the highest climate risks and discuss such risks with them. This will feed into our portfolio-level risk assessment and allow us to continuously improve our understanding of sectors and clients that contribute to climate change through GHG emissions, or that are vulnerable to the changing climate and associated

impacts. We will ensure appropriate management of our portfolio's climate risk profile and new credit origination in line with our overall risk appetite.

Supporting the transition to a low-carbon, resilient economy: We strive to provide our clients with adequate climate finance options to ensure they can implement credible, safe, innovative, high-quality climate solutions. We will actively explore the opportunities to extend climate-related financing to different sectors and clients.

Reducing our operational carbon footprint: We are committed to monitoring emissions from our own operations (including Scope 1, 2 and 3 emissions, except financed emissions)

and implementing measures that support their reduction. We also commit to continuously improving our ability to measure our financed emissions and providing relevant figures in our Annual Reports.

Anchoring climate expertise in our skill set: We are determined to invest in enhancing our climate-related capabilities across the Bank, and to build a comprehensive toolkit for climate-related risk and opportunity management.

The Bank's Climate Action Strategy will be implemented over the coming years, in line with a concrete action plan developed in 2022. Risk and opportunity analysis will be repeated regularly and will inform any updates to the strategy.

Risk management

Bank of Georgia is committed to addressing climate risks by integrating their identification, evaluation and management within standard risk management procedures.

Risk identification and evaluation

Bank of Georgia has an ESMS in place, but climate is a complex topic that requires expertise from across the Bank and beyond. To accelerate progress, we have continued to engage with third-party consultants in 2022, supporting the development of our CLiRM and extending our ability to assess climate risk.

In 2022 we conducted the following exercises:

Qualitative analysis of the effect of climate change on enterprise-wide risks:

Based on the results of the 2021 Bank-wide climate risk analysis (see Annual Report 2021), we reassessed how the transition and physical effects of climate change can drive credit, liquidity, market, capital, operational and reputational risk for the Bank over varying time horizons and for different scenarios (see previous pages). The methodology was slightly updated against the method developed in 2021. Overall, however, our assessment of the magnifying effects of climate change and climate-related transformations on Bank-wide risks remains very similar to 2021.

Preliminary qualitative analysis of climate-related risks in our portfolio:

Based on the 2021 portfolio climate risk assessment, we reassessed transition and physical risks – on a scale from zero (no risk) to four (very high risk) – for more than 650 activities conducted by our clients and aggregated risks for 25 sectors. The overall results are very similar to those of 2021 and show that over half of our business portfolio is expected to face low transition risks over the coming years. The remainder of the business portfolio could face medium risks.

Bottom-up climate risk assessment at client level:

From 2023, the 'top-down' analysis of our business portfolio will be accompanied by 'bottom-up' client-level assessments through an updated due diligence process (see next page).

The first step of this process will be to identify expected transition risks based on the sector in which the client generates their income, and expected physical risks based on the sector and location of income generation. While we will draw on the heat map to assess risks per sector, the analysis of risks for different locations will be based on our 'hazard map' developed in 2022 – which shows physical risks for different sectors across 64 Georgian municipalities, taking up to 11 climate hazards (from landslides to changes in precipitation) into account for the overall score. The analysis is based on publicly available data, including from Georgian and international sources. Although our approach does not currently

allow for determining different risk levels within the same municipality (for example depending on the proximity to high-risk zones such as rivers and slopes), we expect the results to be sufficiently detailed to allow us to engage our clients on climate-related risks and opportunities.

Excerpt of our hazard map for assessing location-based physical risks

Municipality	Forestry		Construction	
	Current	2030	Current	2030
Khelvachauri	Low	Low	Low	Low
Keda	Low	Low	Low	Low
Kobuleti	Low	Low	Low	Low
Shuakhevi	Low	Low	Low	Low
Khulo	Low	Low	Low	Low
Batumi	Low	Low	Low	Low
Ozurgeti	Low	Low	Low	Low
Chokhatauri	Low	Low	Low	Low
Lanchkhuti	Low	Low	Low	Low
Khobi	Low	Low	Low	Low
Senaki	Low	Low	Low	Low
Abasha	Low	Low	Low	Low
Martvili	Low	Low	Low	Low
Chkhorotsku	Low	Low	Low	Low
Tsalenjikha	Low	Low	Low	Low
Mestia	Low	Low	Low	Low
Zugdidi	Low	Low	Low	Low
Poti	Low	Low	Low	Low

Low Medium High

Following the second step – awareness raising – the third step of our climate-related due diligence will consist of collecting additional data from clients that we expect to face high or very high climate risks (as identified in step one). This includes information on GHG emissions, past climate-related impacts, management measures and a small number of additional aspects. This in-depth data collection will help us assess clients' awareness of potential risks and preparedness for addressing them. Analysis will be done once a year, per identified client, as part of our regular environmental and social risk monitoring. Results will be used to refine our portfolio-level risk assessment (heat map) and identify highly exposed and unprepared clients with whom we intend to engage more closely in a fourth step.

Measuring financed emissions:

Understanding the emissions we finance is important for managing climate risks in our portfolio and steering our contribution to Georgia's climate-related transition goals. In 2022, we assessed financed emissions for parts of our business portfolio using the methodology developed by the Partnership for Carbon Accounting Financials (PCAF). We will repeat this exercise annually, covering more and more of our portfolio. The necessary data will be collected as part of the climate-related due diligence process described above and on the next page. Moreover, we will pilot a methodology for assessing financed emissions from larger parts of our portfolio using a methodology developed by IFIs. Please see 'Metrics & targets' chapter for further detail on the results of the 2022 assessment and on the methodologies for borrower-specific and portfolio-level GHG assessment.

Estimating alignment of selected clients with the goals of the Paris Agreement:

In 2021/22, we used the Paris Agreement Capital Transition Assessment (PACTA) tool to assess the alignment of selected clients from the steel and cement sectors with low-carbon development pathways. However, the number of clients in the PACTA database is very small, rendering the results of such analysis extremely limited. Starting in 2023, we will discuss low-carbon development and Paris Agreement-alignment with clients affected by transition risk as part of our updated climate-related due diligence process (step four, see below). We will assess the results to determine an approach to measuring portfolio alignment in a standardised manner.

Integrated risk management

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

Development of a CliRM framework:

This framework describes climate-related responsibilities across the Bank and summarises all methods and processes for risk assessment, evaluation and management. It includes detailed manuals for all climate-related activities, from Bank-wide climate risk assessment to the calculation of financed emissions. The CliRM framework was approved by our Environmental and Social Impact Committee and by the Board in 2022. It is available to all staff via our intranet and will be reviewed regularly to ensure any changes in our approach to climate risk and opportunity management are reflected.

Integration of climate-related risks in our ERM framework:

In 2020, the Group identified climate change as an emerging risk for the first time, making climate-related risk an integral part of our risk inventory. In 2021/22, an approach to understanding the magnifying effects of climate change on traditional banking risks was developed and refined. Further steps to integrate climate into overall

risk assessment and monitoring will be considered. This could include reflecting climate risks in our Risk Appetite Statement and in our Credit Policies.

Integration of climate considerations in our due diligence process:

In 2022 we continued to develop our climate-related due diligence process, to assess and address climate-related risks as part of our loan appraisal and environmental and social monitoring. The process comprises four steps, as illustrated in the figure below – we will start to implement steps one to three in 2023, with step four introduced once we have gathered sufficient information on our existing client base and their risks.

Our climate-related due diligence will be integrated as much as possible into standard procedures. We have made the following changes in 2022:

- For step one, we updated our credit information software to allow for collecting information on clients' business activities and locations, and evaluating expected climate risk.
- For step two, we developed a new booklet on climate change and low-carbon, climate-resilient development

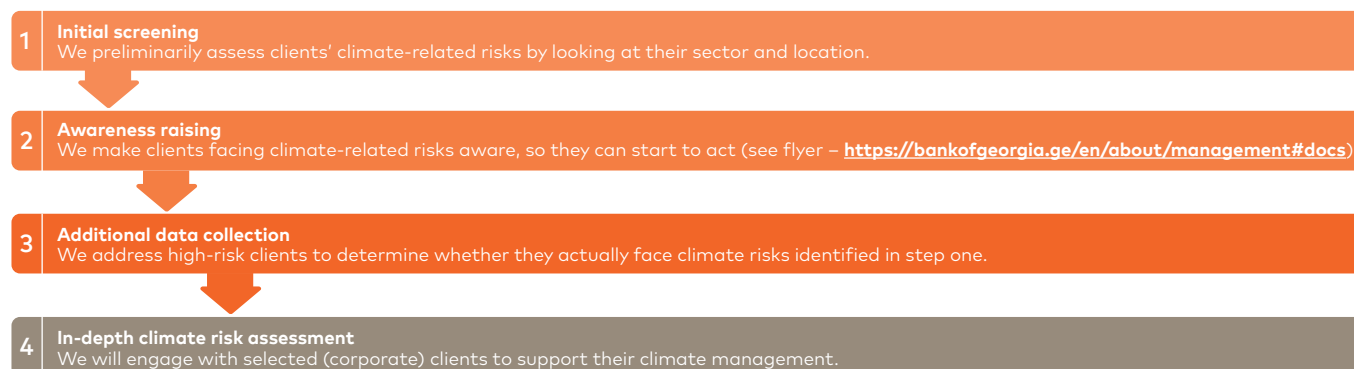
targeting business clients. Moreover, we updated our Environmental and Social Covenant with information on our climate risk assessment process. The Covenant must be signed by all business clients and requires that they read the climate booklet.

- Step three of our climate-related due diligence will be implemented alongside our environmental and social risk management and monitoring, allowing for more efficient communication with our clients. We have updated our ESMS framework accordingly, also referring to the new CliRM framework.

Building climate-related risk management capacities:

Capacity building is crucial to ensuring climate-related risks and opportunities are considered in every credit decision. In 2022, more than 80 corporate bankers and risk managers took part in training on climate risk management and the Bank's new climate-related due diligence process. Moreover, colleagues from ERM participated in a deep-dive workshop on scenario analysis.

Our climate-related due diligence:



Metrics and targets

Bank of Georgia uses metrics recommended by the TCFD to measure our impact on the climate, and the effects of climate change on our business model and operations.

Metric	Rationale and targets
GHG emissions: Absolute Scope 1, Scope 2, and Scope 3; emissions intensity	Measuring our GHG emissions helps us understand our direct and indirect impact on the climate.
Percentage of lending vulnerable to climate-related transition and physical risks, relative to total lending	Climate-related risks for our borrowers can present credit risks for Bank of Georgia, so we manage our portfolio's climate risk profile and new credit origination in line with our overall risk appetite.
Percentage of carbon-related assets, relative to total assets	Carbon-related assets are widely understood as a proxy for the financial sector's exposures to climate-related transition risks.
Amount of lending aligned with climate-related opportunities, relative to total assets	Banks can provide significant support to enable the transition to a low-carbon, resilient economy by providing climate-related financing. Seizing climate-related opportunities can become a source of significant revenue as the Government's, economy's and society's climate ambitions continue to grow. From 2023, we will monitor and report the share of financing in line with Georgia's new Sustainable Finance Taxonomies and explore opportunities to expand such climate-related lending.
Forward-looking metrics	Bank of Georgia is committed to using its financed emissions calculations to develop forward-looking climate-related metrics in the coming years.

GHG emissions: our operational footprint

Since 2012, the Bank has reported GHG emissions and energy use consistent with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

This data covers the Bank as the main operating unit and the core entity of the Group, including its offices and retail branches where the Bank has operational

control. For the first time, our 2022 reporting also includes emissions for three Bank subsidiaries (BNB Bank, Georgian Leasing Company, Bank of Georgia's Representative Office UK) and two Group subsidiaries (G&T, Digital Area). Bank of Georgia Group will determine in future whether and how to calculate emissions from other subsidiaries.

Our emissions data follows the guidelines of the World Resources Institute /

World Business Council for Sustainable Development (WRI / WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition 2016) as a reference source. The control approach was used for all operations of Bank of Georgia. We do not have responsibility for emission sources not included in our Consolidated Financial Statements on pages 228 to 342.

Scope 1

includes emissions from:

- Combustion of natural gas, petrol and diesel at owned and controlled sites (for heating and electricity generation).
- Combustion of petrol and diesel in owned passenger vehicles.

Scope 2

includes emissions from:

- Purchased electricity at owned and controlled sites.

Scope 3

includes emissions from:

- Fuel- and energy-related activities; waste generated in operations; purchased goods.
- Air business travel; hotel accommodation; land transportation by rental cars.
- New in 2022: employee commuting.

Category	Emission source category		tCO ₂ e	tCO ₂ e	tCO ₂ e	
GHG Protocol Standards: Corporate Scope – 1 and 2, Value Chain – Scope 3	Scope 1	Direct emissions from owned or controlled stationary sources	Fuels	874.4	907.6	957.3
		Direct emissions from owned or controlled mobile sources	Passenger vehicles	1,022.6	1,089.5	1,110.1
	Scope 2	Location-based emissions from the generation of purchased electricity, heat, steam or cooling	Electricity	1,624.9	1,661.5	1,864.2
	Scope 3	Fuel- and energy-related activities	All other fuel- and energy-related activities	488.5	545.6	593.3
			Transmission and distribution losses	342.9	350.7	347.1
		Waste generated in operations	Waste water ¹	39.0	42.0	18.4
			Waste	0.1	0.1	0.1
		Purchased goods	Water supplied ¹	18.9	20.4	10.1
			Material use	200.4	224.8	281.1
		Business travel	All transportation by air	9.8	19.9	80.9
			Hotel accommodation	–	2.1	6.8
			Land transportation by outsourced vehicles	471.3	615.0	565.2
			Employees commuting	–	–	3,822.3
Scope 1			1,897.0	1,997.1	2,067.4	
Scope 2			1,624.95	1,661.5	1,864.2	
Scope 1+2			3,522.0	3,658.6	3,931.6	
					Without commuting:	With commuting:
Scope 3			1,571.0	1,820.5	2,006.1	5,828.4
Total emissions			5,093.0	5,479.1	5,937.8	9,760.1
tCO ₂ e/employee			0.9	0.9	0.9	1.5
BOG employees (year-end)			5,821	6,207	6,597	

Data is provided by on-site delegates, invoices and meter readings.

Notes on methodology: We used the most recent Georgia electricity conversion factor provided by JRC². GHG emissions from business flights were calculated using the ICAO online calculator. GHG emissions from overnight hotel stays were calculated on a 'room per night' basis, with emission factors based on the Cornell Hotel Sustainability Benchmarking Index (CHSB) Tool, version 2.

Further conversion factors were taken from the 2022 UK Government GHG reporting: conversion factors³ – and updated against the 2020 version used for our 2021 reporting. Given that differences are mostly minor, and that updated emission factors also reflect real changes in different activities' emissions intensity, GHG emissions for 2020 and 2021 were not remodelled using the updated emission factors.

Compared to previous years, our gas consumption significantly decreased in 2022 as the result of major improvements to our heating system. Our petrol, diesel and electricity consumption, in turn, rose due to growth of the car fleet, office size and staff numbers, and due to staff returning to the office after two years of home office.

In 2022, we assessed Scope 3 emissions from 'Employee commuting' for the first time. This was based on a survey of employees' mode of transportation, distance travelled and – where known – fuel used. 21% of employees participated in the survey and final figures were calculated by extrapolating to all employees. While we acknowledge this approach is not fully accurate, we perceive the results to be sufficiently informative for the time being, e.g. to estimate the approximate share of commuting emissions in our total

emissions. It was not possible to assess commuting emissions for 2020 and 2021 due to a lack of data and irregularities in commuting patterns throughout the COVID-19 pandemic.

1. Between 2020 and 2021, the method for calculating EFs for water supply and water treatment was changed. These EFs are now calculated based on the 2020 data from the UK water companies Carbon Accounting Workbooks (CAW). This is because previously the values were coming from a publication of the UK water industry from 2012 that has now been discontinued. There is a large decrease in the conversion factors associated with water supply and water treatment compared to last year's conversion factors. This is most likely due to the updated method reflecting the grid decarbonisation since 2012.
2. JRC Guidebook – How to Develop a Sustainable Energy and Climate Action Plan in the Eastern Partnership Countries, European Commission, Ispra, 2018, JRC113659, http://com-east.eu/media/k2/attachments/Com_east_guidebook_2018.pdf.
3. Department for Business Energy and Industrial Strategy (BEIS), Greenhouse gas reporting: conversion factors 2022, <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2022>.

Bank of Georgia and Group's subsidiaries' GHG emissions 2022

Bank subsidiaries

Group subsidiaries

Category	Emission source category		tCO ₂ e	tCO ₂ e	
GHG Protocol Standards: Corporate Scope 1 and 2	Scope 1	Direct emissions arising from owned or controlled stationary sources	Fuels	–	–
		Direct emissions from owned or controlled mobile sources	Passenger vehicles	95.5	79.8
	Scope 2	Location-based emissions from the generation of purchased electricity, heat, steam or cooling	Electricity	235.0	18.5
			District heat	118.5	–
	Scope 3	Fuel- and energy-related activities	All other fuel- and energy-related activities	24.6	19.8
			Transmission and distribution losses	10.2	3.4
		Waste generated in operations	Waste water	1.1	1.0
		Purchased goods	Water supplied	0.6	0.5
Scope 1			95.6	79.8	
Scope 2			353.4	18.5	
Scope 1+2			448.9	98.3	
Scope 3			36.6	24.7	
Total emissions			485.6	123.0	
tCO ₂ e/employee			0.6	0.6	
Total employees			833	210	

Notes on methodology: Once again, we used the most recent Georgia electricity conversion factor provided by JRC to calculate electricity emissions for all

Georgian Bank/Group subsidiaries. The emission factor for electricity use by BNB is specific to Belarus and was also taken from JRC. Further conversion

factors were taken from the 2022 UK Government GHG reporting: conversion factors.

Scope 3: Financed emissions

In 2022, Bank of Georgia analysed the GHG emissions of 66 corporate clients across six sectors:

	Outstanding loan amount at 31 December 2021 (GEL)		Scope 1 + 2 (tCO ₂ e)		Scope 3 (tCO ₂ e)	Emissions intensity (tCO ₂ e/GELm)
Financed 2021 emissions						
Cement, steel and other energy-intensive manufacturing	377,876,879	238,297	Emissions from use of electricity and fuels; emissions from chemical processes not calculated.	/	Not calculated (yet)	631
Hotels (running)	339,302,849	1,235	Emissions from use of electricity and fuels.	/	Not calculated (yet)	4
Real estate management (running)	151,402,530	/	Not calculated (yet), as emissions mostly stem from building use.	442	Emissions from tenants' building use, calculated based on measured energy consumption.	3
Mining (gold, copper, sand and gravel)	123,999,713	9,644	Emissions from use of electricity and fuels.	/	Not calculated (yet)	78
Transport	110,859,680	7,980	Emissions from use of fuels and, where material, electricity.	/	Not calculated (yet)	72
Electricity generation (from gas)	67,747,084	182	Emissions from use of electricity and fuels for plant operation.	35,618	Emissions from electricity generation, calculated based on gas consumed.	528
Total	1,171,188,735	257,338		36,060		251
Financed 2021 emissions						
Hotels (under construction)	127,765,409	89,518	Lifetime emissions over 30 years, based on planned hotel size or annual # of nights.	/	Not calculated (yet)	701
Real estate management (under construction)	20,904,434	/	Not calculated (yet)	55,448	Lifetime emissions from building use over 30 years, based on planned building size.	2,652
Total	148,669,842	89,518		55,448		975.09

Results: There is a wide variation between sectors as some are more GHG-intensive than others. Desk research showed that our emissions intensities are generally in line with those reported by other banks from emerging economies and beyond. The potential for emissions reduction through energy efficiency improvements is highest in energy-intensive manufacturing such as cement and steel making. Improving building design can help avoid future emissions from the building sector. Despite methodological challenges, we will use our findings to inform client engagement and business management decisions from a climate perspective.

Methodology: The clients covered by the assessment are considered carbon-related through their Scope 1, 2 or 3 emissions, and account for approximately 26% of our corporate portfolio (as at 31 December 2021). The analysis was done for emissions generated in 2021, given the required data to calculate 2022 emissions was not available at the time of calculation.

To calculate financed emissions, we applied the 'Global GHG Accounting and Reporting Standard for the Financial Industry' developed by the PCAF. Although a small number of loans was used for the purchasing of real estate, we considered all loans to fall into PCAF's

'general business loan' category. This decision was taken to allow for efficiently calculating financed emissions and to avoid double counting of emissions from clients that have taken out loans for both the purchasing of real estate and other purposes.

Our bankers collected the following data: outstanding loan amount; total debt and equity; and primary physical activity data for the company's energy consumption. On a scale from one (best) to five (worst), the quality of our data thus scores two. Most clients do not yet report GHG emissions, making it impossible for us to reach the highest data quality score.

Scope 3 emissions were calculated and reported separately where relevant – as were lifetime emissions for hotels and apartment or office buildings whose construction was still financed by Bank of Georgia in 2021. For the latter, we based calculations on the size of the building or number of nights booked per year and a total lifetime of 30 years.

Challenges and outlook: When it comes to efficient and robust measurement of financed emissions, one of the most prominent hurdles is to ensure that clients provide complete, consistent, reliable data. We discussed individual data points with clients whenever we detected

possible irregularities and, going forward, will continue to monitor the quality of data provided – engaging with clients to raise awareness and improve results.

We have so far only calculated emissions from a minor share of our portfolio. In 2023 we aim to assess emissions for approximately 30-40% of our CB portfolio using the PCAF Standard.

Given the large number of clients in our MSME and retail portfolios, we cannot apply the PCAF Standard to these segments. Indeed, attempts to calculate financed emissions from our MSME portfolio based on statistical data for sector-based GHG emissions and turnover failed in 2021/22 due to the lack of comparable data.

We expect to pilot the Joint Impact Model (JIM) in 2023 as a potential solution. The JIM is a methodology developed by several development finance institutions to conduct indirect impact modelling. Using input data such as revenue and power production from portfolios, the JIM enables users to estimate financial flows through the economy and its resulting economic (value added), social (employment) and environmental (GHG emissions) impact.

The way forward

In 2022 we answered the **CDP questionnaire** for the first time. Our response scored a C ('awareness'), on a scale from A ('leadership') to F ('failure to disclose') – showing that we have taken significant strides in our climate action, but that we need to continue working on the matter to address our climate impact and ensure good climate management.

We are disclosing climate-related actions for the second time in 2022. We believe we have covered all TCFD recommendations and recommended disclosures, providing information on relevant decisions and how we made them. Nevertheless, we acknowledge we are only at the outset of our climate journey and plan to move from testing

methodologies and preparing changes to fully integrating climate-related risks and opportunities into relevant processes across the Bank. Climate-related disclosures will incrementally become more detailed.

Recommended disclosures

The way forward for 2023

Governance

Board oversight of climate-related risks and opportunities.

Management's role in assessing and managing climate-related risks and opportunities.

The board and management will continue to exercise their climate-related responsibilities as described in this Annual Report.

Training and upskilling colleagues across the Bank will continue to be a key priority. E-learning materials will be developed.

Strategy

Climate-related risks and opportunities over the short, medium, and long term.

Impact of climate-related risks and opportunities on our businesses, strategy, and financial planning.

Resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We will continue to conduct climate-related risk and opportunity analysis and disclose relevant results.

We will implement our Climate Action Strategy.

Improving our risk assessment capacities (see below) will also allow us to better understand the resilience of our strategy.

Risk management

Processes for identifying and assessing climate-related risks.

Processes for managing climate-related risks.

Integration of processes for identifying, assessing, and managing climate-related risks as part of our overall risk management.

To enhance credit risk assessment and manage risks, we will start collecting data from business clients in a standardised manner through an updated due diligence process. Moreover, we will assess (very) high-risk clients' awareness and preparedness for such risks in more detail, together with respective clients.

We will strive to conduct sectoral case studies to better understand climate risks and management responses for selected high-risk sectors and clients (conditional upon external technical and financial support).

We will continue to refine and expand our risk assessment methodologies with feedback from the new due diligence process and, possibly, sectoral case studies.

We will collect data to help identify climate finance opportunities in line with the NBG's Green Taxonomy.

We will reassess whether to integrate climate into our Risk Appetite Statement and update policies as necessary.

Metrics and targets

Metrics used to assess climate-related risks and opportunities in line with the Bank's strategy and risk management process.

Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and related risks.

Targets used to manage climate-related risks and opportunities, and performance against targets.

We will assess emissions generated by 30-35% of our CB portfolio (up from 26% in Annual Report 2022) and test a modelling-based approach for assessing financed emissions from the total business portfolio. Results will be published in our 2023 Annual Report.

As we start to better understand emissions from our portfolio, we will take into consideration whether – and how – to specify our climate-related targets.

Our climate-related disclosures were prepared with technical assistance financed under the EIB's Eastern Partnership Technical Assistance Trust Fund (EPTATF). The opinions expressed do not necessarily reflect the view of the European Union, EPTATF or EIB.

ESG REVIEW – SOCIAL

Social

At a glance

We aim to play an active role in creating and enabling opportunities for our customers, employees, and communities in which we operate.

Our purpose is *helping people achieve more of their potential*, and this means different things to us in different contexts – when we see our colleagues overcome personal and professional challenges and grow in this learning process, when we see children in Georgia's rural areas use the libraries we sponsor to design, or when we see young entrepreneurs use our resources to develop their businesses, this is what we call *"achieving more of their potential."* This does not mean

that we solve all of their problems or that we never have a negative impact on people. But, we strive to reduce any negative impacts we may have, we take responsibility for our actions.

Our main focus areas for social impact are financial inclusion, education in communities, and employee empowerment. We are committed to ensuring there are no unnecessary barriers to finance for our customers and we aim to deliver a positive, inclusive and accessible experience to our customers. Going forward, we will place an even greater focus on young people and financial education. In 2022 we launched

the first financial mobile application in Georgia for school students and continue to enhance it to increase engagement and embed educational content because we believe financial literacy is one of the tools to *"achieve more of their potential."* We are equally committed to building an inclusive, healthy and stimulating workplace for our people. And, finally, we aim to give back by engaging with our communities through philanthropic giving and sponsorships that are focused primarily on access to education and educational opportunities.

In this section:

Empowering our customers	In this part you will read about how we listen to our customers and get their feedback, and how we ensure that we act in the best interests of our customers.	Pages 120 to 121
Empowering our employees	In this part you will read about how we ensure inclusion and diversity in our workplace, how we develop and implement our talent strategy, and how we listen to our colleagues and what they tell us.	Pages 122 to 134
Empowering our communities	In this part, you will read about our initiatives in local communities, including educational programmes we support, and non-educational sponsorships.	Pages 135 to 138

Empowering our customers

Customer experience – how we listen to our clients

A few years ago Bank of Georgia embedded a customer-centric model in its operations. Customer-centricity has been defined as one of the business principles and a customer experience ('CX') management department has been set up, supporting the Bank in improving the customer experience across segments and main touchpoints. We have put in place a systematic approach to not only mitigate negative impacts we may have on people, but also, and most importantly, to learn from customer feedback. The CX department now reports to the Deputy CEO/COO.

The CX team continuously monitors and collects real-time customer feedback. We are serious about customer feedback. The Bank's senior management receives and discusses the reports prepared by the CX team monthly, including action plans and how those have been executed.

The CX management process has been incorporated across all levels of the Bank. We recognise that robust CX governance is crucial for the success of the Bank's overall strategy. Our CX governance framework covers all key elements:

- measurement framework/data collection framework;
- senior management ownership (monthly meetings to discuss key issues raised by our customers);
- customer-centric culture (CX embedded in employee KPIs framework); and
- continuous improvement process based on customer's voice (processes/products/channels) (surveys after new product launches, access to daily reports for key staff, CX product improvement initiatives sent quarterly to agile teams).

A variety of data collection methods are used to understand what our customers think about Bank of Georgia, and whether the interactions and the experiences they have with us are aligned with what we promise and aspire to.

Medallia

In 2019, we purchased Medallia, the world's leading customer experience management platform, and we have since integrated it into all key channels. Medallia enables us to engage daily with our customers, collect and analyse their feedback, identify the root causes of problems and prioritise improvement projects.



Monthly internal telephone and email surveys – we collect, measure, and analyse customer feedback across all segments using telephone and email surveys.

- Mass retail – randomly selected 800-850 active customers per month.
- SOLO segment – randomly selected 450 active customers per month.
- POS payments – randomly selected 350-400 merchants per month.
- Small and medium businesses – randomly selected 1,200 and 900 customers, respectively, per quarter.
- Mail surveys for CB and WM customers.
- Surveys on specific products including student cards, Amex cards, etc.

External survey – we measure the Bank-wide NPS using an external independent service provider.

NPS is a key metric for the whole organisation.

We have delivered a substantial shift in our approach to customer experience, leading to a major increase in customer satisfaction.
External Bank-wide NPS was 58 by the end of 2022, up from the low-30s four years ago.

Responsible financial inclusion

Financial inclusion enables people to benefit from the products and services that a formal financial system offers, with the potential to improve their quality of life. However, the only type of financial

inclusion that empowers individuals and supports economic development of communities is responsible financial inclusion. The sustainability of our business and sustainable development

of the local economy depend on how responsibly we deliver our products and services to our customers.

Responsible lending

- We do not lend without assessing and checking a customer's income.¹
- We adhere to the PTI and LTV limits set by the NBG.
- The monthly debt load for any individual cannot exceed 50% of their monthly income, and this ratio is set even lower for individuals with lower incomes (maximum 25%) as well for those who face FX risk – that is if a borrower's income is in GEL while the loan is in foreign currency, maximum debt burden cannot be more than 30% (and 20% for those with lower income).
- LTV: maximum 85% for GEL loans and maximum 70% for loans in foreign currency.
- We set an income threshold below which an individual is not eligible for a loan.
- We perform regular portfolio monitoring to identify any signs of potential loan repayment problems.

- We send regular automatic loan repayment reminders to all customers.
- We provide information on existing Government programmes to our customers to help them benefit from Government subsidies if they are eligible.
- For floating-rate loans, we always inform our customers when the interest rate changes.

Responsible collections

Bank of Georgia has a Code of Ethics for Debt Collection, governing culture and ethics in the process of collections. This Code is based on the requirements of the NBG and international best practice, ensuring the collections process is managed with the principles of good faith, transparency, and fairness.

During the collections process, we operate with the following principles:

- We have transparent relationships with borrowers.
- We interact with fairness and respect.
- We provide our customers full, reliable, and helpful information, essential for decision making.
- We define a suitable time for communications and a list of information to be prudent, attentive and loyal towards the borrowers.
- We motivate and help borrowers find the best outcomes.

As a control mechanism, the Bank maintains records of communications with customers to ensure effective execution of the Code. The Customer Protection unit serves as a second line of defence, monitoring debt collection process so that it is in compliance with the principles, rules, and requirements of the Code.

We continue to strengthen the controls on collections activities to provide fail-safe protection of consumers and promote fair treatment of borrowers.

Customer protection

We aim to maintain customer trust by adhering to the highest ethical standards in doing business. Fairness and customer centricity are two of our six business principles. This is reflected in our Code of Conduct and in the Customer Protection Standard, which was updated in 2022 to reflect new local regulatory requirements and additional control mechanisms for effective execution. The Standard covers all stages of the product and services lifecycle and includes requirements related to transparent product offerings and clear, accurate and tailored communications to enable customers to make informed decisions. We have developed an online training module on responsible treatment of customers to ensure all employees clearly understand our commitments. Online training is the part of mandatory onboarding programme for customer-facing roles.

Our commitment to customer centricity implies that we offer our customers the products and services that are suited to their needs and preferences, while adhering to our internal policies and procedures as well as applicable laws and regulations. We clearly disclose all features and terms and conditions, including applicable fees and charges, for the products and services offered so that our customers can make

informed decisions. Responsible marketing guidelines are included in the Standard, according to which all marketing communications must be fair, clear, and not misleading. The Legal department serves as a second line of defence, monitoring the Bank's marketing communications and ensuring they are fully compliant with internal policies and procedures as well as applicable laws and regulations.

The Bank has a Customer Claims Management procedure that defines how to handle customer complaints and concerns in a timely and effective manner. The Customer Claims Management and Support Centre reviews and manages all incoming claims. In case of a material violation, the Customer Claims Management and Support Centre is obliged to escalate the matter to the Bank's Compliance Committee. Customers can file complaints via any channel, including the Bank's website, social media, call centre, and branches. According to the NBG's regulations, customers can also file complaints via the NBG. The Bank's Customer Protection Unit manages communications with the NBG regarding customers' claims.

The Customer Protection Unit also serves as a second line of defence, reviewing and

analysing all complaints to identify any trends and recurring claims potentially indicating a systemic issue, any violation of our Code of Conduct or Customer Protection Standard, and offering remediation action plans if necessary.

If the Customer Protection Unit identifies a systemic issue from customer complaints or reports received through the whistleblowing channel, it reports such findings to the Audit Committee in its quarterly compliance reports.

The Bank has in place a product and service approval process, which includes an assessment of compliance risks related to new products or services. Assessment and approval are required for new products and for changes to existing products. We aim to ensure our products and services are in line with relevant regulatory and legal requirements as well as internal compliance and control framework. The Legal department serves as second line of defence in the product and service approval process and reviews the compliance of products and services from a legal and regulatory perspective. All product developments, including changes to existing products, are reviewed by key control functions.

1. Excluding pawn loans which stood at GEL 165 million as at 31 December 2022.

Empowering our employees

We deliver on our strategic objectives thanks to our employees and their commitment to shared success. We are committed to inspiring and empowering them by ensuring a diverse and inclusive work environment, with equal opportunities for learning and development. We do business in line with our core values and business principles, and continue to focus on attracting, developing and retaining top talent, fostering a high-trust environment and

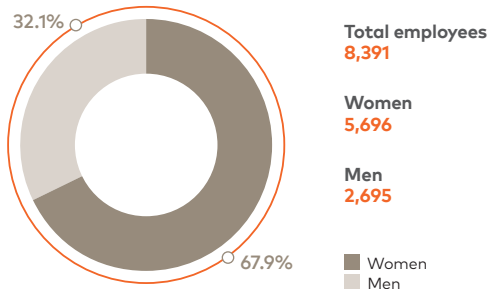
a strong feedback culture, and developing our organisation to give employees meaningful work experiences.

Bank of Georgia's Human Capital Management (HCM) function plays a critical role in helping us ensure employee wellbeing, engagement and satisfaction. The HCM function, combining HR expertise with business knowledge, designs and implements policies and practices in line with the Group's purpose,

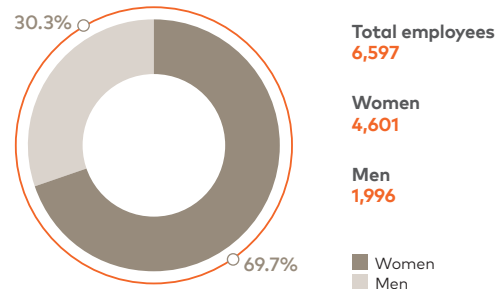
values, business principles and strategic objectives. The HCM team reports to the Head of Human Capital and Employee Experience Management, a member of the Bank's Management Team, who reports directly to the CEO. The Supervisory Board of the Bank and its Nomination, Remuneration, Audit and Risk Committees – oversee all matters related to the Bank's employees.

Our employees at a glance

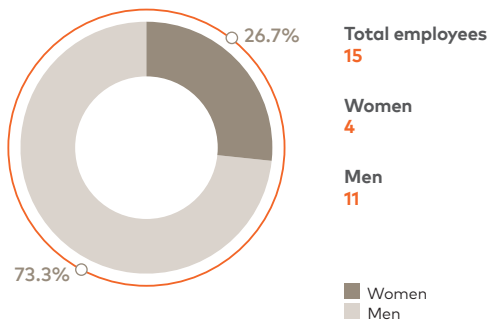
Group employees by gender



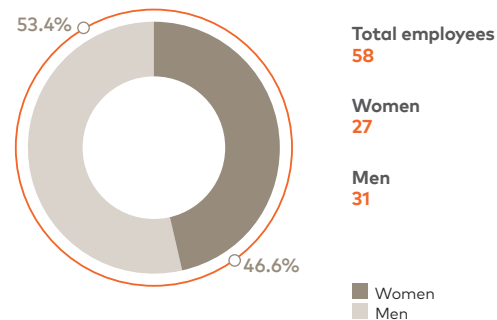
Bank of Georgia employees by gender



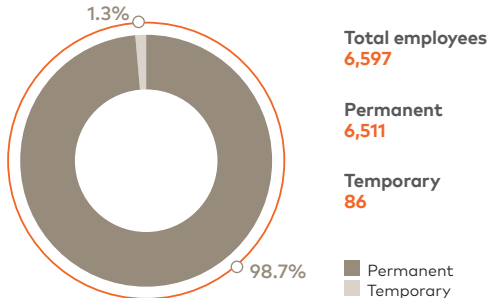
Executive Management of the Group¹



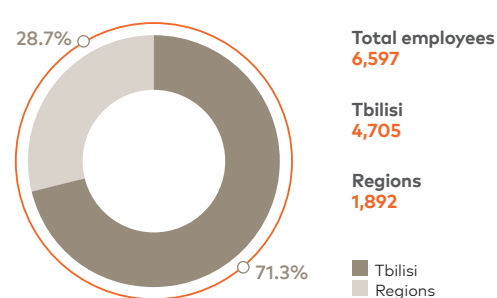
Senior management of the Bank²



Bank of Georgia employees by contract type

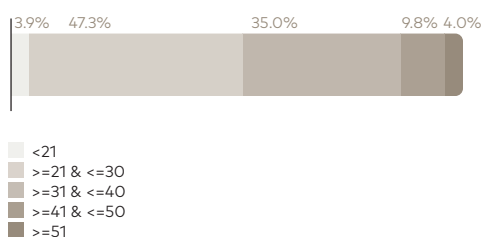


Bank of Georgia employees by location

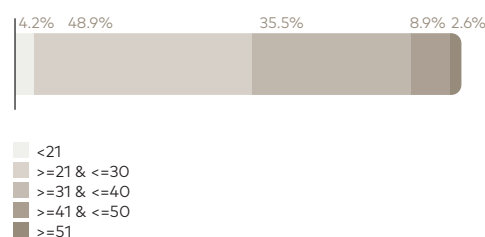


Generational split

Age of employees, % (Group)



Age of employees, % (Bank of Georgia)



1. Includes the CEO. The figures are presented as at 31 December, 2022.
2. Excludes Executive Management of the Bank.

Culture: living our values and business principles

We are committed to the highest ethical standards in everything we do. We expect every employee to act in line with our values and business principles, complying with applicable laws, regulations, and internal policies and procedures. We communicate our expectations of employee conduct through multiple channels, including our Employee Corporate Handbook, available to all employees on the Bank's intranet, in Georgian and English. The

Code of Conduct, an integral part of the employment agreement between the Bank and its employees, is fundamental to fostering the culture based on our values and business principles. It clearly sets the expectation that all employees act legally, ethically, and transparently in all their dealings. Failure to do so may lead to disciplinary action, up to and including the termination of employment.

We monitor employee awareness of internal policies and are working on strengthening our internal communications and explaining our policies through online, interactive, self-paced courses.

How employees can raise concerns

Whistleblowing tool

The Bank has a whistleblowing tool allowing employees to report any concerns anonymously or confidentially. The Bank uses WhistleB, an external, advanced, independent whistleblowing

reporting channel and case management tool. We prohibit any form of retaliation against an employee who raises a concern or participates in an investigation.

We encourage employees to speak up and promptly escalate concerns about a potential misconduct.

Grievance mechanism

Through our grievance mechanism, which is part of our Grievance Policy, employees are encouraged to communicate legitimate concerns about illegal, unethical or questionable practices – confidentially, if necessary, and without

the risk of retaliation. Grievances can be submitted via email, anonymous hotline call or electronic form.

In 2022, we had three cases reported under the Grievance Policy, two of them

were provided anonymously. All cases were investigated and resolved. For more information on ethical business, please see pages 87 to 88 of this report.

Prevention of bribery and corruption

As an organisation that does not tolerate bribery and corruption, Bank of Georgia ensures appropriate internal controls are in place and operate effectively. Our KYE procedures include screening at the recruitment, employment and departure stages.

In 2022, there were no bribery and corruption incidents registered, nor did the Bank incur any bribery or corruption fines. (For more information on financial crime, please see page 143 of this report).

Diversity, inclusion and equality

We are committed to ensuring inclusion and equal opportunities in our organisation. We do not tolerate discrimination on any grounds, – be it gender, marital status, sexual orientation,

race, ethnic origin, nationality, age, disability, political or religious beliefs, or on any other grounds under the applicable local law. Universal human rights are incorporated into our Handbook and our

Human Rights Policy. Our Anti-nepotism Policy also underpins fair and transparent decision-making in all employee-related matters.

Gender equality

In 2020 our efforts to address barriers to the employment of women were recognised by the 2X Challenge, an initiative seeking to empower women and enhance their economic participation. The nomination was awarded based on the following criteria:

1. More than 40% of the Bank's employees are women.
2. The Bank commits to and implements policies or programmes beyond

those required for compliance, addressing barriers to women's quality employment.

3. Across the organisation women represent at least 40% of senior management and at least 33% in at least three Board-level Committees out of five.

In 2022 Bank of Georgia joined the Women's Empowerment Principles (WEPs) to further strengthen our

initiatives aimed at supporting women in the workforce. Bank of Georgia also retains its 2XChallenge nomination, and we monitor its criteria as our main indicators of gender D&I, and provide an annual update on diversity matters to the Nomination and Remuneration Committees.

Inclusion and non-discrimination

As detailed in the 'Talent strategy' chapter, we take steps to ensure candidates and employees are not discriminated against. We do, however, process gender, age, education, position and employee level, and other information required for the fulfilment of our talent strategy, and disclose our progress through our ESG reporting framework

with reference to GRI standards. Since 2020 we have also reported on workforce diversity for the NBG, including information on gender ratios by employee position levels, age structure, and ratio of disabled persons.

We plan to advance our D&I practices by involving our HCM team members in an

international certification programme, performing a self-audit and identifying areas for improvement. This will be completed in 2023, and we aim to have a D&I enhancement plan in place for 2024.

Fair rewards

The Bank's Remuneration Policy and practices are part of our human capital strategy and are aligned with the Group's overall strategy, corporate culture, business activities and risk appetite, and comply with applicable regulatory and legal requirements. The main principles of the Bank's Remuneration Policy are:

- **Competitiveness:** Compensation paid by the Bank should be in line with market practices and competitive when compared with respective positions in other banks and on the Georgian labour market.
- **Flexibility and fairness:** To ensure fair remuneration of employees in

similar positions in line with their responsibilities, qualifications, and skills. Our approach and remuneration practices are gender-neutral and we are committed to eliminating any bias and discrimination. Flexibility means our practices are in line with the objectives of the Bank and can be adapted as business needs change and the competitive environment evolves locally and globally.

The Remuneration Policy is approved by the Supervisory Board of the Bank, based on the recommendation of the Remuneration Committee. In 2022, changes related to remuneration of Material Risk Takers and other new

requirements of the NBG were approved and implemented.

Our remuneration system consists of fixed salary and variable remuneration, which is based on performance. The Policy defines standards applied to remuneration of Executive Management, Material Risk Takers and the workforce, including those employed in control functions (Internal Audit, risk management, and compliance). Additionally, all employees are eligible to participate in the state pension scheme. The Bank makes pension payments according to the terms and conditions defined by the Georgian legislation.

Remaining a competitive employer

We monitor employee pay trends via labour market compensation surveys. The results of the 2022 survey and the analysis of internal data confirmed that we remain a competitive employer.²

We also monitor wage statistics in Georgia. According to the National Statistics Office of Georgia, a subsistence minimum¹ was GEL 254 in December 2022, and **average monthly nominal earnings per employee as of 3Q22 stood**

at GEL 1,595³. In addition, the living wage was GEL 1,770² according to the Georgia Fair Labor Platform³, while **average monthly earnings at the Bank amounted to GEL 3,468⁴**.

Ensuring fair remuneration

In addition, we monitor our **gender equal pay gap (GEPG)** as one of the indicators of equal opportunities, and report this information to the Remuneration Committee annually. The GEPG is the difference between the compensation of male and female employees in the same position. In 2022 the GEPG stood at 4%.

The decrease in GEPG reflects our commitment to creating equal opportunities in the workplace – we promote equal opportunities and support women with a variety of leadership initiatives.

Levelling

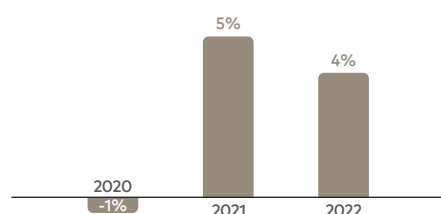
This framework considers job specifics to ensure fairness and transparency across the Bank.

Levelling ensures:

- better employee understanding of total compensation (all pay and benefits) approach;
- better management of employee mobility;
- a baseline for aligning jobs and compensation packages;
- a baseline for setting pay grades and salary ranges that are comparable with similar jobs inside and outside the organisation, to attract top talent; and
- additional guidance in the selection of employees.

GEPG

(Bank of Georgia)
(mean pay – women versus men)



As for our raw **gender pay gap (GPG)**⁵, which measures the difference in the average earnings of men and women regardless of the nature of their work, average earnings of female employees are 44% lower than those of male employees. This is mainly driven by the higher proportion of women among new hires at entry levels in non-managerial positions and at lower ranges on managerial levels. The Bank continues talent development activities to support professional development and career progression of its employees.

We are committed to ensuring equal opportunities by fine-tuning our job architecture and grading structure. In 2022, we completed 'Levelling' for non-managerial positions, having finished this process for managerial positions in 2021. A standardised process of assessment and placement applies to each new or updated position and its respective incumbent, mapping the baseline for career paths and employee career progression.

1. <http://geostat.ge/en/modules/categories/791/subsistence-minimum>

2. <https://www.geostat.ge/en/modules/categories/39/wages>

3. <https://shroma.ge/en/living-wage-en>

4. Excluding Executive Management.

5. The raw gender pay gap is a measure of the difference in mean earnings of men and women regardless of the nature of their work across an organisation. The figure is calculated as the mean salary for male employees minus the mean salary of female employees (excluding Executive Management).

Our benefits for supporting employee wellbeing

Bank of Georgia's employee value proposition includes competitive remuneration and benefits packages and support for personal and professional development.

Corporate insurance package ♦

We offer employees a standard corporate health insurance package, including pregnancy and childbirth coverage, fully paid by the Bank. Employees can upgrade to a non-standard package by covering the price difference.

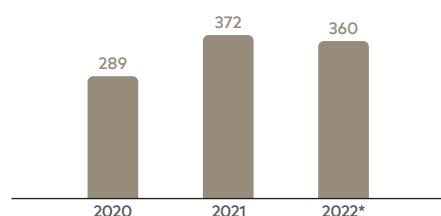
Maternity leave, newborn adoption leave and parental leave⁶

From 2021 we replaced maternity leave – which was available only to employees who were a mother of a child – with **parental** leave. Parental leave comprises maternity leave for childbirth and **maternity or paternity leave** for childcare available to an employee who is either a mother or a father of a child.

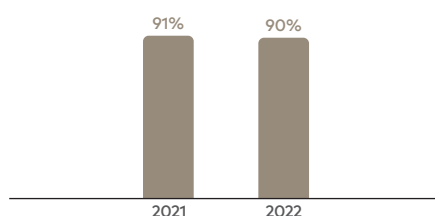
This leave offers a total length of 730 calendar days in case of childbirth and childcare to all employees.

Parental leave types	Legal requirements	What we do
Paid maternity leave for pregnancy and labour.	Payment is not legally required for private sector.	126 calendar days' compensation ⁷ paid by the Bank. ♦
Paid maternity leave in case of complications during childbirth or the birth of twins.	Payment is not legally required for private sector.	17 calendar days' compensation paid by the Bank. ♦
Paid parental leave for childcare.	Payment is not legally required for private sector.	57 calendar days' compensation paid by the Bank. ♦
Unpaid parental leave for childcare.		Difference between total length of childbirth-related leave (730 days) and above-mentioned calendar days as appropriate.
Additional unpaid parental leave for childcare.		12 weeks from the child's birth until the age of five, granted to any employee who actually takes care of a child, for at least two weeks per year.
Newborn adoption paid leave.	Payment is not legally required for private sector.	90 calendar days' compensation paid by the Bank. ♦
Newborn adoption unpaid leave.		460 calendar days.

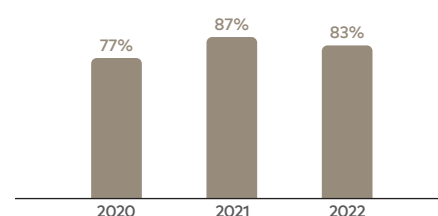
Number of women on maternity/parental leave



Return-to-work rate after maternity leave



Retention rate of employees who returned to work after maternity /parental leave, staying for at least 12 months



* One male employee used parental leave in 2022.

6. As defined by the Labour Code of Georgia.

7. The difference between an employee's salary during the leave and the amount paid by the Government.

♦ Benefit beyond compliance.

Additional benefits



Support in **back-to-work adaptation** ♦ – training programmes for employees returning to work from parental leave.



Special working **ergonomics** for **pregnant women** – **21 workplace rearrangements in total were made for our pregnant colleagues.**



Paid time-off for special needs in accordance with Georgian regulations:

- Medical check-ups related to **pregnancy**.
- For mothers **breastfeeding** during the first 12 months.
- For employees who are legal representatives or supporters of a person with a **disability**.
- Paid medical check-ups for night-shift workers.
- **COVID-19-related days-off.**



Additional paid time-off ♦ in form of days off and uncertified sick leave – on top of those required by the Labour Code of Georgia – available to all employees.



Educational vacation ♦ – In the case of distance learning, the Bank offers a short-term educational vacation to employees. The Bank also provides the possibility of co-financing the cost of higher education – master's, academic or certification programmes at foreign universities for professional development in the relevant field (e.g. MBA, CFA programme, etc.).



Special terms for banking services ♦ – no fee for services related to a salary account and discounted rates on payment cards issued by the Bank, available to all employees.



Financial aid ♦ for:

- Childbirth, marriage, or a grave illness of a family member.
- Families in the case of an employee death.
- Coverage of an employee's uninsured debt at the Bank in the case of the employee's death.



TOIL (time off in lieu) compensation – employees can bank overtime hours and use them cumulatively as paid vacation within 12 months. If, due to unexpected circumstances, employees cannot take earned hours within the predefined time period, they will instead be compensated in cash (in compliance with the Labour Code of Georgia).



Night-shift employees medical check-up was introduced in 2022, in accordance with the Labour Code of Georgia. Those starting work or working a) at least three hours between 22:00 and 6:00 as part of their standard working time, or b) 25% of their annual work time during the same period, are considered night workers. They are offered an annual medical check-up to prevent or mitigate the risk of related professional illnesses, with costs covered by the Bank. Also notable:

- If according to a medical report the night worker has a health problem due to performing night work, the Bank shall, where possible, transfer him or her to a suitable day job.
- In the case of a medical recommendation, the night worker is eligible to request a medical examination every six months.

Talent strategy

In developing and implementing our talent strategy, we focus on:

- Attracting, developing and retaining highly qualified talents.
- Putting the right people in the right roles.
- Ensuring alignment of our talent strategy with business objectives by analysing and anticipating business needs and gaps in required skills and competencies.

51% of our employees are 30 years old or younger, and our approach has evolved alongside changing attitudes towards work among younger generations – especially following the pandemic. When recruiting, we highlight that hybrid work

is normal, that we are committed to ensuring D&I, and that work-life balance matters.

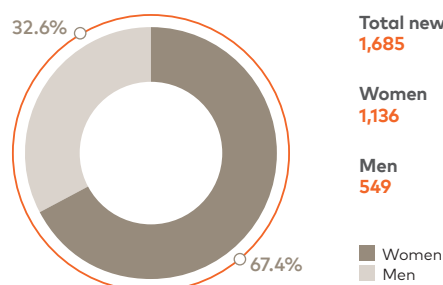
Our Talent Acquisition team actively monitors the labour market and regularly engages with potential candidates in Georgia and abroad. We also run an 'Employ the Talent' initiative, where employees can suggest candidates for tech and mass retail job openings. Seven candidates referred in this way were successfully employed in 2022.

Bank of Georgia is an equal opportunity workplace, where people from different backgrounds and experiences come together, empower each other, and create value for our stakeholders. The Bank's recruitment policy and practices –

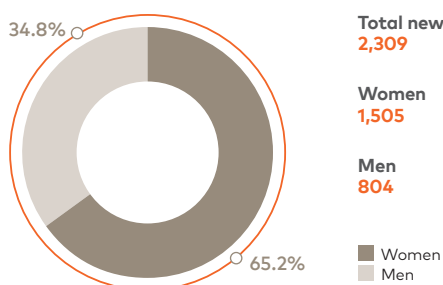
with panel interviews, relevant control procedures and online applicant tracking system – ensure a fair hiring process. We do not ask for candidates' date of birth, gender or photograph, nor do we collect information on race, religion, sexual orientation, disabilities or nationality – ensuring no candidate or employee is discriminated against on any grounds.

One priority is to develop talent internally, and current employees have priority when filling vacancies – especially for managerial positions. During 2022 a number of internal moves happened within executive and senior management, reflecting our focus on putting the right people into relevant roles and re-shuffling when necessary.

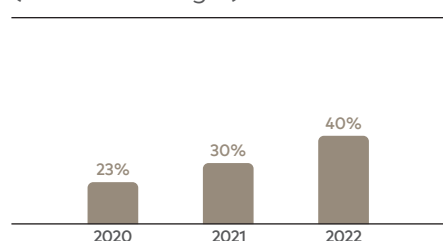
New employee hires (Bank of Georgia)



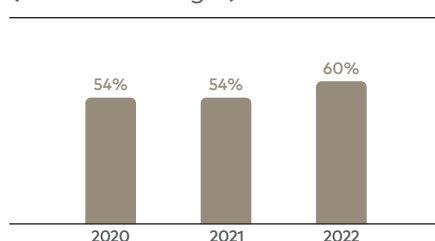
New hires (Group)



Internal mobility rate
(Bank of Georgia)



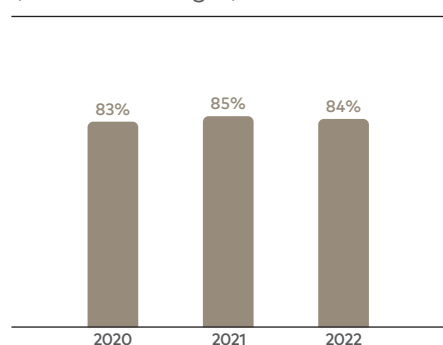
% of vacancies filled internally
(Bank of Georgia)



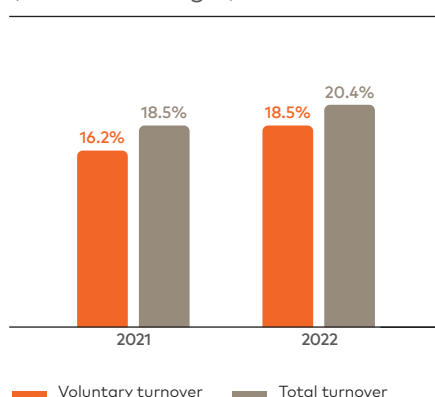
129

Employees of the Group promoted to managerial positions
76 women, 53 men

Retention rate
(Bank of Georgia)



Employee turnover
(Bank of Georgia)



Bank of Georgia continues to support younger talent by creating unique opportunities for personal and professional development. We collaborate with leading Georgian business schools and universities, regularly participate in job fairs, and run internships and student development programmes.

Since 2017 we have run Leaderator, a highly recognised student development programme in the local market. We enrol talented undergraduates in the programme and involve them in ongoing projects to expose them to real-world work experience. Leaderator participants are mentored by professionals at middle

and senior management levels of the Bank. We offer participants flexible schedules and a financial reward, and they may be offered jobs upon completion of the programme.

102

Number of Leaderators selected in 2022

45% were women

54% were selected for IT/Data/Digital programme

295

Number of students who participated in the programme

91% of participants were hired at the Bank after the programme ended



Leaderator participants tell us that Bank of Georgia is the employer of choice among IT and tech students, because they

know we focus on helping young people grow professionally within one of the best tech teams in Georgia. Most participants

are promoted to different positions within our IT team, and some have already been promoted to managerial positions.

Summer internship programme

In 2022 Bank of Georgia held its second **summer internship programme** for Georgian students who study abroad. **Nine students were selected.** Over the past two years, **13 young talents** interned with the Bank during their summer break.

Key talent management activities during 2022

Updated Bank-wide employee performance and development review.	Implemented Performance Management System to enable setting, tracking and evaluation of annual goals.	Enhanced one-on-one coaching to develop leaders.
Revamped programme to support newly appointed managers.	Upgraded talent review framework and launched employee review process to segment Bank of Georgia employees, identify high-potential employees and point out strategic training needs – enabling the bank to tailor development programmes and create training plans that equip our people with essential skill sets for career advancement.	Launched pilot programme to address increasing role of digital transformation across the organisation, and reskilled and enabled transition of frontline employees into IT roles.

Employee performance and development reviews

Talent development cannot happen without fair and transparent performance reviews and development-oriented feedback. During 2022, we focused on a few initiatives:

- Rolled out a KPI management system for managers – at the Bank, discretionary compensation (i.e. bonuses) are paid based on performance. During 2022, managers participated in an annual KPI setting process, inputting relevant KPIs and then the actual performance against these into the system. This has enabled us to systematise the KPI setting process and increase transparency around performance

and remuneration. In 2023, we plan to involve individual contributors in this process as well.

- Continued talent reviews – held them for more than 1,000 employees throughout the year, across 60 departments and involving 300 managers. The purpose of a talent review is to discuss employee development and career progression and develop individual development plans, enabling employees to hone the skills that are critical for new roles. Outcomes of the talent development programme for employees with high potential (HiPos), held back in 2021, showed that it was a good opportunity

for emerging leaders. The programme targeted individual contributors with the potential, abilities and aspiration to undertake more responsibilities and fill in the positions that require greater contribution in the future. The purpose of the programme was to assist HiPos in developing a set of transferable skills that would enable them to succeed in different roles. **By the end of 2022, 39% (18) of participants who completed the programme were promoted to managerial level, and 34% (16) moved horizontally within the Bank.**

83%

Bank of Georgia employees who had a formal performance and competencies review

2021: 78%

75%

Bank of Georgia employees who received feedback

2021: 70%

Creating opportunities for lifelong learning

We run a number of programmes to support our people in their personal and professional development, and in 2022 implemented the following key talent management activities across Bank of Georgia:

Programme for first-time managers – We know that learning how to lead a team of any size takes time, patience, and practice. We rebranded the programme for back-office employees and focused on empowering our first-time managers with the tools and techniques they need.

38 participants (63% were women; 28 were internal talents)

Individual coaching – Since 2021 we have partnered with local coaches and offered individual coaching opportunities to our managers to support their personal growth and professional development.

256 employees participated in this programme in 2022 (63% were women).

Strategic co-creation workshop – In 2022 we brought together teams of executive and senior managers to create a shared vision, align values, and integrate each participant's vision into the common understanding of organisational culture. Participants also discussed the Bank's longer-term strategy and vision.

97 participants.

Front2IT retraining programme – We launched a new programme – Front2IT – giving front-office employees the opportunity to learn tech skills and pivot to a new professional field. The programme was paid for by the Bank and included 84 hours of intensive training and individual mentoring. Besides professional courses, participants were involved in real-work processes and got hands-on experience in our IT department

We will continue this programme to give our front-office employees an opportunity to make bold career moves.

105 employees considered

10 employees selected

7 of those selected were women

After completion of the programme, participants' compensation increased by 34%, on average.

We continue to develop our ongoing professional development programmes and educational content to motivate more of our employees to learn new skills and develop new competencies. Bank of Georgia's learning system comprises a variety of internal and external training sessions designed to meet the needs of our employees. Training topics, together with a personal development plan, are aligned with business objectives and based on the outcomes of employee performance and development reviews that take place twice a year. We continuously update our training plans based on the outcomes of development reviews, feedback from employees, and the needs and key business objectives of specific functions.

Bank of Georgia has an online learning platform with a catalogue of courses and, during 2022, an average of 3,047 employees accessed the platform monthly. We also resumed face-to-face meetings and training sessions. We measure employee satisfaction and their learning experience at the Bank using eNPS – a key performance indicator for the entire organisation.

Learning eNPS
92% in 2022
(91% in 2021)

Variety of training programmes at Bank of Georgia

Professional programmes	Management programmes	Executive programmes
<ul style="list-style-type: none"> Onboarding Risks and compliance programme Banking products and services Software-related programmes Communication skills programmes HiPos programme Tailored training sessions and educational content provided 	<ul style="list-style-type: none"> Management skills programme Feedback skills programme Leadership development: executive coaching programme (individual and team coaching) Financing master's programmes and other professional certifications 	<ul style="list-style-type: none"> Leadership development: executive coaching programme (individual and team coaching, mentoring sessions) Individual business coaching programme Financing master's programmes and other professional certifications

Risks and compliance programme:

We run a comprehensive risks and compliance awareness programme to build a strong risk culture and ensure our employees understand some of the principal risks the Bank faces – as well as their role in managing and mitigating them. The programme includes mandatory training for all new hires and mandatory annual training for existing employees. Training is online and self-paced, but must be completed within a set timeframe. The Bank's risks and compliance programme covers employees of the Bank as well as some of the Group's subsidiaries.

The programme covers:

- E&S risks;
- Customer rights protection and customer complaints management;
- Ethics in the collections process;
- Insider regulations;
- Information security and cybersecurity;
- Anti-corruption and anti-money laundering;
- Business continuity;
- Labour safety;
- Operational security;
- Corporate security (including anti-corruption, whistleblower protection, and conflict of interests); and
- Personal data protection.

As at 31 December, 2022, 86% of employees had completed the risks and compliance programme (excluding employees in their first month of employment or on long-term parental leave).

Average training hours
per employee

28

2021: 30

Average training hours
per new hire

43

2021: 47

Average training hours
per female employee

32

2021: 34

Average training hours
per male employee

21

2021: 20

Average training hours
per senior manager

28

2021: 18

Average training hours
per CEO and Deputy CEOs

20

2021: 5

In 2022, we developed around 20 new training programmes including short self-paced courses on banking products and procedures, internal procedures and regulations, compliance, and self-development. We also resumed face-to-face training sessions and updated our existing programmes to address the

feedback of our employees. This included onboarding training programmes for up to 15 front-office positions, 18 self-paced online courses on banking products and procedures, eight communications skills training programmes and 12 compliance-related courses.

We are developing a new feedback programme, which will include a self-paced online course to provide managers with necessary tools to facilitate the feedback-sharing process across the Bank. In addition to the online course, we will hold facilitated discussions with managers to share experiences and use cases.

Meaningful employee experiences

We have a systematic approach to identifying employee needs and concerns and delivering solutions and interventions that help us create more positive experiences at every step of the employee journey.

Bank of Georgia's Employee Experience team is responsible for getting regular feedback from employees and providing insights on issues and solutions, as follows:

- Our Employee Experience team gets in touch with all new hires to ensure smooth onboarding.
- They collect and analyse employee sentiment data through focus groups and individual interviews.
- They analyse responses from regular surveys to identify pain points for further research and interviews.

Designing a differentiated employee experience is essential for creating value for our stakeholders.

We regularly engage with and listen to our employees through a number of channels:

- Ongoing deep interviews with individual employees.
- Team reviews.
- Entry interviews.
- Exit interviews.
- Regular employee satisfaction surveys.
- CEO vlog on Workplace – regular live Q&A sessions led by the CEO to discuss strategy, performance and current developments. Two sessions held in 2022.

- Employee Voice meetings with the Supervisory Board of Bank of Georgia – held since 2018; these meetings have promoted transparency and a feedback culture. Employees meet with the Chairman and the Senior Independent member every year. Other members of the Supervisory Board have also participated in these meetings. Two meetings were held in 2022.

We believe a culture of gratitude and recognition is key to creating a collaborative workplace and living one of our business principles: teamwork. We promote this culture and expect our managers to be role models for this behaviour. We award the Best Employee and Best Team of the Year to highlight our people's contribution to the organisation.

To promote idea sharing and ensure employees are aware of each other's work, we also run agile quarterly business reviews where we discuss new products and future plans with our agile teams and the Bank's Executive Management team.

We provide regular updates to our employees on the Bank's strategy and performance, risks and opportunities, and new policies and procedures. In accordance with the Labour Code of Georgia, the Bank updates employees on plans regarding significant operational changes that could substantially affect them at a minimum of 30 days prior to implementation. We ensure our employees can directly and openly communicate with the senior leadership and the Supervisory Board of the Bank.

Voice of the employee

To measure the effectiveness of employee empowerment initiatives, we closely track employee engagement and corporate culture using internal and external surveys:

- Employee Engagement survey (Korn Ferry Engaged Performance™);
- eNPS survey.

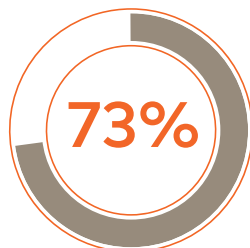
Core indices – 2022

Engagement (Korn Ferry)



2021: 73%

Enablement (Korn Ferry)



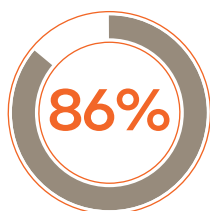
2021: 74%

eNPS (eop)

53

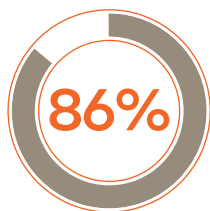
2021: 61 (eop)

I have trust and confidence in the company's senior leadership



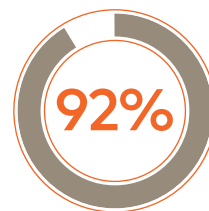
2021: 88%

My manager supports me in learning and development



2021: 85%

I believe the company is socially responsible



2021: 93%

During 2022, the Bank's eNPS score decreased to 53 (from 61 at the end of 2021), slightly below our targeted range of 54-62 for 2022. We aim to have eNPS in the range of 54-62 during 2023. The decrease was mainly driven by the adverse impact of inflationary pressures on our lower paid employees, especially those in front-office roles, as well as by some dissatisfaction with workplace

arrangements as we moved back-office staff to a hybrid working model in 2022, following a fully remote work mode during the COVID-19 pandemic. As our staff increases, we recognise the need to have comfortable work spaces to support employee wellbeing and productivity, and we are working on adding and renovating new office space to address the concerns raised by some of our colleagues.

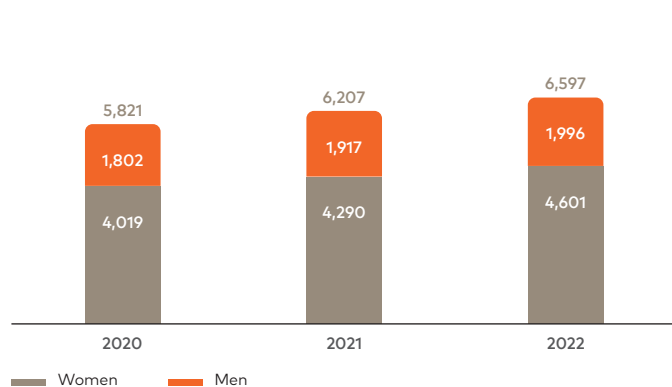
We also continue to monitor the labour market and remuneration practices at comparable companies to ensure that we remain a competitive employer of top talent and to adjust our remuneration practices if and when necessary.

Additional employee data

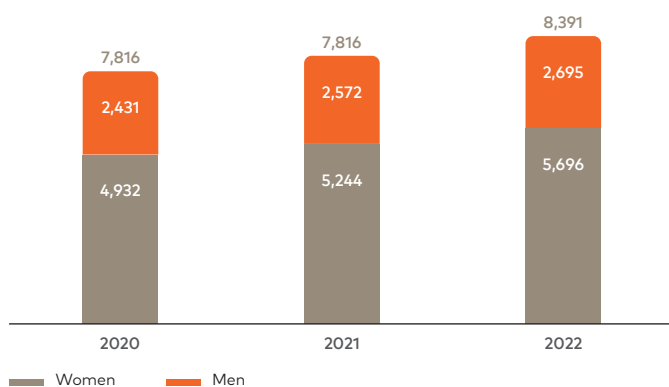
	2021	2022
Total turnover (Bank of Georgia)	1,113	1,295
Men	444	470
Women	669	825
Tbilisi	769	903
Regions	344	392
<21	112	151
>=21 & <=30	703	790
>=31 & <=40	256	298
>=41 & <=50	37	44
>=51	5	12
Total turnover, % (Bank of Georgia)	18.5%	20.4%
Men	23.6%	24.2%
Women	16.1%	18.8%
Tbilisi	18.4%	20.2%
Regions	18.6%	21.0%
<21	53.8%	61.7%
>=21 & <=30	22.5%	25.2%
>=31 & <=40	12.5%	13.3%
>=41 & <=50	7.5%	7.9%
>=51	3.5%	7.4%

	2021	2022
Permanent	6,167	6,511
Men	1,916	1,985
Women	4,251	4,526
Tbilisi	4,288	4,629
Regions	1,879	1,882
<21	232	271
>=21 & <=30	3,142	3,199
>=31 & <=40	2,130	2,293
>=41 & <=50	509	578
>=51	154	170
Temporary	40	86
Men	1	10
Women	39	76
Tbilisi	33	76
Regions	7	10
<21	2	3
>=21 & <=30	17	29
>=31 & <=40	16	46
>=41 & <=50	5	8
>=51	–	0
Total employees	6,207	6,597
Permanent, %	99.4%	98.7%
Temporary, %	0.6%	1.3%

Bank of Georgia employees



Group employees



2022 Group-level trainings data

2022 Group-level trainings data	
Average training hours per employee	24
Average training hours per female employee	27
Average training hours per male employee	19
Average training hours per new hire	34
Average training hours per senior manager	31

Health and safety

Providing a healthy and safe working environment is one of our priorities.

The Bank's Health and Safety team, reporting to the Deputy COO, covers fire and emergency, medical emergency, and occupational health and safety issues, and is responsible for developing and implementing health and safety practices across the Bank.

In September 2019, a new law on labour safety came into force in Georgia, requiring organisations with more than 100 employees to have at least two labour safety specialists in the company.

In compliance with the law the Bank created a dedicated unit and currently employs labour safety specialists.

In 2022 our labour safety specialists underwent the accreditation programme recertification and certificates were renewed for the next three years by the Labour Inspection Department of the Ministry of Labour, Health and Social Affairs of Georgia.

Occupational health and safety (OHS) management system

In 2020, the Bank implemented the OHS management system, which covers all employees and third-parties in our workspaces. We developed the following policies and procedures:

- Occupational Health and Safety Policy.
- Occupational Health and Safety Risk Assessment Standard.
- Emergency Evacuation Standard.
- Fire Safety Standard.
- Occupational Accidents and Occupational Diseases Investigation and Reporting Standard.
- Prevention of COVID-19 in the Workplace Standard.
- Radiation Emergency Response Plan.

The Occupational Health and Safety Risk Assessment Standard defines principles, rules, and responsibilities of OHS risk assessment.

We continuously monitor our work spaces to identify, assess, and mitigate potential risks. The data and results of the risk assessment are reviewed and updated periodically, in line with existing legal requirements.

Bank of Georgia has preventive and control measures in place to ensure employee health and safety. We continue to raise awareness of employee health and safety-related matters. In 2018, the Bank launched "My Lawyer" – a project to protect the rights of employees and their family members in case a crime is committed against them or if they themselves are accused of wrongdoing.

We also have a 24-hour monitoring hotline, including a dedicated mail- group and an intranet-based platform where employees can report security issues and occupational safety matters. The Infrastructure Security and Control department is responsible for monitoring the hotline and responding to the reported concerns.

OHS training

Induction, a mandatory online course on labour safety, and practical training events are held annually for all employees of the Bank. The online course includes modules on fire safety, emergency prevention and response, and workplace safety.

The Bank regularly carries out fire and emergency drills and relevant practical training.

Selected employees in major branches of the Bank are periodically trained in First Aid.

Incidents in 2022

In 2022 we had three incidents in the Bank's branches. All three incidents were resolved by the police without injuries or damages. We have expanded the presence of physical security personnel to additional branches throughout Georgia.

Empowering our communities

Bank of Georgia is the top of mind bank in Georgia¹, a leading financial services provider and one of the biggest employers, and an organisation that aims to support local communities in ways that go beyond its core business activities. Our key focus area for community outreach and engagement has been education

because there are limitless opportunities made possible by access to high quality education. We have focused on reaching more school students in Georgia and enabling access to those opportunities.

In 2022 our objective was to reach 100K school students with the educational initiatives in our communities as well as through the mobile app we designed for them in 2022.

Reached **100K+** school students

Overview of our educational initiatives in 2022

Improving educational infrastructure – building Ideathecas

To provide access to books and modern technology to students living in Georgia's regions, Bank of Georgia, together with the Georgian Book Institute,

started a project to design colourful, multifunctional libraries in public schools in 2020. Our goal is to enable Georgian students to access a learning and

development space where they can find educational resources, learn to work with information technology, and engage in team work.

16

Ideathecas

opened since 2020

Out of 16 Ideathecas – eight are located near the administrative boundary lines;

7

Ideathecas

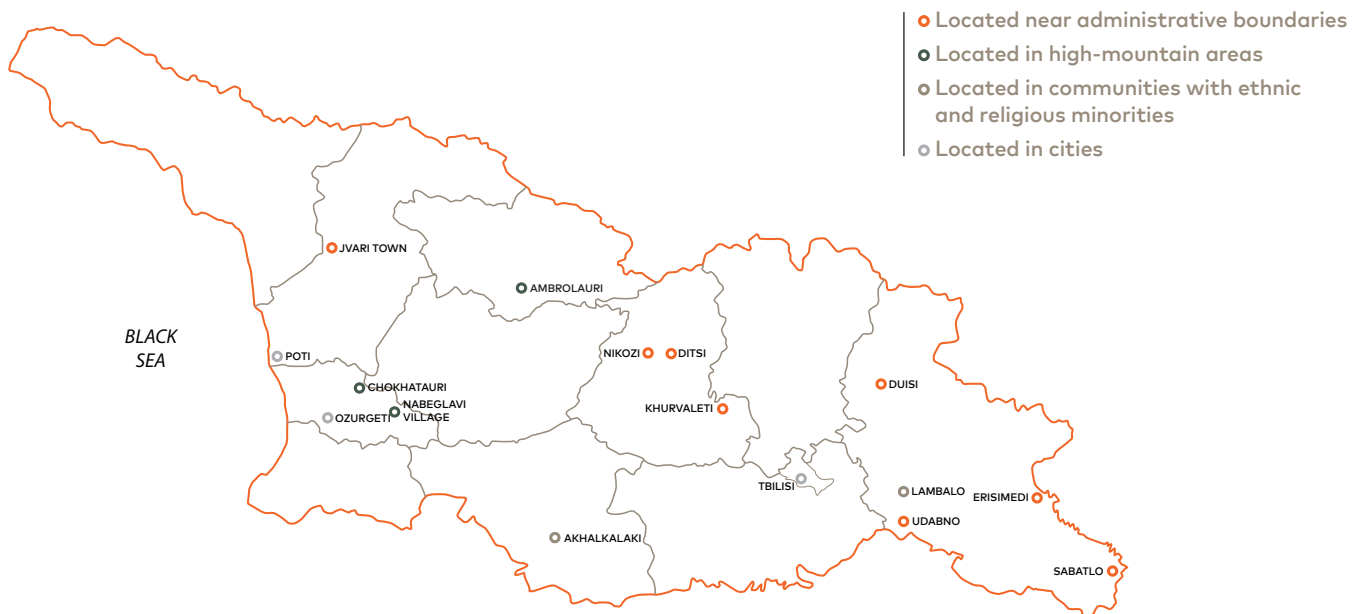
opened in 2022

three are in high-mountain areas; two are in communities with ethnic and

c.8K

School students reached

religious minorities; and three are in cities, including one in Tbilisi.



With this project, we want to benefit as many school students in Georgia's regions and rural areas as possible. In addition to benefitting the students who study at a particular school, students from nearby

schools are also given the opportunity to use Ideathecas within the framework agreed in the project implementation plan.

We aim to open Ideathecas in at least five public schools in different regions annually. We are also partnering up with the Bank's corporate clients for this project.

1. Based on fall 2022 independent research by IPM Georgia.

Scholarships

During 2022 we continued to sponsor students within the framework of multiple scholarships that Bank of Georgia has been involved in for the past few years.

	Since	Number of students supported	Total spend
Fulbright Graduate Student Programme	2014	8	US\$ 700K
Chevening Scholarship Programme	2013	23	GBP 719K
Miami Ad School Europe – Nika Gujejiani Scholarship	2020	3	EUR 31K
San Diego State University in Georgia – fully funded bachelor's degree	2018	11	US\$ 318K



Kings Olympiad

44K

School students participated

Bank of Georgia has sponsored a leading educational platform in Georgia – kings.ge.

Kings is the largest school olympiads organiser in Georgia.

The purpose of this sponsorship is to support non-formal education and increase the level of general education and motivation among students.

Komarovi STEM camp

Komarovi is one of the top schools focused on STEM subjects in Georgia.

We want to support learning and development, especially encouraging young people in Georgia to discover and pursue STEM fields. This is why we decided to partner with Komarovi school in 2022 to organise a STEM camp.

10th and 11th grade students from all over Georgia had the opportunity to participate in an exciting STEM event modelled on the British Summer School during summer holidays, deepening their theoretical and practical knowledge, meeting new students from Georgia with similar interests, and engaging in various intellectual, sports, and entertainment activities.



70

School students participated

Bank of Georgia continues to provide resources and project funding for the development of STEM education in Georgia.

Public speaking competition

Bank of Georgia has supported a public speaking competition organised by the English-Speaking Union (ESU).

The Public Speaking Competition is one of the largest international events in the country aimed at popularising English public speaking and enabling the

development of critical thinking skills of young people in Georgia. The competition has been taking place since 1998. We began our partnership with ESU in 2012.

We've been supporting the competition for the last ten years, during which as many as 800 speakers have participated

in the contest. Forty of them have gone on to hone their public speaking skills at the International Public Speaking Competition held in London.

Non-educational key sponsorships

Supporting protected areas of Georgia

The natural environment in Georgia is unique and precious – a valued and shared resource for all. We have partnered with the Caucasus Nature Fund since 2010 to support Georgia's protected areas. Annually, Bank of Georgia contributes up to US\$ 100,000 to support 12 protected areas: Borjomi-Kharagauli, Lagodekhi, Tusheti, Tusheti national park, Vashlovani, Mtirala, Javakheti, Kazbegi, Algeti, Kintrishi, Machakhela and Pshav-Khevsureti. We continued educational campaigns in 2022 to promote the unique biodiversity of Georgia's protected areas.



Sports partnerships

Bank of Georgia is the general sponsor of the Georgian National Football Federation and the Georgian National Olympic and Paralympic Committees, as well as the main sponsor of the Georgian Basketball Federation.

In the beginning of 2022, Bank of Georgia and the Georgian Basketball Federation formed a three-year partnership. In 2022, Tbilisi successfully hosted the group stage of Eurobasket. During the year

we assisted in enhancing the brand of the Georgian Basketball Federation and the national team by introducing a new logo and visual identity.

Moreover, in 2022 Bank of Georgia also teamed up with the Georgian Football Federation for the following four years. After finishing 2022 at the top of the UEFA Nations League group stage standings without a single defeat, the Georgian National Team is gearing up

for playoffs to battle for a spot in Euro 2024. Georgia is also getting ready to host UEFA U21 Euro 2023 in Tbilisi, Kutaisi, and Batumi in June 2023.

Bank of Georgia has been a partner and the general sponsor of the Georgian National Olympic and Paralympic Committees since 2016. To help Georgian Olympic athletes succeed, we have assisted in the development of the country's sports infrastructure.

Sukhishvilebi

The Georgian National Ballet – Sukhishvilebi – has been a global household name for Georgian dance since 1945.

In 2022, Bank of Georgia and Sukhishvilebi formed a two-year partnership, and as part of this partnership, we have completely renovated and renewed their main outdoor venue, 'Takara', where the majority of their shows will be held from 2023.



Motivating entrepreneurs and encouraging innovation

In addition to supporting businesses with our core financial products and value-added offerings, we continue to leverage our resources to contribute

to the sustainable development of and to the success of local businesses through a variety of other initiatives and partnerships.

500 Georgia – supporting startups

Bank of Georgia Group PLC launched the 500 Georgia accelerator programme in 2020, together with 500 startups and Georgia's Innovation and Technology Agency (GITA), to accelerate the development of Georgian and international early-stage startups operating in the region.

During 2020 and 2021, 28 companies from 11 different business verticals

(fintech; healthcare; lifestyle; accounting services; auto and transportation; HR services; travel and hospitality; Adtech; Agtech; Natural Language Processing; and communications) completed the programme and joined our Digital Area ecosystem. Four companies – Payze, Cargon, Cardeal, and Agrolabs – successfully completed the final acceleration process in San Francisco in the third quarter of 2021.

In 2022, we launched a new four-year 500 Georgia regional startup accelerator programme, aiming to accelerate up to 120 regional startups. Georgia's first international acceleration programme, designed to promote entrepreneurship, helps develop the tech ecosystem, connects entrepreneurs to international networks, and supports participating companies during fundraising.



Supporting charity

Around 50,000 children in Georgia live in poverty. Bank of Georgia became the main partner of the charity platform – supergmire.ge – launched in June 2020. The purpose of the platform is to promote charity in Georgia and help and encourage children from vulnerable families. Supergmire connects children in vulnerable conditions with Superheroes –

people who are willing to provide help and mentoring. Children receive a monthly package, which includes products and service vouchers tailored to a child's development needs and interests, with monetary support provided by their Superheroes. Superheroes can choose to mentor children as well.

Bank of Georgia continued to support the platform during 2022 by covering administrative costs and marketing communications to improve platform efficiency and increase awareness through social media and marketing campaigns.

429

Children with Superheroes

As at 31 December 2022

ESG REVIEW – GOVERNANCE

Governance

At a glance

We remained committed to the highest standards of governance and recognise our role in building resilient communities and economy.

Running business in ways that uphold high standards of corporate governance and effectively managing risks is crucial for any business, and especially for a systemically important financial institutions like ours.

At Bank of Georgia, we place significant importance and resources on running the business the right way and maintaining the trust of our stakeholders. Our robust regulatory and legal compliance framework ensures we operate in line with applicable laws and regulations. We have built robust policies and procedures to identify and mitigate risks associated with money laundering, terrorist financing, fraud, and other

financial crimes. We also recognise the significance of information security and data privacy, and we are committed to protecting personal data and the integrity of information and information systems in general. We are committed to working with our regulators to ensure the safety of and trust in the financial system, following the rules and regulations governing our industry.

In this section:

Regulatory and legal compliance	In this part you will read about how we ensure compliance with laws and regulations.	Pages 141 to 142
Financial crime	In this part you will read about how we prevent financial crime, comply with sanctions regimes, and prevent bribery and corruption.	Page 143
Information security	In this part you will read about how we ensure information security and raise awareness of our employees on these matters.	Pages 144 to 145
Data privacy	In this part you will read about our approach to data privacy, including our data privacy policies, vendor security, and the results of our data privacy programme.	Page 145
Working with suppliers	In this part you will read about our procurement processes and see the largest categories of the Bank's suppliers.	Page 146
A responsible approach to tax	In this part you will read about our approach to tax and see taxes paid by the Group in 2022.	Page 147

Regulatory and legal compliance

The Group's core business is banking, carried out through the NBG-licensed systemically important bank in Georgia (which as at 31 December 2022, accounted for 94.0% of the Group's total assets). The Bank operates in a highly regulated environment, which evolves annually. Apart from the developments in the legal system in Georgia, which affect the activities of commercial banks, the Bank's activities are subject to (1) banking and financial institution regulatory framework promulgated by the NBG; (2) anti-money laundering and anti-terrorist financing regulation by the Financial Monitoring Service (FMS); (3) health and safety regulations by Georgia's Employment Inspection; (4) personal data protection regulations by the Personal Data Protection Service (5); and other state regulatory authorities, whose jurisdiction covers the monitoring of activities of commercial entities in Georgia.

Under the Georgian Law on the Activities of Commercial Banks, banks operating in Georgia are regulated by the NBG, which has the power to issue decrees or resolutions on various issues within its competence, including, but not limited to, anti-money laundering and counterterrorist financing, monetary regulation instruments, banking supervision regulations and payment system regulations. The NBG has guided itself by the Basel Committee and ECB best practices and Georgia's DCFTA-based harmonisation and implementation efforts with EU legislation whilst promulgating regulations relating to:

- corporate governance of banks and 'fit and proper criteria' for administrators;
- capital structure, prudential ratios and requirements for financial institutions;
- liquidity requirements for financial institutions;
- credit risk management, risk weighting and credit loss provisioning;
- operational risk management;
- treasury operations, derivatives, financial collateral and netting;
- cybersecurity framework;
- anti-money laundering and counter-terrorist financing;
- client onboarding, strong customer authentication and verification;
- payment services and payment systems;
- crediting of individuals;
- management of conflicts of interest;
- consumer protection;
- code of ethics in general bank activities and code of ethics in recoveries;
- competition within the financial sector;

- brokerage and trading;
- custodian and settlement operations;
- depositary and asset management operations;
- disclosure standards;
- ESG framework for financial institutions; and
- bank resolution framework, among others.

The NBG's regulatory promulgation process is continuous and evolving in nature, and it publishes its supervisory strategy for three-year periods (current strategy is available at <https://nbg.gov.ge/en/page/supervisory-strategy>), which is due to be updated in 2023. Some regulations can be translated into a set of clear operational requirements), which is due to be updated in 2023. Some regulations can be translated into a set of clear operational requirements – this is 'rules-based compliance'. Other regulations, reflect regulatory intent for a desired outcome, leaning towards more 'principles-based compliance' requirements, which do not readily translate into specific operational and control requirements. The NBG's supervisory arm operates with a hands-on approach with its regulated entities, whereby specific long-planned inspections are rare, but the NBG engages in daily review process with the Bank and has access to all of the Bank's employees and any information upon request.

The Bank has a high degree of comfort that its operations are conducted in compliance with applicable regulations, due to the involvement of the regulator being an ordinary part of its daily operations. Therefore, the Bank has adopted, subject to the confidentiality constraints as described below, the following metrics with regard to regulatory non-compliances regarding customer protection and credit information requirements, which would be considered material for its purposes and which the Group would disclose and describe in detail:

- any fine over the threshold of 0.1% of the Bank's regulatory capital; or
- any incompliance which is due to a systemic failure of the Bank's controls.

The disclosure of such information by the Bank may be constrained if the information falls under the confidentiality categories as defined by the Resolution of the Council of the National Bank of Georgia #4 on the definition and treatment of confidential information, which establishes certain types of communications with a regulated entity as confidential and ascribes categories of confidentiality to them, which are necessary to be protected for the reasons of sound management of monetary policy and financial supervision in Georgia. As of

today, the regulatory communication and measures (including fines) with regard to any consumer protection requirement breaches or credit information requirement breaches are not ascribed confidentiality category and therefore, could be considered as disclosable information by the Bank ('Disclosable non-compliance matters').

Apart from daily engagement with the primary regulator of the Bank, the regulatory compliance is managed on the basis of three lines of defence where the second line function is undertaken by compliance, legal and other risk functions, and the first line is considered to lie with all of the business directions of the Bank. The Bank's Internal Audit department carries out its third line function in regulatory compliance, via a specific compliance audit unit.

The compliance operating model includes the following:

- identifying and prioritising areas of compliance risk;
- managing regulatory taxonomy and inventory of regulatory areas that impact the organisation; and
- maintaining a proactive engagement approach with the regulators at an early, draft-stage of the adoption of regulations and providing feedback on the feasibility of due implementation.

This allows the Bank to be ready and plan its implementation processes ahead of the adoption of regulatory changes, which reduces the risk of non-compliance. We have adopted this approach for all legislative and regulatory changes that may impact the Bank, with the Legal function assisting the Bank in a timely identification of possible legislative changes and coordinating with the Compliance department to proactively manage the regulations promulgated by the NBG.

We follow a standardised regulatory change management process. The Bank's regulatory change management framework includes monitoring change, alerting the Bank on risks, and enabling accountability and cross-functional collaboration on the changes impacting the Bank. The process includes a system of record to monitor regulatory change, measure impact, and implement appropriate risk, policy, training, and control updates. We have developed a standardised impact analysis process to measure the impact of a change to determine if any action is needed and to prioritise action items and resources. In cooperation with the Legal function, the Compliance department implements this process on the basis of its inventory and analysis of new and proposed compliance risk-related rules, which are then translated by relevant functions into internal compliance standards, procedures and guidelines to ensure

new regulatory requirements are duly incorporated into the procedures across the Bank.

The regulatory change management process involves standardised workflow and task management with escalation capabilities when items are past due to ensure that corresponding procedures and controls are implemented in a timely manner to support the Bank in effectively managing compliance risks.

We recognise that legal risk is ubiquitous in our operations and can stem from legislative changes, incorrect interpretation of legislative or regulatory norms, or unfavourable interpretations of legislative or regulatory norms by relevant authorities in particular instances. The Legal function carries out the function of prevention and early mitigation of legal risk, its management as well as damage

control through its different research, transactional and dispute resolution teams. The Legal function operates as a second line risk function and is involved in oversight over all products, services, transactions and processes of the Bank, to proactively identify and manage any possible legal risks and implement relevant eradication or mitigation mechanisms.

We have implemented a process of developing and implementing risk mitigation measures, including the policies and procedures to prevent, mitigate or minimise compliance and legal risks and to detect, report and respond to compliance violations. We have developed an online training platform for all employees where we run relevant compliance training programmes. Mandatory training is reviewed and updated annually, and

specific legal and compliance training sessions are also regularly conducted by Legal and Compliance teams for targeted colleagues from different functions.

In 2022, we had no disclosable non-compliance matters.

Financial crime

The landscape of financial crime has evolved over the last few years. Risks for banks arise from diverse factors, including massive growth in transaction volumes, and the greater integration of financial systems worldwide. In addition, regulators continually revise rules and Governments

increasingly use economic sanctions against public and private entities, and even individuals. We are committed to safeguarding the integrity of the Bank and of the financial system we are part of as well as protecting our brand and reputation and mitigating any negative

impacts on the economy and people by operating robust programmes to prevent financial crime.

ML/FT and sanctions

We are committed to doing business only with clients who meet our strictest criteria and are within our risk appetite. We have a risk-based AML/CFT programme, operating based on the three lines of defence model. The programme is designed to ensure the Bank's compliance with regulatory and legal requirements,

international standards, such as Financial Action Task Force (FATF) recommendations and international financial sanctions programmes. We adhere to the international sanctions regimes and strictly monitor that all our activities are in line with applicable sanctions requirements. To strengthen

our ability to detect and prevent financial crime and sanctions evasion, we continue to enhance our ML/FT and Sanctions Risk Management function.

KYC

Customer risk assessment is a fully automated process. We manage customer risks throughout the relationship lifecycle. Information on a client's ownership structure, ultimate beneficial owners and source of funds/wealth is obtained during onboarding. Our existing clients are subject to a regular due diligence process. The Bank has an online solution that enables a fully automated screening of all transactions against sanctions lists (OFAC, the EU, the UK, the UN and other similar bodies, including global news databases).

We have invested significant resources to improve our ML/FT and sanction risk management capabilities, including implementing advanced analytics and

transaction monitoring solutions to detect a suspicious activity. The reporting process for cash transactions report (CTR) and suspicious transactions report (STR) is automated.

We conduct an Anti-Financial Crime Enterprise-Wide Business Risk Assessment, which includes an assessment of inherent risk, the effectiveness of controls, and residual risk. The assessment serves as a baseline for defining the Bank's risk appetite towards ML/FT risks. Based on the outcomes, the AML and Compliance departments define appropriate measures to address the issues that were identified. We have zero tolerance toward the sanctioned persons and transactions. Employees

receive annual mandatory training on the risks related to ML/FT and on sanctions programmes.

Financial crime risks are on the regular agenda of the Audit Committee. The Committee receives information on existing controls and implemented measures.

In 2022, we enhanced our cooperation with the Regulator and other relevant Government authorities, as well as US, UK, and EU embassies, and partner financial institutions to monitor and mitigate sanctions-related risks both at the sectorial and country levels.

Anti-bribery/anti-corruption

The Bank does not tolerate bribery and corruption. We have written policies, procedures and internal controls in place to comply with anti-bribery and anti-corruption laws.

The anti-bribery/anti-corruption programme includes:

- risk management processes (oversight, governance and escalation);
- Adopting, communicating and providing training;
- Conducting regular risk assessments, reviewing and pre-approving processes;
- due diligence of third parties and including anti-bribery terms in contracts;
- Establishing effective processes to investigate cases of alleged bribery;
- Keeping accurate and detailed records of the organisation's approach to anti-bribery; and

- independent testing processes from Internal Audit.

The Code of Conduct and Ethics, the Conflicts of Interest Policy, the Anti-bribery and Anti-Corruption Policy and KYE procedures safeguard the integrity of the Bank. The ABC Policy and the Gift Acceptance Policy provide employees with guidance on how to recognise and deal with bribery and corruption and outline steps employees are required to take when accepting or offering gifts, hospitality and inducement to/from external third parties. An enhancement programme to further improve our ABC risk assessment, controls and reporting is in progress, as we continue to further structurally strengthen our response to ABC risks in key areas in support of our zero tolerance approach. The Internal Control and Compliance departments serve as a second line of defence in managing ABC risks.

We have developed online training modules on ABC risks, including on the Gift Acceptance Policy and on the

whistleblowing platform. Annual training is mandatory for all employees.

The Bank has in place KYE procedures that include:

- declaration process;
- background check process; and
- employee monitoring process.

The Bank's Compliance Committee reviews any complaint related to ABC incidents. The Audit Committee regularly receives information on any reported incidents.

In 2022, no bribery or corruption incidents were registered in the Bank, nor were any bribery or corruption fines imposed on the Bank.

Information security

Information security risks represent one of the major threats that organisations worldwide are facing. The external threat profile is dynamic, and these threats continue to increase. The Bank remains a subject of a growing number of attempts to compromise its information security. We understand that if these attempts are successful, they could have a negative impact on our customers and employees, as well as on subsidiaries, partners, and, given that the Bank is part of Georgia's critical infrastructure, the country as a whole. We have relationships with customers and partners from other countries as well, and thus, the negative consequences of a compromise of our information security could extend beyond Georgia. Such compromise could expose us to potential contractual and regulatory liability, lead to a loss of current and future customers and partners, damage

our brand and reputation, and result in financial losses.

Information security is a priority area for the Bank. As we develop new digital products and services, we implement complementary measures to ensure the robustness of our information security systems. To successfully deliver on our commitments, we undertake a number of initiatives. We devote significant human and financial resources and engage globally renowned technology companies to respond to information security threats accordingly. We recognise the importance of establishing and maintaining a rigorous information security management system that is compliant with current business and regulatory requirements and commensurate with existing and emerging threat landscape.

The Bank has a dedicated Information Security department, responsible for developing and maintaining the Bank's information security management system, including policies and procedures that are reviewed regularly and amended to reflect any lessons learned. The Information Security department is headed by the Chief Information Security Officer (CISO) who directly reports to the Deputy CEO-IT and Data Operations. The CISO presents quarterly updates to the Risk and Audit Committees. As a result, the Bank's Executive Management and the Supervisory Board remain up-to-date on information security risks.

We employ highly qualified security professionals across multiple lines of business. Additionally, we run regular trainings to ensure that they are aware of and clearly understand current security trends and issues.

Cross-functional team of 25 employees

We also run a Bank-wide information security awareness programme to ensure that our employees understand information security matters and their applicability to the Bank's daily operations. We view each employee as a 'human firewall,' and therefore we continuously refine our approach to employee training and testing. General information security training

is mandatory for all employees during onboarding and afterwards – annually. The purpose of the general training is to raise awareness on key attack vectors and proper responses to different types of information security incidents (e.g. ransomware). The Information Security department monitors the completion of mandatory information security training. Quarterly, the Information

40 active professional certifications

Security department runs a phishing campaign to test if our employees can detect phishing and respond duly. The Information Security department monitors performance and requires additional training for employees who were deceived and were unable to detect and duly respond to a phishing email.

4 phishing campaigns conducted

We also engage with our customers on information security-related matters through multiple channels, including our website, digital platforms and text messages. We regularly create and share content, including articles, interactive games and questionnaires, through various media.

As our organisation becomes more digital and further relies on cloud computing and third-party providers, we are increasingly exposed to and a target of cyber attacks, such as a supply chain attack, or distributed denial of service (DDoS), among others. We are taking measures to mitigate the risks of a supply chain attack (for more information, please see page 74

of this report). Although DDoS attacks targeting the Bank are rising, we had a 99.99% uptime in 2022. Although the Bank was not involved in any significant negative impact in 2022, we maintain a thorough Information Security Incident Response Policy to prevent an information security incident, and if it does occur, to limit its impact on our stakeholders. This policy defines roles and responsibilities throughout each phase of an information security incident response and enables effective cross-functional collaboration and the management of public and internal relations.

Controls and monitoring continue to be embedded across the Bank as part of

the overall internal control framework and are continuously reassessed. Each year the Bank is subject to at least 11 types of security assessments to evaluate the effectiveness of our actions and to manage actual and potential impacts. These assessments include penetration testing, breach and attack simulation, NIST self-assessment, and internal and external audits.

These assessments give us insight into how effectively the policies and processes have been implemented. As a result, the Bank sets goals and targets that may be mandatory (based on legislation) or voluntary, for example, for automation optimisation purposes.

11 types of security assessments conducted

We support and contribute to the development of information security in Georgia. We regularly participate in collaborative efforts with our financial industry peers, law enforcement authorities, regulatory bodies and the Government to share knowledge and prevent negative impacts. Our goal is

8 breach and attack simulations

to enable more efficient and effective information security supervisory oversight, streamline and align the fragmented information security regulatory framework with international standards, and help increase the overall security and resilience in Georgia. The Bank has a dedicated team to coordinate

1 third-party penetration testing

threat intelligence sharing and develop external relationships. We are a member of the Financial Services Information Sharing and Analysis Centre (FS-ISAC) through which the Bank has access to a threat intelligence platform, resilience resources and a trusted peer-to-peer

3 independent Internal Audit engagements

network of experts to anticipate, mitigate, and respond to information security threats specifically targeting

financial institutions, additionally bank contributed in creation of cyber threat

intelligence sharing platform with the NBG.

0 GEL loss due to a cybersecurity incident or a regulatory fine

0 security breaches (external intrusion into the Bank's network or systems)

0 data breaches (personal or financial data leaked to the public)

Data privacy

In a data-driven world, security threats continue to evolve and, if materialised, may have a significant negative impact on our customers and on their human rights, especially the right to privacy. Any breach, attack or compromise may result in financial loss, damage to our brand and reputation, and/or regulatory censure. We are committed to protecting our customers' privacy, ensuring that personal data is handled in accordance with the requirements of the applicable privacy legislation and best practice.

Information is one of our most valuable assets and data privacy is a priority. We have embedded good privacy standards and practices within the corporate operations and structure. We fully comply with applicable data protection legislation and adhere to the highest legal and information security standards.

Policies

We maintain a comprehensive set of information security and privacy policies and standards to ensure that we operate in compliance with applicable privacy regulations and in line with best practice. These policies and procedures outline privacy principles and standards we

We have established a rigorous privacy programme, which is aligned with current business and regulatory requirements, and we continuously enhance the programme to effectively respond to an emerging threat landscape.

Effective implementation of privacy strategy requires a strong organisational structure. To this end, we have appointed the industry's first ever DPO, whose responsibilities include, but are not limited to: providing recommendations to the Bank's employees to ensure compliance with the requirements of the applicable legislation; researching data processing procedures within the Bank and evaluating their compliance with the applicable legislation; advising and assisting business units on privacy matters, particularly when implementing a new process or a product; liaising with the supervisory

authority – the Personal Data Protection Service, regarding privacy matters; and drafting and maintaining internal policies and procedures as well as awareness programmes on privacy matters. The DPO reports to the Audit Committee semi-annually on the status of the Bank's privacy strategy implementation. As a result, the Bank's Executive Management and the Supervisory Board remain up-to-date on privacy matters.

Awareness raising is one of the key aspects of our privacy framework. As part of the privacy programme, we conduct awareness campaigns to help our employees recognise privacy concerns and respond accordingly. We provide continuous and role-based privacy training that keeps employees abreast of privacy risks and clarifies their role in mitigating them.

observe while processing personal data and are:

- regularly revised to ensure that they reflect current legal, regulatory, best practice and internal policy requirements;

- annually reviewed and approved by relevant governance bodies; and
- aligned with recognised industry standards.

Vendor security

We understand that vendors can pose significant risks to our operations and our customers' privacy. To this end, we perform comprehensive due diligence of

a vendor's organisational and technical measures during the selection process and make sure that necessary contractual and technical controls are implemented.

Existing vendor relationships are subject to, at a minimum, annual monitoring and review to determine their fulfilment of information security and data protection requirements.

Transparency

Transparency is a core element of our privacy programme. Our customers are informed in a simple language about

our privacy practices, including how we collect, use, disclose, transfer, and protect their personal information. Our privacy

commitments are reflected in our Privacy Statement and Information Security Statement.

Embedded into operations

Privacy matters are considered in all new processes and projects. We undertake

data privacy impact assessments to ensure that our processes and products

comply with data protection legislation once they go live.

Breach of customer privacy

One of the major threats that financial services companies face are cyber incidents. Over the past few years, we have witnessed a number of major organisations falling victim to cyber

attacks. Fortunately, our operations have not been materially affected, nor have we suffered a breach to date. In 2022, we received three complaints regarding breaches of customer privacy and losses

of customer data from our regulatory body – the Personal Data Protection Service. Two has been identified as a substantiated complaint.

2 substantiated complaints concerning breaches of customer privacy and losses of customer data

0 identified leaks, thefts, or losses of customer data

Working with our suppliers

Bank of Georgia is one of the largest purchasers in the country, with a variety of suppliers in its supply chain. We are committed to dealing fairly with our suppliers, acting with integrity, and

ensuring a responsible supply chain. We are also committed to involving local suppliers in our supply chain and contributing to local business development. In 2022 local suppliers

accounted for 82% of the Bank's total spend on suppliers and represented 86% of all suppliers.

Largest categories of suppliers by spend in 2022

IT	30%
Professional services	10%
Rent	9%
Marketing	5%
Security and banking equipment	5%
Maintenance and repair	5%

We work with suppliers that share our values and our commitment to having a positive impact in the communities we serve. We incorporate E&S risk management practices in our procurement processes. Suppliers are selected based on merit and in line with business needs. The Bank has a Purchasing Policy and Tender (RFP) Procedures, which define the requirements for supplier selection and appointment:

- We have transparent and objective selection criteria and procedures that ensure fair competition.
- As part of the Bank's third-party screening process to identify the level of risk which third parties might pose, the Bank carries out the following due diligence processes: indirect investigations, including general research of the activities undertaken by proposed business partners, such as agents, non-resident vendors, joint venture partners, contractors, suppliers and other third parties, and their reputation.

- The Purchasing Policy defines requirements with respect to process transparency to mitigate anti-bribery and corruption (ABC) risks associated with procurement processes.
- In 2020, we integrated E&S topics into supplier selection/procurement process. E&S topics are part of the request for proposal (RFP) form, communicated to potential suppliers during the selection process. To decrease E&S risks in our supply chain, we require all suppliers to sign environmental and labour safety clauses, which constitute a key part of the contract and are mandatory for implementation.

Our relationships with suppliers are based on a clear understanding of the Bank's expectations and requirements. We have developed an Information Security Policy for Supplier Relationships to ensure the protection of confidentiality, integrity, availability and accountability of the Bank's information assets which may be accessible to or affected by suppliers.

To refine our procurement processes and align them with international best practice, we have implemented SAP ARIBA procurement modules in 2021: Suppliers Lifecycle and Performance Management Module (SAP SLP) as part of supplier registration and qualification process and sourcing module (SAP sourcing) as a part of a transparent

selection process. SAP SLP enables us to enhance several aspects of the supplier qualification process, including:

- background check (security screening) and checking conflicts of interest;
- information security due diligence questionnaires for those suppliers who have access to the Bank's information assets;
- personal data protection (Privacy Due Diligence Questionnaire) questionnaires, when relevant; and
- general questions to all suppliers regarding: child labour, illegal immigrants, discrimination, minimum salary, and modern slavery statement.

Suppliers' evaluation and qualification on E&S issues is done on an annual basis. SAP sourcing enables us to improve supplier selection process, including the possibility to open RFPs or auctions in one space. Since December 2021, all selection processes have run through the new system, ensuring greater transparency and comprehensive reporting in the procurement process.

Tax payments and responsibilities

Our approach to tax, its management and governance are important for us. The Group must not use, encourage or facilitate – nor cooperate with external parties – to facilitate products or services that are in conflict with tax legislation. We have a dedicated tax unit within the Bank as well as policies and procedures in place to ensure compliance with applicable tax laws and regulations related to our business.

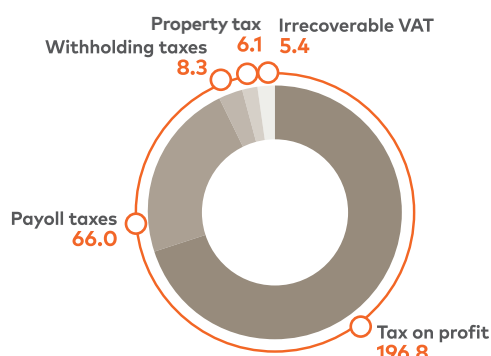
We seek to pay our fair share of tax and minimise the likelihood of customers using our products and services to avoid tax. The Group strives to maintain high standards for tax governance, monitoring risks and ensuring tax compliance.

The Group's profits are taxed at different rates depending on the country or territory in which the profits arise.

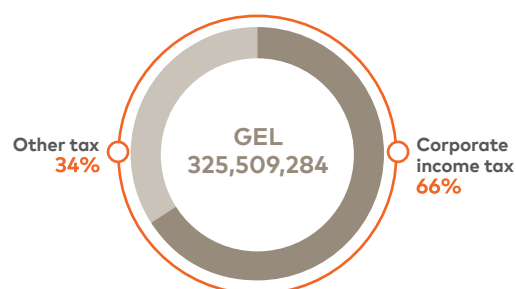
We are privileged to play a central role in the Georgian economy. Our tax contributions are just one of the ways in which we contribute to the communities we serve and the wider society.

	Company name	Corporate income tax (GEL)	Other tax (GEL)	Total tax (GEL)
Georgia	BGEO Group	7,815,107	348,977	8,164,083
	Bank of Georgia	196,763,534	85,808,670	282,572,204
	Solo	2,895	994,025	996,920
	Tree of Life Foundation	–	50,372	50,372
	Georgian Leasing Company	–	7,517,649	7,517,649
	Galt & Taggart	47,634	1,354,395	1,402,029
	United Securities Registrar of Georgia	–	38,046	38,046
	Express Technologies	–	114,650	114,650
	Didi Digomi Research Center	–	6,194	6,194
	Georgian Card	55,513	1,830,760	1,886,273
	Direct Debit Georgia	–	1,626,969	1,626,969
	Metro Service +	8,159	1,286,764	1,294,923
	Digital Area	(114,915)	1,154,502	1,039,587
	Area Extra	1,978	149,667	151,645
	Easy Box LLC	161	6,536	6,697
	Total	204,580,065	102,288,176	306,868,241
Belarus	Belarusky Narodny Bank	10,657,404	6,284,908	16,942,312
	BNB Leasing	22,263	652,312	674,576
	Total	10,679,668	6,937,220	17,616,888
	Benderlock Investments Limited	41,761	–	41,761
	Total	41,761		41,761
Hungary	Bank of Georgia Representative Office Hungary	–	–	52,382
Israel	Georgia Financial Investments	–	120,473	120,473
Turkey	Representative Office of JSC Bank of Georgia in Turkey	–	5,355	5,355
UK	Bank of Georgia Group PLC	–	1,261,726	1,261,726
	BGEO Group Limited	–	(457,542)	(457,542)
	Total	–	804,184	804,184

Types of taxes paid in 2022, GEL million (BOG)



Taxes paid in 2022, GEL (BGEO LN)



Non-financial information statement

This non-financial information statement provides an overview of topics and related reporting references in our reporting as required by sections 414CA and 414CB of the Companies Act 2006. We integrate non-financial and Environmental, Social and Governance (ESG) information across the Strategic report and other sections, including the Sustainable Business section, in this Annual Report.

We are actively monitoring developments including in relation to ESG metrics. In 2022, our focus included the Global Reporting Initiative (GRI) standards and the Task Force on Climate-related Financial Disclosures (TCFD).

Reporting requirement		Pages in this Report	Some of our relevant policies
Business model	<ul style="list-style-type: none"> • Our purpose and strategy framework • Fulfilling individuals' needs • Fulfilling businesses' needs • Segment snapshot • Financial overview 	17–19 22–33 34–43 44–45 154–167	
Environment	<ul style="list-style-type: none"> • Environmental and social management of our loan book • Operational environmental footprint • Climate-related disclosures 	95–101 101–102 103–117	<ul style="list-style-type: none"> • Environmental and Social Policy
Our employees	<ul style="list-style-type: none"> • People and culture • Empowering our employees 	48 122–134	<ul style="list-style-type: none"> • Code of Ethics and Conduct • Human Rights Policy • Diversity and Inclusion Policy • Anti-discrimination and Anti-harassment Policy • Whistleblowing Policy
Social matters	<ul style="list-style-type: none"> • Our strategy and purpose framework • Engaging with stakeholders for shared success • ESG review – social 	17–19 20–21 118–138	<ul style="list-style-type: none"> • Environmental and Social Policy • Human Rights Policy • Diversity and Inclusion Policy • Anti-discrimination and Anti-harassment Policy
Respect for human rights	<ul style="list-style-type: none"> • Human rights • Empowering our employees • Sustainable financial inclusion • Environmental and social management of the loan book 	91 122–134 92–94 95–101	<ul style="list-style-type: none"> • Human Rights Policy
Anti-bribery and corruption (ABC)	<ul style="list-style-type: none"> • Financial crime • Financial crime risks 	143 72–73	<ul style="list-style-type: none"> • Code of Conduct and Ethics • Anti-bribery and Anti-corruption Policy • Whistleblowing Policy
Risk management	<ul style="list-style-type: none"> • Risk management • Principal risks and uncertainties 	56–61 62–81	
Non-financial KPIs	<ul style="list-style-type: none"> • Key performance indicators 	50–55	

Section 172(1) statement

In this statement we describe how our Board of Directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (section 172) when performing their duty to promote the long-term success of the Company for the benefit of its members as a whole.

Board engagement with stakeholders

The Board is committed to effective engagement with its key stakeholders. For 2022, the key stakeholders for the Company continued to be its customers, employees, communities, investors, and regulators. During 2022 the Board continued to engage with stakeholders and were informed of stakeholder interests, both directly and indirectly, through different channels. The Board received updates regarding relevant stakeholder matters from management reports. In addition, shareholders were invited to the 2022 AGM and had the opportunity to join the AGM electronically to ask questions, and also to ask questions via email which were answered ahead of the meeting. The Board recognises that stakeholder feedback is invaluable in helping formulate the longer-term strategy of the Company and ensures that the interests of key stakeholders are duly considered in Board deliberations and decision-making.

Depending on the subject, the relevance of each stakeholder group may differ and, as such, as part of its engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and consider these, as appropriate, in its decision-making. The Board also considers the long-term impact of its decisions and, in doing so, aims to maintain the Company's reputation for high standards of business conduct and to ensure fair treatment of all of its stakeholders. The Board acknowledges that decisions must be made based on competing priorities of different stakeholders and that it is not always possible to achieve an outcome which meets the expectations of all stakeholders.

When the Board makes decisions, it also considers the views of other stakeholders as appropriate, including the Georgian Government, as well as other governments as applicable, and suppliers.

Key stakeholders

The Board has identified that the Company's key stakeholders are:

- Customers
- Employees
- Communities
- Investors
- Regulators

This section 172 statement details how the Board seeks to understand the needs and priorities of its key stakeholders and how these are taken into consideration as part of its decision-making.

Customers

The success and sustainability of our organisation depends on the satisfaction of our customers. We aim to provide our customers with products and services tailored to their unique needs and circumstances and to ensure a positive experience as they interact with the Company across multiple touchpoints.

With this in mind, the creation of a simple and straightforward digital daily banking and payments experience is core to our strategy. We continue to develop new digital products and accelerate digital sales.

We recognise that our customers' individual needs are all different. We aim to make banking as accessible as possible for everyone. Our retail mobile application can be used without WiFi or an internet data package, and we offer a digital customer on-boarding process. Our customers can activate a free digital card within a few seconds through the mobile application, add the card to a wallet – Apple Pay or Google Pay, launched in November 2022, and access a variety of products and services, including personalised lifestyle offers.

How do we engage with them?

The Bank engages with its customers and regularly tracks customer satisfaction through internal and external surveys. Bank-wide NPS is a key metric that is monitored by an independent external service provider at least twice a year. The Board reviews the NPS results and discusses areas that could be improved. By year-end, the Bank's NPS was 58 compared with 55 at the end of 2021, and a substantial improvement from the mid-30s during 2019.

The insights from external and internal surveys are reported at the most senior levels of the Bank monthly and play a crucial role in how we address the evolving expectations and preferences of our customers. We use customer feedback to plan and prioritise initiatives that improve our products and services.

Bank of Georgia's digital achievements have been recognised globally. In 2022, Bank of Georgia was named the World's Best Consumer Digital Bank by Global Finance, in addition to receiving awards in multiple regional (Central and Eastern Europe) categories, including for the Best Mobile Banking App.

Section 172(1) statement continued

Employees

The ability to attract, develop, and retain top talent is key to the delivery of our strategic objectives and the long-term success of the Company. We believe that a great customer experience starts with a great employee experience.

Our objective is to be the employer of choice for top talent, providing equal opportunities for development and ensuring best employee experience based on our values and business principles.

For more details, see the Employee Empowerment section on pages 122 to 134.

How do we engage with them?

The Board engages with employees through various mechanisms, including:

- Half-year and annual performance reviews;
- Employee satisfaction and engagement surveys;
- CEO vlog sessions;
- Town hall sessions with senior management; and
- Employee Voice meetings with the designated workforce engagement Non-executive Director and the Chairman.

Our Chief Executive Officer encourages employees to engage with the talent management initiatives and processes available, and to consider their professional development pathways during his live sessions.

Over the past few years we have refined the employee end-to-end journey to create a positive employee experience, with diverse opportunities for development, to ensure ongoing high levels of engagement. By encouraging employees to participate in and provide feedback on our talent management initiatives and processes, we aim to increase transparency and engagement across the organisation. Further information on our employee engagement is available on page pages 131 to 132.

The Board engages with its employees through the Bank-wide eNPS, which is a key success metric and performance indicator. The Bank started to measure this in 2019 and continues to monitor the score regularly. The results of the eNPS survey are presented and discussed at the Board meetings.

During 2022, the Bank's eNPS decreased to 53 (from 61 in 2021), slightly below the target of 54 for 2022. We aim to have eNPS in the range of 54-62 during 2023. The decrease was mainly driven by the adverse impact of inflationary pressures on our employees in mass positions, especially in the front office, as well as by dissatisfaction of some teams with workplace arrangements as we move back-office staff to a hybrid working model in 2022, following a fully remote work mode during the Covid-19 pandemic. As our staff increases, we recognise the need to have comfortable work spaces to support employee wellbeing and productivity, and we are working on adding and renovating new office space to address the concerns raised by some of our colleagues. We also continue to monitor the labour market and remuneration practices at comparable companies to ensure that we remain a competitive employer of top talent and to adjust our remuneration practices if and when necessary.

Communities

The Board recognises that the Bank, as a leading organisation and financial institution in Georgia, plays a significant role in helping the country overcome some of its biggest environmental and social challenges and in contributing to Georgia's sustainable development.

The Bank's key impact areas include fostering financial inclusion and empowering local communities, with a focus on educational opportunities for children and young people. We believe both financial inclusion and education are integral to individual wellbeing and the prosperity of local communities.

How we engage with them?

We work with and encourage the communities where we operate in different ways. We have focused on increasing access to quality educational infrastructure and educational opportunities, and our aim is to reach more school students in Georgia with these initiatives.

Our core engagement activity with communities is developing new tools and innovative products that enable greater financial inclusion in Georgia. We have focused on increasing the use of digital tools (e.g. the mobile app, payments, etc.) as a way to create opportunities for more people. In 2022, we rolled out the first financial mobile application for school students in Georgia – sCoolApp. Although we have had a special product – sCool Card – for school students for years, we saw that school children did not engage with the Bank's mobile application because it was not relevant for them. sCoolApp was born as a solution, and our goal for 2023 is to use this channel as a daily engagement tool with this segment and embed financial education directly into the application.

We have developed a range of educational campaigns to increase financial literacy. As we launched Investments in the retail mobile application, we continued to develop comprehensive content to raise awareness of the risks and benefits of investing, including educational videos and e-learning modules.

During 2022, we continued to sponsor the design of multifunctional, tech-equipped libraries – Ideathecas – in Georgia's regions, provide scholarships to students to study abroad and were involved in other educational projects. For more information, please see pages 135 to 138 of this Report.

Investors

Providing sustainable and attractive returns to shareholders while maintaining a strong capital and liquidity position is necessary to ensure the flow of capital is maintained. Therefore, continued shareholder support is critical to the sustainability of the Company and the delivery of our long-term strategy.

How do we engage with them?

The Company has a comprehensive investor engagement and communication programme and encourages open and transparent dialogue with existing and potential investors. The programme covers communication relating to financial results, performance and strategy issues, as well as discussions on ongoing corporate governance and other ESG topics. The Board reviews and considers matters that our shareholders have indicated as important to them in written communications as well as during individual conference calls. We provide more details on our enhanced approach to ESG in the Sustainable Business section on pages 85 to 148. This engagement programme will continue during 2023.

The Board's primary contact with the Company's institutional shareholders is through the Chairman, CEO, Chief Financial Officer, Advisor to the CEO and the Head of Investor Relations, who provide a standing invitation to shareholders to meet and discuss any matters of interest. Our committee Chairs also make themselves available to answer questions from shareholders. Hanna Loikkanen is the Board's Senior Independent Director, whose role includes acting as an intermediary between the Board and shareholders.

We will engage with shareholders, including through the Company's forthcoming AGM, to be held in May 2023, and will also continue to communicate with shareholders on important developments throughout the year. Our annual results announcement, half-year results, and quarterly results are supported by a combination of presentations and conference calls.

Throughout 2022, we engaged with more than 350 institutional equity and fixed income investors, and participated in more than 20 investor conferences and a roadshow with the largest shareholders. The most recent roadshow took place following the Group's third quarter of 2022 results release, in November-December 2022 in the UK and the US, attended by the Group CEO, with the Chairman attending some of these meetings as well.

The Chairman has overall responsibility for ensuring that the Board understands the views of major shareholders. The full Board is kept updated on these views during its quarterly meetings by the Chairman as well as management and the Investor Relations team. The Group has considered the feedback received from shareholders in various areas including in developing its capital distribution policy and the remuneration policy. Informal feedback from analysts and the Group's corporate advisors is also regularly shared with the Board.

Our website, www.bankofgeorgiagroup.com, provides our investors with access to the Company's results, press releases, investor presentations, analyst reports, as well as other information relevant to our investors. Investors can also access details of the Company's results and other news releases through the London Stock Exchange's Regulatory News Service.

Regulators

The Company can operate only with the approval of its regulators, which have a legitimate interest in how the Company operates in the market and treats its investors.

How does the Board engage with them?

Regular liaison takes place with the relevant Government entities, including different ministries, as well as the NBG, Bank of Georgia's regulator. As part of the communication programme with the local regulator, we discuss Bank-specific and system-wide issues. The Bank also uses the Banking Association platform, together with other banks, to discuss the issues impacting broader banking system, including macroeconomic and regional developments impacting the industry, and legal and regulatory environment. The Bank has formal links and coordinated processes for communication with the regulator.

The Bank continues to monitor and enhance its enterprise-wide compliance risk management framework. With the existing complex regulatory environment, the Bank has directed its resources and developed a robust tool kit for a timely implementation of new regulatory requirements. This includes the change management systems as described in greater detail in the Regulatory and Legal Compliance section on pages 141 to 142. Furthermore, the Bank continues to fully implement its centralised system for regulatory communications, ensuring all electronic and written communications with the NBG are accumulated systemically and monitored by the Compliance department, so that timely and high quality responses are delivered through this centralised channel.

Section 172(1) statement continued

Principal decisions

Principal decisions are those decisions taken by the Board that are material, or have strategic importance to Bank of Georgia Group PLC, or are significant to the Company's key stakeholders.

This statement describes three examples of principal decisions taken by the Board during 2022.

Remuneration Policy

What was the decision?

The Board, following the recommendation from the Remuneration Committee, approved an updated Directors' Remuneration Policy (the 'Policy'), which was put to shareholders for approval at the 2022 AGM. This was done in accordance with the normal three-year voting cycle, but also as specifically required under the then new NBG regulatory code on remuneration, where NBG was seeking to follow the EU Capital Rights Directive: strengthening banks by reducing risk taking. In having to make a number of regulatory-driven changes, the previous shareholder-approved Remuneration Policy and the existing CEO's employment contract were rendered void, and in need of renegotiation.

How were stakeholders engaged and their interests considered?

The Policy was extensively discussed with major shareholders and proxy advisors ahead of proposing the Policy for shareholder approval. Additional enhancements were made to the Policy in response to feedback, including that under the proposed Policy the total vesting and holding period be increased to eight years from the beginning of the work year (an increase from six years under the previous Policy). In the feedback from major shareholders, no shareholder objected to the basis of the proposed Policy.

At the 2022 AGM, the shareholder vote to approve the Policy was passed with a majority of 67.62%. Recognising a meaningful proportion of shareholders did not support the resolution, the Remuneration Committee representatives held discussions with a significant proportion of major shareholders, in particular with those who voted against the resolution. In addition, discussions were held with wider stakeholders, including Glass Lewis, to understand their specific concerns in relation to the Policy. Following the outreach to approximately 50% of shareholders, a significant majority of the largest shareholders remained overwhelmingly supportive of the Executive Director and the Group's strategic priorities.

Actions and outcomes

Following the stakeholder meetings, a statement was published on the Company's website, detailing the Company's response to the 2022 AGM voting outcome and actions taken to understand the result. The statement highlighted the following actions taken to address shareholder concerns:

- We are committed to a period of stability in our approach to executive remuneration, and confirm that our intention is for our new Policy to remain in effect for three years. We reiterate that, notwithstanding the recent global inflationary pressures, there will be no inflation-linked increases over the length of the contract, with no renegotiation or salary uplift in 2023 or 2024.
- We remain committed to pay for performance and our long-term management and shareholder outcomes alignment, which our shareholders have supported for many years.
- We will continue to focus on setting stretching performance targets and improving the transparency and quality of disclosure in the Directors' Remuneration Report, which shareholders recognised improved significantly with recent years' inclusion of minimum and stretch targets and weightings.
- We will continue to engage regularly with shareholders and other stakeholders and commit to ensuring that we consult with major shareholders ahead of any further major regulatory changes impacting our Remuneration Policy.

Further information on the engagement with shareholders, the actions taken to consult with shareholders and the impact on the Committee's approach can be found in the Chair's Letter of the Directors' Remuneration Report on pages 202 to 222.

Approving capital distributions

What was the decision?

During 2022, the Board recommended a final dividend for the financial year 2021, approved an interim dividend in respect of the period ended 30 June 2022, and agreed to commence an on-market GEL 112.7 million share buyback and cancellation programme, which ended in December 2022 and resulted in the cancellation of 1,670,446 ordinary shares. The Board's decisions were informed by the Group's capital distribution policy, which was updated in September 2021, as well as regular updates on the Group's financial and capital positions. A key focus of Board-level discussions was how excess capital was being managed.

How were stakeholders engaged and their interests considered?

The Directors were mindful of their duties under section 172 in respect of capital distribution, and the Directors considered whether the declaration of a dividend and the share buyback and cancellation programme would support the long-term sustainable success of the Company and align with investor expectations. The financial implications of capital distribution, including the ability of the Company to continue supporting its customers and maintaining financial stability, were considered by the Board.

The Board received specific feedback regarding dividends and share buybacks from shareholders during roadshows. In general, UK investors were focused on sustainable income generation and therefore had a preference to receive dividends; whereas, US investors were focused on continued growth and therefore would prefer to see a buyback programme. The Board, recognising the differing interests of these investors, agreed to maintain both regular progressing dividends and a share buyback and cancellation programme, as and when appropriate, targeting a 30-50% total capital distribution ratio.

The Board reviewed the capital requirements and capital distribution scenarios, including the capital ratios for 2022-2023 and assumptions, along with macroeconomic updates on a regular basis. In particular, the Board considered the Bank's Basel III CET1, Tier 1 and Total capital adequacy ratios as at 31 December 2022, noting that all were comfortably above the minimum required levels.

Actions and outcomes

On 20 October 2022, the Company paid an interim dividend of GEL 1.85 per ordinary share in respect of the period ended 30 June 2022.

In December 2022, the Company completed the GEL 112.7 million share buyback and cancellation programme, having repurchased and cancelled 1,670,446 ordinary shares. In February 2023, the Board approved an increase of the share buyback and cancellation programme by up to GEL 148 million.

At the 2023 AGM, the Board intends to recommend for shareholder approval a final dividend for 2022 of GEL 5.80 per share payable in Pounds Sterling at the prevailing rate. This would make a total dividend paid in respect of the Group's 2022 earnings of GEL 7.65 per share.

The Board will continue to review the Capital Distribution Policy and revise it if, and as, required.

ESG strategy

What was the decision?

Following a formal ESG materiality assessment undertaken by the Group during 2021, the Group continued to develop its climate action strategy and improve its ESG-related policies, practices, and disclosures during 2022.

In 2022, the Board approved the Bank's Climate Action Strategy as well as few standalone social policies, including a Diversity and Inclusion Policy, an Anti-discrimination and Anti-harassment Policy, and a Human Rights Policy. The proposed initiatives to support the implementation for these policies and monitor their effectiveness included the introduction of a management-level Human Rights Committee that will report annually to the full Board, as well as the development of an ESG learning programme for the Bank's employees.

The Climate Action Strategy outlined the Bank's key commitments in relation to managing climate-related risks and opportunities. These included: monitoring and managing climate-related risks; supporting Georgia's transition to a lower-carbon economy, in line with the country's climate goals; reducing its operational carbon footprint; and developing climate expertise across the organisation.

How were stakeholders engaged and their interests considered?

The Board recognises that the Bank's operations may have both positive and negative impacts on the economy, people, and the environment, and acknowledges its role in ensuring that the Company properly manages its impacts, limiting and mitigating the negative ones, while being a driving force for good and creating opportunities for its stakeholders. The Board recognises that sound ESG policies, when embedded with appropriate governance and responsible business practices, help generate sustainable shareholder value and contribute to the success of the wider society.

The policies adopted by the Board aim to put customers' and employees' rights at the forefront, protect human rights, and promote equal opportunities.

Actions and outcomes

The Board has committed to enhancing the Company's disclosures in line with best practice and global sustainability standards. This includes the requirement for all premium-listed companies to state, in their Annual Report, whether their disclosures are consistent with the TCFD recommendations, or to explain why not.

Considering the global challenge of climate change, the Bank, the main operating entity of the Group, has committed to supporting Georgia's climate-related goals, currently focusing on enhancing data collection and analysis of climate-related risks and opportunities that arise primarily from its lending activities.

OVERVIEW OF FINANCIAL RESULTS

Overview of financial results

Income statement highlights

GEL thousands	2022	2021	Change y-o-y
Interest income	2,256,881	1,851,044	21.9%
Interest expense	(1,074,546)	(897,103)	19.8%
Net interest income	1,182,335	953,941	23.9%
Net fee and commission income	317,491	232,431	36.6%
Net foreign currency gain	466,094	109,099	327.2%
Net other income (without one-off items)	36,092	70,206	-48.6%
Operating income	2,002,012	1,365,677	46.6%
Operating expenses	(641,186)	(507,952)	26.2%
Profit (loss) from associates	754	(3,781)	NMF
Operating income before cost of risk	1,361,580	853,944	59.4%
Cost of risk	(119,068)	(51,412)	131.6%
Net operating income before non-recurring items and income tax	1,242,512	802,532	54.8%
Net non-recurring items	1,038	(590)	NMF
Profit before income tax and one-off items	1,243,550	801,942	55.1%
Income tax expense	(111,376)	(74,824)	48.9%
Profit adjusted for one-off items	1,132,174	727,118	55.7%
One-off items	311,825	–	–
Profit	1,443,999	727,118	98.6%
Earnings per share (basic)	30.99	15.22	103.6%
Earnings per share (diluted)	30.33	14.88	103.8%

Overview of financial results continued

Balance sheet highlights

GEL thousands	Dec-22	Dec-21	Change y-o-y
Liquid assets	10,367,600	6,047,616	71.4%
<i>Cash and cash equivalents</i>	3,584,843	1,520,562	135.8%
<i>Amounts due from credit institutions</i>	2,433,028	1,931,390	26.0%
<i>Investment securities</i>	4,349,729	2,595,664	67.6%
Loans to customers and finance lease receivables ¹	16,861,706	16,168,973	4.3%
Property and equipment	398,855	378,808	5.3%
Total assets	28,901,900	23,430,076	23.4%
Client deposits and notes	18,261,397	14,038,002	30.1%
Amounts due to credit institutions	5,266,653	4,318,445	22.0%
<i>Borrowings from DFIs</i>	1,867,454	2,135,301	-12.5%
<i>Short-term loans from central banks</i>	1,715,257	1,413,333	21.4%
<i>Loans and deposits from commercial banks</i>	1,683,942	769,811	118.7%
Debt securities issued	645,968	1,518,685	-57.5%
Total liabilities	24,653,078	20,337,168	21.2%
Total equity	4,248,822	3,092,908	37.4%
Book value per share	94.07	65.65	43.3%

Key ratios

	2022	2021
ROAA (adjusted for one-off items) ²	4.4%	3.2%
ROAA (reported)	5.6%	3.2%
ROAE (adjusted for one-off items) ²	32.4%	25.8%
ROAE (reported)	41.4%	25.8%
Net interest margin	5.4%	4.9%
Loan yield	11.5%	10.6%
Liquid assets yield	4.3%	3.5%
Cost of funds	4.9%	4.6%
Cost of client deposits and notes	3.6%	3.6%
Cost of amounts due to credit institutions	8.9%	7.3%
Cost of debt securities issued	7.1%	6.9%
Cost/income (adjusted for one-off items) ²	32.0%	37.2%
Cost/income (reported)	26.8%	37.2%
NPLs to gross loans	2.7%	2.4%
NPL coverage ratio	66.4%	95.5%
NPL coverage ratio, adjusted for discounted value of collateral	128.9%	147.7%
Cost of credit risk	0.8%	0.0%
NBG (Basel III) CET 1 capital adequacy ratio	14.7%	13.2%
Minimum regulatory requirement	11.6%	11.5%
NBG (Basel III) Tier I capital adequacy ratio	16.7%	15.0%
Minimum regulatory requirement	13.8%	13.6%
NBG (Basel III) Total capital adequacy ratio	19.8%	19.3%
Minimum regulatory requirement	17.2%	17.7%

- Throughout this announcement, gross loans to customers and respective allowance for impairment are presented net of expected credit loss (ECL) on contractually accrued interest income. These do not have an effect on the net loans to customers balance. Management believes netted-off balances provide the best representation of the loan portfolio position.
- Figures were adjusted for a one-off GEL 391.1 million of other income due to the settlement of an outstanding legacy claim, and a one-off GEL 79.3 million tax expense due to an amendment to the corporate taxation model in Georgia.

Discussion of results

The Group's business consists of three key segments: (1) **Retail Banking** operations in Georgia comprising sub-segments that target mass retail, mass affluent and high-net-worth clients and MSMEs; (2) **Corporate and Investment Banking** operations in Georgia serving corporate and institutional customers and providing brokerage services through Galt & Taggart; and (3) JSC Belarusky Narodny Bank ('BNB') serving retail and SME clients in Belarus.

Operating income

GEL thousands, unless otherwise noted

	2022	2021	Change y-o-y
Interest income	2,256,881	1,851,044	21.9%
Interest expense	(1,074,546)	(897,103)	19.8%
Net interest income	1,182,335	953,941	23.9%
Fee and commission income	559,465	390,829	43.1%
Fee and commission expense	(241,974)	(158,398)	52.8%
Net fee and commission income	317,491	232,431	36.6%
Net foreign currency gain	466,094	109,099	327.2%
Net other income (without one-off items)	36,092	70,206	-48.6%
Operating income	2,002,012	1,365,677	46.6%
Net interest margin	5.4%	4.9%	
Average interest earning assets	21,765,305	19,510,848	11.6%
Average interest bearing liabilities	21,865,374	19,409,266	12.7%
Average net loans and finance lease receivables,	16,213,098	15,057,524	7.7%
Average net loans and finance lease receivables, GEL	8,009,664	6,493,966	23.3%
Average net loans and finance lease receivables, FC	8,203,434	8,563,558	-4.2%
Average client deposits and notes	15,876,171	13,766,622	15.3%
Average client deposits and notes, GEL	6,172,866	5,290,089	16.7%
Average client deposits and notes, FC	9,703,305	8,476,533	14.5%
Average liquid assets	8,178,417	6,283,441	30.2%
Average liquid assets, GEL	3,305,624	2,651,356	24.7%
Average liquid assets, FC	4,872,793	3,632,085	34.2%
Liquid assets yield	4.3%	3.5%	
Liquid assets yield, GEL	8.9%	7.9%	
Liquid assets yield, FC	1.0%	0.1%	
Loan yield	11.5%	10.6%	
Loan yield, GEL	15.9%	15.1%	
Loan yield, FC	7.2%	7.1%	
Cost of funds	4.9%	4.6%	
Cost of funds, GEL	9.4%	8.2%	
Cost of funds, FC	1.8%	2.5%	

Overview of financial results continued

Performance highlights

Operating income

- The Group generated operating income (adjusted for one-off items) of GEL 2,002.0 million (up 46.6% y-o-y). The y-o-y growth was strong across key revenue lines.
- Net fee and commission income amounted to GEL 317.5 million for the full year of 2022 (up 36.6% y-o-y), driven mainly by settlement operations and currency conversion operations, partly offset by cash operations.
- Net foreign currency gain amounted to GEL 466.1 million for the full year 2022 (up 327.2% y-o-y). The key drivers of the significant y-o-y boost to net foreign currency gain were increased migrant inflows to Georgia as well as higher spreads on the back of exchange rate volatility.
- In 2022 net other income (adjusted for one-off items) amounted to GEL 36.1 million (down 48.6% y-o-y), mainly due to significant net gains from sale of real estate properties and investment securities recorded in 2021. Full year net other income also included a net loss related to the repurchase of US\$ 129,987,000 of the Bank's US\$ 350 million 6.00% Notes due 2023 under the tender offer announced and completed in September 2022.

NIM

- NIM was 5.4% in 2022 (up 50bps y-o-y), supported by increased loan yield, partly offset by increased cost of funds.
 - For the full year 2022, loan yield stood at 11.5% (up 90bps y-o-y). The y-o-y increase was mainly driven by higher GEL loan yield (15.9% in 2022 versus 15.1% in 2021), reflecting the policy rate hikes by the NBG.
 - Cost of funds stood at 4.9% (up 30bps y-o-y) in 2022. GEL cost of funds was 9.4% (up 120bps y-o-y), driven by the policy rate hikes by the NBG. Foreign currency cost of funds was 1.8% (down 70bps y-o-y).

Operating expenses, cost of risk, profit

GEL thousands	2022	2021	Change y-o-y
Salaries and other employee benefits	(362,019)	(281,087)	28.8%
Administrative expenses	(164,450)	(129,524)	27.0%
Depreciation, amortisation and impairment	(111,089)	(93,618)	18.7%
Other operating expenses	(3,628)	(3,723)	-2.6%
Operating expenses	(641,186)	(507,952)	26.2%
Profit (loss) from associates	754	(3,781)	NMF
Operating income before cost of risk	1,361,580	853,944	59.4%
Expected credit loss/impairment charge on loans to customers	(128,678)	(1,452)	NMF
Expected credit loss/impairment charge on finance lease receivables	(3,208)	(4,950)	-35.2%
Other expected credit gain (loss) and impairment charge on other assets and provisions	12,818	(45,010)	NMF
Cost of risk	(119,068)	(51,412)	131.6%
Net operating income before non-recurring items and income tax	1,242,512	802,532	54.8%
Net non-recurring items	1,038	(590)	NMF
Profit before income tax	1,243,550	801,942	55.1%
Income tax expense	(111,376)	(74,824)	48.9%
Profit adjusted for one-off items	1,132,174	727,118	55.7%
One-off in other income	391,100	–	–
One-off income tax expense	(79,275)	–	–
Profit	1,443,999	727,118	98.6%

Operating expenses and efficiency

- Operating expenses amounted to GEL 641.2 million for the full year, up 26.2% y-o-y. The y-o-y growth was driven mainly by business growth, continuing investments in strategic areas, particularly IT, as well as the inflationary environment.
- Notably, the Group delivered positive operating leverage y-o-y in 2022, improving the cost to income ratio to 32.0% versus 37.2% in 2021.

Cost of risk

- Cost of credit risk ratio was 0.8% in 2022 (0.0% in 2021).

One-off items

- We posted significant one-off items in 2022:
 - A GEL 391.1 million one-off other income relates to the settlement of a dispute over terms and enforcement of a historic collateral option with regard to an industrial asset linked to one of the Group's legacy defaulted borrowers. An outstanding claim was settled at the end of 2022 and the Group recognised the GEL 391.1 million one-off income at fair value in its consolidated financial statements. This other income arose at the holding company level and is not therefore reflected in the Bank's capital ratios, which are calculated within the regulated Bank – JSC Bank of Georgia.
 - A GEL 79.3 million one-off expense due to the re-measurement of deferred taxes as a result of an amendment to the corporate taxation model in Georgia applicable to financial institutions, which passed into law on 28 December 2022 and became effective with regard to 2023 taxable profits. The previous taxation model, effective for 2022 results, implied a 15% tax rate charged to banks' taxable profit before tax, regardless of retention or distribution status, although this was previously expected to change on 1 January 2023 to a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings. This expected change did not happen, and the existing model of taxation of banks has been maintained. At the same time, the existing corporate tax rate for banks was increased from 15% to 20% for 2023 taxable earnings, and dividends issued from 2023 profits and subsequent periods will no longer be taxed (the existing dividend tax rate is 5%). In addition, with effect from 2023, taxable interest income and deductible Expected Credit Losses will be defined per IFRS, instead of local National Bank of Georgia regulations.

Profitability

- The Group's profit adjusted for one-off items was GEL 1,132.2 million (up 55.7% y-o-y).
- For the full year 2022, adjusted ROAE was 32.4% (25.8% in 2021).

Overview of financial results continued

Balance sheet highlights

GEL thousands, unless otherwise noted	Dec-22	Dec-21	Change y-o-y
Liquid assets	10,367,600	6,047,616	71.4%
Liquid assets, GEL	3,461,218	2,819,195	22.8%
Liquid assets, FC	6,906,382	3,228,421	113.9%
Net loans and finance lease receivables	16,861,706	16,168,973	4.3%
Net loans and finance lease receivables, GEL	8,854,286	7,348,911	20.5%
Net loans and finance lease receivables, FC	8,007,420	8,820,062	-9.2%
Client deposits and notes	18,261,397	14,038,002	30.1%
Client deposits and notes, GEL	6,692,834	5,426,211	23.3%
Client deposits and notes, FC	11,568,562	8,611,791	34.3%
Amounts due to credit institutions	5,266,653	4,318,445	22.0%
Borrowings from DFIs	1,867,454	2,135,301	-12.5%
Short-term loans from central banks	1,715,257	1,413,333	21.4%
Loans and deposits from commercial banks	1,683,942	769,811	118.7%
Debt securities issued	645,968	1,518,685	-57.5%

Loan book

- Net loans and finance lease receivable amounted to GEL 16,861.7 million at 31 December 2022, up 4.3% y-o-y in nominal terms. Growth on a constant-currency basis was 12.9% y-o-y. The y-o-y nominal growth was driven mainly by consumer portfolio (up 25.4%), mortgages (up 5.1%) and SME portfolio (up 10.5%), partly offset by reduced corporate portfolio (down 4.4%) due to GEL appreciation, as the majority of corporate loans are denominated in foreign currency.
- The de-dollarisation trend continues in y-o-y perspective, as the share of foreign currency denominated loans was 47.5% at 31 December 2022 versus 54.5% at 31 December 2021.
- The share of non-performing loans in gross loans increased to 2.7% as at 31 December 2022 (up 30bps y-o-y), mainly driven by a one-off methodological change as we seek to align our internal NPL definitions more closely to IFRS Stage 3 definitions. We classified some Retail Stage 3 loans that had already been provisioned as NPLs. Consequently, the NPL coverage ratio decreased to 66.4% at 31 December 2022 versus 95.5% at 31 December 2021. NPL coverage is supported by a high level of collateralisation of the NPL portfolio.
- The positive asset quality trend during the year is also reflected in an improvement in Stage 3 loans to gross loans to 3.4% at 31 December 2022 (3.8% at 31 December 2021).

Non-performing loans

GEL thousands, unless otherwise noted	Dec-22	Dec-21	Change y-o-y
NPLs	471,577	394,720	19.5%
NPLs to gross loans	2.7%	2.4%	
NPLs to gross loans, RB	2.5%	1.8%	
NPLs to gross loans, CIB	3.4%	3.6%	
NPL coverage ratio	66.4%	95.5%	
NPL coverage ratio adjusted for the discounted value of collateral	128.9%	147.7%	
Stage 3 ratio ¹	3.4%	3.8%	

Deposits

- Client deposits and notes amounted to 18,261.4 million at 31 December 2022 (up 30.1% y-o-y), mainly driven by increased migrant/client flows and subsequent growth in current and demand deposits. On a constant-currency basis deposits increased by 43.2% y-o-y.
- 63.3% of client deposits and notes were denominated in foreign currency at 31 December 2022, versus 61.3% at 31 December 2021.

1. Includes Stage 3 loans and defaulted POCI loans.

Liquid assets

- Liquid assets increased significantly and amounted to GEL 10,367.6 million at 31 December 2022 (up 71.4% y-o-y). The y-o-y growth was mainly driven by a substantial growth of client deposits. As at 31 December 2022, the share of liquid assets to total assets stood at 35.9%, versus 25.8% at 31 December 2021.

Capital position

- At 31 December 2022, the Bank's Basel III Common Equity Tier 1, Tier 1, and Total capital adequacy ratios stood at 14.7%, 16.7%, and 19.8% respectively – all comfortably above the minimum requirements of 11.6%, 13.8% and 17.2% respectively.

Since January 2023, the NBG has transitioned to IFRS-based accounting. The Bank's capital ratios and requirements as at 31 December 2022, based on the IFRS accounting, were:

	Capital ratios	Capital requirements
CET1	17.7%	14.5%
Tier 1	19.7%	16.7%
Total capital	21.7%	20.2%

The IFRS-based ratios in the table above are presented on a management basis and are not officially approved by the NBG on the basis that they were not mandatory as of the reporting date.

The Bank's minimum capital requirements, reflecting the full loading of Basel III capital requirements, to be completed in 2023, and which remain subject to ongoing annual regulatory reviews, are currently expected to be as follows:

	Capital requirements (Dec-23)
CET1	14.8%
Tier 1	17.1%
Total capital	20.2%

Capital distribution

- In August 2022 the Board of Directors declared an interim dividend of GEL 1.85 per share in respect of the period ended 30 June 2022 to ordinary shareholders of Bank of Georgia Group PLC. The interim dividend was paid on 20 October 2022.
- In addition, the Board extended the share buyback and cancellation programme announced in June by an additional GEL 40 million. The Group completed the share buyback and cancellation programme in December 2022. Since the announcement of the Group's share buyback and cancellation programme on 30 June 2022, the Group bought back and cancelled 1,670,446 ordinary shares at a total cost of GEL 112.7 million. As at 31 December 2022, the number of shares with voting rights amounted to 47,498,982.
- On 16 February 2023, the Board has approved an increase of the share buyback and cancellation programme by up to GEL 148 million.
- At the 2023 Annual General Meeting, the Board also intends to recommend for shareholder approval a final dividend for 2022 of GEL 5.80 per share, payable in Pounds Sterling at the prevailing rate. This would make a total dividend paid, from the profits of JSC Bank of Georgia in respect of the Group's 2022 earnings, of GEL 7.65 per share.

Overview of financial results continued

Discussion of segment results

Retail Banking (RB)

Income statement highlights

GEL thousands, unless otherwise noted	2022	2021	Change y-o-y
Interest income	1,633,958	1,266,028	29.1%
Interest expense	(865,990)	(683,497)	26.7%
Net interest income	767,968	582,531	31.8%
Net fee and commission income	256,287	178,928	43.2%
Net foreign currency gain	277,608	58,139	377.5%
Net other income	21,401	25,869	-17.3%
Operating income	1,323,264	845,467	56.5%
Salaries and other employee benefits	(251,530)	(205,055)	22.7%
Administrative expenses	(126,811)	(102,138)	24.2%
Depreciation, amortisation and impairment	(99,739)	(80,127)	24.5%
Other operating expenses	(2,574)	(2,595)	-0.8%
Operating expenses	(480,654)	(389,915)	23.3%
Profit from associates	754	(3,781)	NMF
Operating income before cost of risk	843,364	451,771	86.7%
Cost of risk	(172,702)	(72,351)	138.7%
Profit before non-recurring items and income tax	670,662	379,420	76.8%
Net non-recurring items	1,241	20	NMF
Profit before income tax	671,903	379,440	77.1%
Income tax expense (without one-off tax expense)	(63,189)	(32,956)	91.7%
Profit adjusted for one-off income tax expense	608,714	346,484	75.7%
One-off income tax expense	(42,085)	–	–
Profit	566,629	346,484	63.5%

Balance sheet highlights

GEL thousands, unless otherwise noted	2022	2021	Change y-o-y
Net loans, standalone	11,368,907	10,349,776	9.8%
Net loans, standalone, GEL	7,515,389	6,201,310	21.2%
Net loans, standalone, FC	3,853,518	4,148,466	-7.1%
Client deposits, standalone	12,432,717	9,557,682	30.1%
Client deposits, standalone, GEL	3,716,801	2,904,521	28.0%
Client deposits, standalone, FC	8,715,916	6,653,161	31.0%
<i>of which:</i>			
Time deposits	5,395,511	5,462,952	-1.2%
Time deposits, standalone, GEL	1,842,959	1,534,172	20.1%
Time deposits, standalone, FC	3,552,552	3,928,780	-9.6%
Current accounts and demand deposits	7,037,206	4,094,730	71.9%
Current accounts and demand deposits, standalone, GEL	1,873,842	1,370,349	36.7%
Current accounts and demand deposits, standalone, FC	5,163,364	2,724,381	89.5%
Assets under management	1,953,970	1,503,529	30.0%

Key ratios

GEL thousands, unless otherwise noted	2022	2021
ROAE (adjusted for one-off items) ¹	29.0%	21.4%
ROAE (reported)	27.0%	21.4%
Net interest margin	4.7%	4.2%
Cost of risk	1.5%	0.7%
Cost of funds	6.0%	5.6%
Loan yield	12.4%	11.3%
Loan yield, GEL	16.0%	15.3%
Loan yield, FC	6.1%	5.9%
Cost of deposits	2.5%	2.6%
Cost of deposits, GEL	7.2%	6.2%
Cost of deposits, FC	0.5%	1.2%
Cost of time deposits	4.3%	3.8%
Cost of time deposits, GEL	11.2%	9.9%
Cost of time deposits, FC	1.0%	1.9%
Current accounts and demand deposits	0.6%	0.8%
Current accounts and demand deposits, GEL	2.4%	2.3%
Current accounts and demand deposits, FC	0.0%	0.1%
Cost / income ratio	36.3%	46.1%

Performance highlights

- Operating income amounted to GEL 1,323.3 million for 2022 (up 56.5% y-o-y). Operating income before cost of risk for the full year amounted to GEL 843.4 million (up 86.7% y-o-y), supported by strong net FX gains, up 5x.
- RB's NIM for the full year amounted to 4.7%, up 50bps y-o-y, reflecting higher loan yield (up 110bps y-o-y) partly offset by higher cost of funds and excess liquidity.
- Cost of credit risk ratio was 1.5% for the full year 2022 (up 80bps y-o-y), driven mainly by unsecured consumer and micro portfolios.
- RB's profit (adjusted for one-off item) was GEL 608.7 million in 2022 (up 75.7% y-o-y). For the full year, adjusted ROAE stood at 29.0% (21.4% in 2021).

Portfolios

- Net loans and finance receivables stood at GEL 11,368.9 million at 31 December 2022, up 9.8% y-o-y. On a constant-currency basis, the loan book increased by 16.4% y-o-y. Loan book growth was mainly driven by consumer loans, SME loans, and mortgages. The nominal reduction in micro lending largely reflected the impact of GEL's appreciation against US\$ during the year. Foreign currency denominated loans represented 33.9% of total RB loans at 31 December 2022, compared with 40.1% at 31 December 2021.

Retail Banking loan book by product

GEL thousands, unless otherwise noted	2022	2021	Change y-o-y
Loan originations			
Consumer loans	3,353,673	2,737,779	22.5%
Mortgage loans	1,520,022	1,747,404	-13.0%
Micro loans	1,346,051	1,736,510	-22.5%
SME loans	1,582,590	1,564,334	1.2%
Outstanding balance			
Consumer loans	3,218,477	2,567,361	25.4%
Mortgage loans	4,157,864	3,956,204	5.1%
Micro loans	1,977,280	1,980,691	-0.2%
SME loans	1,777,902	1,608,857	10.5%

- RB client deposits increased to GEL 12,432.7 million at 31 December 2022, up 30.1% y-o-y. On a constant-currency basis, deposits increased by 44.7% y-o-y. The main growth driver was current and demand deposits. Dollarisation level of client deposits in RB is broadly stable, at 70.1% at 31 December 2022 (69.6% at 31 December 2021).

1. Figures adjusted for a one-off GEL 42.1 million tax expense due to an amendment to the corporate taxation model in Georgia.

Overview of financial results continued

Corporate and Investment Banking (CIB)

Income statement highlights

GEL thousands, unless otherwise noted	2022	2021	Change y-o-y
Interest income	554,135	501,292	10.5%
Interest expense	(177,364)	(169,586)	4.6%
Net interest income	376,771	331,706	13.6%
Net fee and commission income	49,543	47,869	3.5%
Net foreign currency gain	123,993	37,619	229.6%
Net other income (without one-off items)	14,299	43,979	-67.5%
Operating income	564,606	461,173	22.4%
Salaries and other employee benefits	(80,978)	(52,836)	53.3%
Administrative expenses	(18,079)	(16,781)	7.7%
Depreciation, amortisation and impairment	(5,292)	(8,551)	-38.1%
Other operating expenses	(1,283)	(892)	43.8%
Operating expenses	(105,632)	(79,060)	33.6%
Profit from associates	–	–	–
Operating income before cost of risk	458,974	382,113	20.1%
Cost of risk	79,461	22,662	250.6%
Profit before non-recurring items and income tax	538,435	404,775	33.0%
Net non-recurring items	–	(78)	-100.0%
Profit before income tax	538,435	404,697	33.0%
Income tax expense	(44,040)	(38,473)	14.5%
Profit adjusted for one-off items	494,395	366,224	35.0%
One-off in other income	391,100	–	–
One-off income tax expense	(33,653)	–	–
Profit	851,842	366,224	132.6%

Balance sheet highlights

GEL thousands, unless otherwise noted	2022	2021	Change y-o-y
Net loans and finance lease receivables	4,926,264	5,100,938	-3.4%
Net loans and finance lease receivables, GEL	1,321,797	1,113,914	18.7%
Net loans and finance lease receivables, FC	3,604,467	3,987,024	-9.6%
Client deposits	4,824,646	4,015,449	20.2%
Client deposits, standalone, GEL	3,021,179	2,559,463	18.0%
Client deposits, standalone, FC	1,803,467	1,455,986	23.9%
<i>of which:</i>			
Time deposits	1,520,701	1,258,019	20.9%
Time deposits, standalone, GEL	1,412,130	1,106,874	27.6%
Time deposits, standalone, FC	108,571	151,145	-28.2%
Current accounts and demand deposits	3,303,945	2,757,430	19.8%
Current accounts and demand deposits, standalone, GEL	1,609,049	1,452,589	10.8%
Current accounts and demand deposits, standalone, FC	1,694,896	1,304,841	29.9%
Letters of credit and guarantees	1,812,231	1,728,569	4.8%
Assets under management	1,480,894	1,469,315	0.8%

Key ratios

GEL thousands, unless otherwise noted	2022	2021
ROAE (adjusted for one-off items) ¹	39.1%	34.6%
ROAE (reported)	67.4%	34.6%
Net interest margin	5.6%	5.1%
Cost of risk	-1.0%	-1.2%
Cost of funds	2.6%	2.5%
Loan yield	9.3%	8.7%
Loan yield, GEL	14.7%	13.5%
Loan yield, FC	7.7%	7.5%
Cost of deposits	6.2%	5.5%
Cost of deposits, GEL	9.4%	8.0%
Cost of deposits, FC	-0.1%	0.6%
Cost of time deposits	10.4%	8.2%
Cost of time deposits, GEL	11.1%	9.1%
Cost of time deposits, FC	1.1%	2.0%
Current accounts and demand deposits	3.9%	3.5%
Current accounts and demand deposits, GEL	7.7%	6.7%
Current accounts and demand deposits, FC	-0.2%	0.3%
Cost / income ratio (adjusted for one-off items) ²	18.7%	17.1%
Cost / income ratio (reported)	11.1%	17.1%
Concentration of top ten clients	5.9%	8.3%

Performance highlights

- Operating income (adjusted for one-off item) amounted to GEL 564.6 million in 2022 (up 22.4%). The y-o-y growth in 2022 was driven by significant foreign currency gains posted throughout 2022, as well as net interest income generation.
- Operating income before cost of risk (adjusted for one-off items) was GEL 459.0 million in 2022 (up 20.1%).
- NIM stood at 5.6% in 2022, up 50bps y-o-y. CIB's NIM was positively impacted by higher loan yield (up 60bps y-o-y).
- For the full year cost of risk ratio stood at -1.0%, driven by some recoveries.
- For the full year profit (adjusted for one-off items) amounted to GEL 494.4 million (up 35.0% y-o-y). The adjusted ROAE in 2022 was 39.1% versus 34.6% in 2021.
- CIB's reported profit, due to a significant one-off item, was GEL 851.8 million in 2022. The unadjusted ROAE was 67.4% for the full year.

Portfolios

- Net loans and finance receivables stood at GEL 4,926.3 million at 31 December 2022, down 3.4% y-o-y. The y-o-y nominal decrease was due to GEL appreciation that resulted in a decrease of foreign currency denominated net loans and finance receivables. On a constant-currency basis, loan book increased by 9.1% y-o-y. Foreign currency denominated loans represented 73.2% of total CIB loans at 31 December 2022, compared with 78.2% at 31 December 2021. The concentration of top ten CIB clients was 5.9% at 31 December 2022 (8.3% at 31 December 2021).
- Client deposits and notes amounted to GEL 4,824.6 million at 31 December 2022, up 20.2% y-o-y. On a constant-currency basis, deposits increased by 27.3% y-o-y. Foreign currency denominated deposits represented 37.4% of total CIB deposits at 31 December 2022, compared with 36.3% at 31 December 2021.

1. Adjusted for a one-off GEL 391.1 million other income due to the settlement of an outstanding legacy claim, and a one-off GEL 33.7 million tax expense due to an amendment to the corporate taxation model in Georgia.

2. Adjusted for a one-off GEL 391.1 million other income due to the settlement of an outstanding legacy claim.

Overview of financial results continued

Belarusky Narodny Bank (BNB)

Income statement highlights

GEL thousands, unless otherwise noted	2022	2021	Change y-o-y
Net interest income	37,511	39,676	-5.5%
Net fee and commission income	11,500	5,476	110.0%
Net foreign currency gain	64,493	13,341	383.4%
Net other income	1,170	1,242	-5.8%
Operating income	114,674	59,735	92.0%
Operating expenses	(55,432)	(39,675)	39.7%
Operating income before cost of risk	59,242	20,060	195.3%
Cost of risk	(25,827)	(1,723)	NMF
Net non-recurring items	(203)	(532)	-61.8%
Profit before income tax	33,212	17,805	86.5%
Income tax expense	(7,684)	(3,395)	126.3%
Profit	25,528	14,410	77.2%

Balance sheet highlights

GEL thousands, unless otherwise noted	Dec-22	Dec-21	Change y-o-y
Cash and cash equivalents	640,018	186,050	244.0%
Amounts due from credit institutions	74,778	8,719	757.6%
Investment securities	60,361	69,794	-13.5%
Loans to customers and finance lease receivables	538,166	662,297	-18.7%
Other assets	68,043	54,060	25.9%
Total assets	1,381,366	980,920	40.8%
Client deposits and notes	1,034,124	516,634	100.2%
Amounts due to credit institutions	172,389	309,812	-44.4%
Debt securities issued	2,745	7,327	-62.5%
Other liabilities	20,670	12,490	65.5%
Total liabilities	1,229,928	846,263	45.3%
Total equity	151,438	134,657	12.5%
Total liabilities and equity	1,381,366	980,920	40.8%

BNB has continued to focus on its core domestic retail and small business customers, with an emphasis on digitising the business, growing its customer franchise and building customer deposits. As a result, client deposits increased by 100.2% y-o-y during the fourth quarter.

In the first quarter of 2022, we reassessed our assets in BNB due to deteriorated expectations, resulting in a GEL 49.3 million total negative effect on equity in 1Q22. Throughout the following quarters, BNB has demonstrated operational resilience and a focus on maintaining solid liquidity and capital positions. The capital ratios, calculated in accordance with the National Bank of the Republic of Belarus's standards, were above the minimum requirements at 31 December 2022 – Tier 1 capital adequacy ratio at 9.5% (minimum requirement of 7.0%) and total capital adequacy ratio at 16.7% (minimum requirement of 12.5%).

In November 2022, the government of Canada sanctioned additional individuals and entities, including our banking subsidiary in Belarus, BNB. BNB did not have exposure to Canada, therefore we did not experience any significant impact on BNB's operations or financial position. The Group has actively engaged with Global Affairs Canada to investigate the reasons – as of today, these are solely due to the fact BNB is located in Belarus, and the Group is actively seeking delisting of its subsidiary from the Canadian sanctions list, on the basis of no grounds existing for sanctioning it under the relevant regulations.

GOVERNANCE

Governance at a glance

2022 key highlights:

1. New Chairman and strong leadership within the Company

The Board was pleased to appoint a new Chair of the Board, Mel Carvill who has extensive international financial services and regulatory experience. As part of the appointment process, Mel undertook an extensive induction programme, which included meeting several members of the senior management team. Further details on the appointment process and induction programme are available on page 187.

2. Culture and ESG

The Board oversaw the implementation of the Group's purpose – helping people achieve more of their potential – and the Group's culture. Further details on our culture can be found on page 175. The Board remain committed to ensuring a robust ESG strategy, which is reflected in the CEO targets. Further information on our work on ESG can be found on pages 86 to 147 and information on the CEO targets can be found on pages 204 to 209

3. Stakeholder engagement

During the year members of the Board have undertaken numerous engagement opportunities with our employees and stakeholders, including an investor roadshow, extensive shareholder consultation and the Employee Voice forum. Further details can be found on pages 149 to 153, 171 and 174.

4. Diversity and inclusion

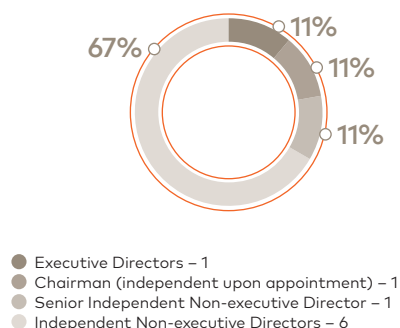
The Board remains committed to ensuring the Company is an inclusive organisation, reflecting all aspects of diversity. We reviewed and expanded the Diversity and Inclusion Policy, which is based on international standards and best practice. Further details on our commitment can be found on pages 91 to 92, 171 and 176 to 178.



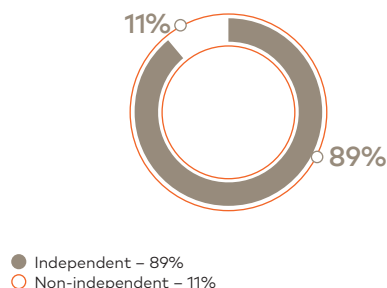
Governance at a glance continued

2022 in numbers:

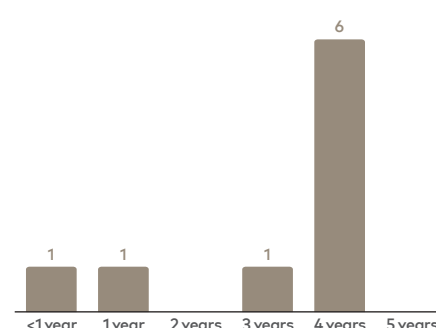
Board composition as at 31 December 2022



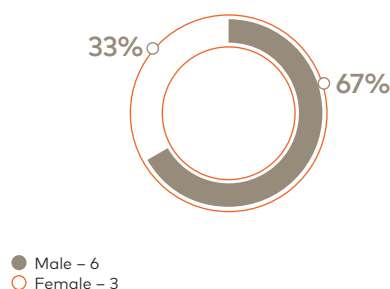
Board independence as at 31 December 2022



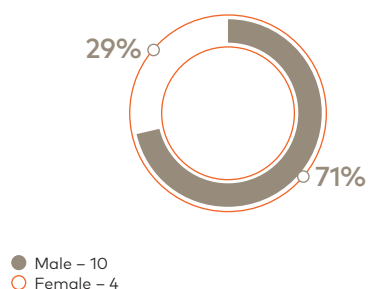
Director tenure as at 31 December 2022



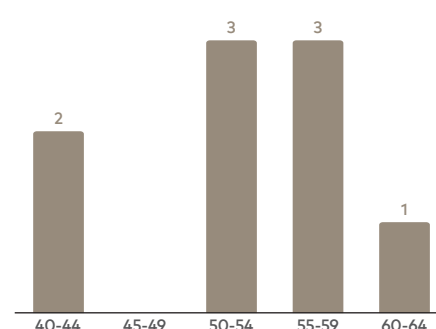
Board gender split as at 31 December 2022



Management Team gender split as at 31 December 2022



Director ages as at 31 December 2022



Board and committee meeting attendance

Details of Board and Committee meeting attendance in 2022 are as follows:

Members	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Neil Janin ^{*1}	0/0 scheduled 1/1 ad hoc	N/A	1/1 scheduled	1/1 scheduled	N/A
Mel Carvill ^{*1}	4/4 scheduled 5/5 ad hoc	N/A	3/3 scheduled	2/2 scheduled	N/A
Alasdair Breach [*]	4/4 scheduled 6/6 ad hoc	N/A	4/4 scheduled	3/3 scheduled	4/4 scheduled
Tamaz Georgadze [*]	4/4 scheduled 6/6 ad hoc	N/A	4/4 scheduled	3/3 scheduled	4/4 scheduled
Archil Gachechiladze	4/4 scheduled 6/6 ad hoc	N/A	N/A	N/A	N/A
Hanna Loikkanen [*]	4/4 scheduled 6/6 ad hoc	4/4 scheduled 6/6 ad hoc	4/4 scheduled	3/3 scheduled	N/A
Mariam Megvinetukhutsesi [*]	4/4 scheduled 6/6 ad hoc	N/A	4/4 scheduled	N/A	4/4 scheduled
Véronique McCarroll ^{*2}	4/4 scheduled 5/6 ad hoc	N/A	4/4 scheduled	N/A	4/4 scheduled
Jonathan Muir [*]	4/4 scheduled 6/6 ad hoc	4/4 scheduled 6/6 ad hoc	4/4 scheduled	N/A	N/A
Cecil Quillen ^{*2}	4/4 scheduled 5/6 ad hoc	4/4 scheduled 5/6 ad hoc	4/4 scheduled	3/3 scheduled	N/A

* Denotes Independent Director.

¹ Mr Janin resigned as a Director and Chairman, and Mr Carvill was appointed as a Director and Chairman with effect from 10 March 2022.

² Ms McCarroll was unable to attend one ad hoc Board meeting, and Mr Quillen was unable to attend one ad hoc Board meeting and one ad hoc Audit Committee meeting on the same day, due to prior commitments. Both provided full comments on the materials discussed to the Board, and Mr Quillen also provided full comments to the Audit Committee ahead of the meeting.

Directors' governance statement



Mel Carvill
Chairman of the Board

"The Board believes that a robust governance framework facilitates sustainable long-term growth of the Group."

Chairman's introduction

Dear Shareholders,

The Board remain dedicated to ensuring the principles of good corporate governance are in place, with robust processes and controls. It is the strong belief of the Board that good governance delivers strategic and organisational benefits. It is through good governance design and controls that the Board is given the confidence that we are making optimal decisions to promote the long-term sustainable success of the Company. We remain committed to ensuring the opinions of our stakeholders, including our shareholders, our customers, our employees and our communities are considered in everything we do, enabling us to be a key driver for the banking sector and to advance the sustainable development of Georgia.

During the year we delivered on our key corporate governance commitments, including with the UK Corporate Governance Code, Listing Rules and DTRs. The Supervisory Board of JSC Bank of Georgia continues to comply with the governance standards set by the NBG.

Board committee composition

I was delighted to have been elected as Director and assume the role of Chairman on 10 March 2022 following the resignation of Neil Janin as advised in our annual report last year.

During the year we continued to deliver on our key corporate governance commitments and, as a result, the Board appointed Véronique McCarroll as Chair of the Risk Committee with effect from 1 January 2022, and Cecil Quillen as Chair of the Remuneration Committee with effect from 1 January 2023, to continue to meet the governance standards set by the NBG.

Board effectiveness

The Board undertook an internal effectiveness review of itself and its committees. This was facilitated by the Company Secretary and further details on

the process and outcomes of this evaluation can be found on pages 177 and 178.

Purpose and culture

Our purpose 'Helping People Achieve More of Their Potential' is at the core of our strategy and enables us to deliver sustainable returns for our shareholders. Further information on our purpose can be found on page 19.

The Board understands the importance of culture and setting the tone from the top. We strive to cultivate a culture of collaboration and learning. We receive regular updates on our employees to ensure that they are listened to and that outcomes from interactions are followed up on. Further information on our culture, business principles and values is available on pages 19 to 20, 123 and 175.

Diversity

The Board keeps diversity at all levels under consideration and during the year adopted a revised and significantly expanded Diversity and Inclusion Policy which aligns to current best practice.

As a FTSE 250 company, the Board is mindful of the aims of the Parker Review and the FTSE Women Leaders Review, and of those of the new Listing Rules, and as part of the ongoing succession cycle, the Board takes into consideration all aspects of diversity. Further information on diversity is available on pages 94 to 95 and 176 to 178.

Engagement with stakeholders

Since my appointment as Chairman, I have undertaken a number of meetings with stakeholders across the business, including travelling to Georgia to meet executives, senior management and employees across the business.

In addition, I have undertaken a range of meetings with shareholders at the Company's AGM. I have participated in a roadshow where I have met with our major shareholders. Furthermore, I have

also met with the Company's external advisors and senior governmental regulatory supervisors.

I look forward to continuing to engage with stakeholders in the future. Further information on our stakeholder engagement is available on pages 149 to 153 and 174.

AGM outcomes and shareholder engagement

The Board recognises that the AGM provides an important opportunity for shareholders to interact with the Board.

We were glad to see that the Directors' remuneration policy was passed with a majority of votes, however given a significant minority of shareholders voted against this resolution, members of the Board led a further shareholder consultation. An update on this consultation is available on the Company's website <https://bankofgeorgiagroup.com/information/meetings> and further information and a final summary is available in the Chair's Letter of the Directors' Remuneration Report on pages 202 to 222.

Looking ahead

We remain committed to working with management to ensure our high standards extend beyond the boardroom and are implemented throughout the business in the successful delivery of the Group's strategic priorities.

I would like to thank my fellow Directors for their commitment during 2022 and their focus and diligence in ensuring a robust governance framework for the Company.

Mel Carvill
Chairman of the Board
23 March 2023

Directors' governance statement continued

Statement of compliance with the UK Corporate Governance Code

The Board is committed to maintaining high standards of corporate governance which enhance performance, reduce risk and promote our shareholders' interests. The Board recognise that good corporate governance is essential in building a successful business for the longer term and in supporting positive relationships with our key stakeholders.

The Board has overall responsibility for governance and is accountable to its shareholders. This Governance Report describes how, during 2022, the Board has applied the main principles and complied with the relevant provisions of the Code. The Code is publicly available at the Financial Reporting Council's website, www.frc.org.uk.

The Board is committed to the principles of good corporate governance, and has continued to evolve its governance framework and underlying governance structures to meet the needs of the business.

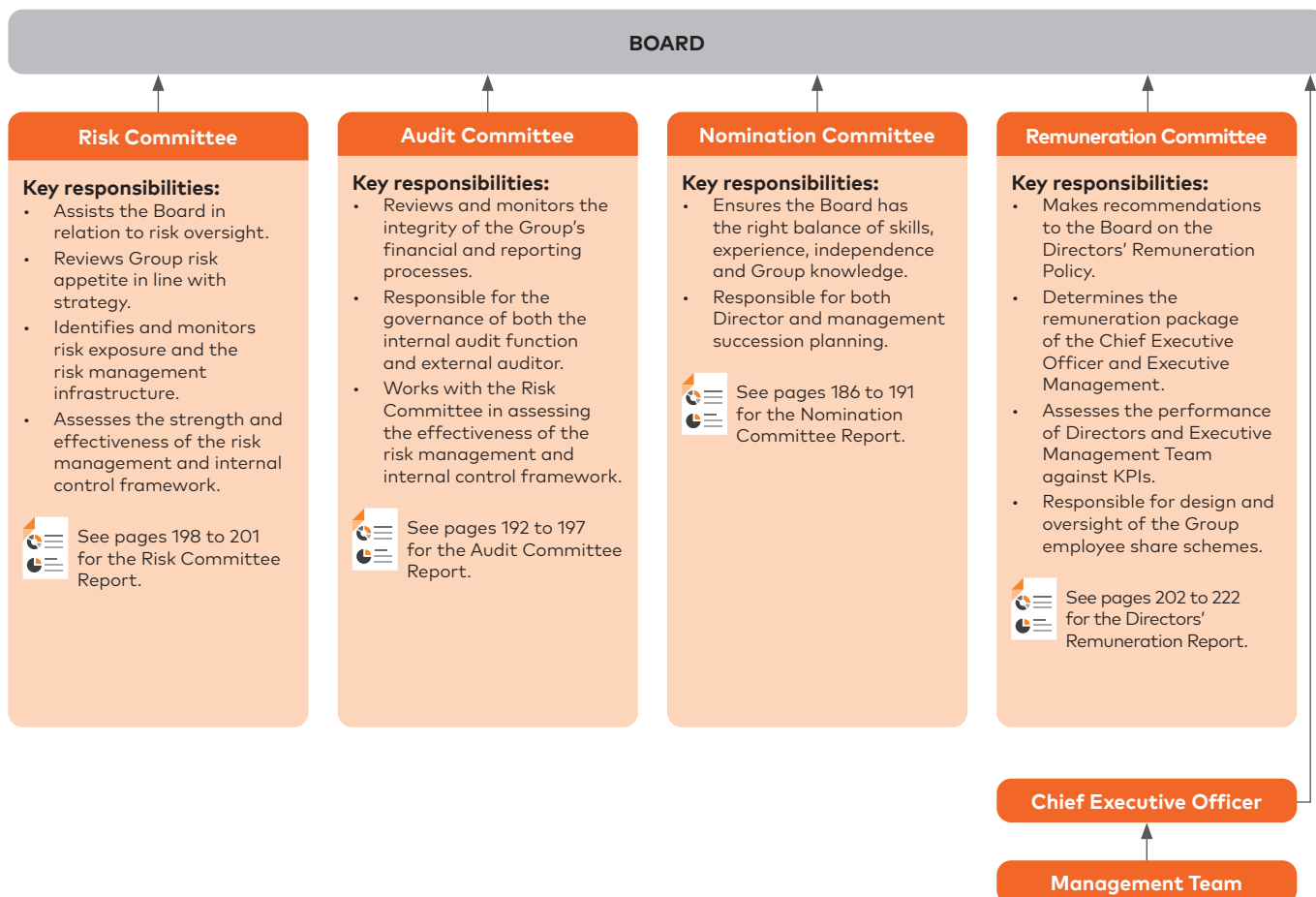
During the year we have undertaken steps to ensure ongoing compliance with the Code, including receiving an analysis from the Company Secretary on the Company's application of the provisions and principles throughout the year. Throughout the year ended 31 December 2022, the Company has applied all the Main Principles and complied with all provisions of the Code. This statement, and the reports from the Board committees, set out how we applied the Main Principles of the Code as required by LR 9.8.6. The Directors' Report also contains information required to be disclosed under the UK Listing Authority's Rules and Disclosure Guidance and Transparency Rules. To the extent necessary, certain information is incorporated into this Report by reference.

Governance structure

The Board is composed of nine Directors, eight of whom are independent Non-executive Directors. The Board is assisted in fulfilling its responsibilities by four principal committees: Audit, Nomination, Remuneration and Risk. Their Terms of Reference are reviewed annually to ensure they are aligned with the most recent version of the Code, and that the committees function effectively. The relevant Committee recommends any amendments to the Board.

The current Terms of Reference are available at: <https://www.bankofgeorgiagroup.com/governance/documents>.

For further information see the Nomination Committee Report on page 186, Audit Committee Report on page 192, Risk Committee Report on page 198 and Directors' Remuneration Report on page 202.



The role of the Board

The Board is responsible to shareholders for creating and delivering sustainable shareholder value through the effective oversight of the Company's business. The Board's responsibilities include developing and overseeing the execution of the Company's strategy within a framework of effective risk management and internal controls, demonstrating ethical leadership, and upholding corporate governance best practice. The Board recognises its duties under the UK Companies Act 2006 ('Companies Act 2006') to promote the long-term success of the Company, taking into account not only the views and interests of our shareholders but also our various stakeholders, such as our employees, customers, the environment and community as a whole.

Each Director understands their statutory duty to consider and represent the Company's various stakeholders in deliberations and decision-making.

More details about how the Directors have fulfilled their duties under Section 172 of the Companies Act 2006 can be found on pages 149 to 153.

The Board monitors the execution of strategy and financial performance. As a Board, we appreciate the need to ensure management strikes the right balance between delivering on short-term objectives and ensuring sustainable long-term growth.

To ensure the Board meets its responsibilities, certain key decisions can only be approved by the Board. These decisions can be found in the Schedule of Matters Reserved for the Board on our website at: <https://www.bankofgeorgiagroup.com/governance/documents>.

The Board delegates authority for the day-to-day management of the business to the CEO. The CEO, in turn, delegates aspects of his own authority, as permitted under the corporate governance framework, to the Management Team of the Bank.

Operation of the Board

The Board meets at least four times a year, three of which are usually held in Georgia. Other meetings held during the year were held via video conference.

The Board's responsibilities include:

- oversight of the Group;
- strategy and assessment of the risks and uncertainties and risk appetite;
- the governance structure;
- the Directors' and Executive Management's succession planning
- overseeing the Group's ESG strategy, the management of ESG and climate-related matters and sustainability reporting;
- setting the overall purpose, values and culture of the Group; and
- accountability to shareholders for the Group's long-term success.

The Senior Independent Non-executive Director supports the Chairman in his role, acting as an intermediary for other Non-executive Directors where necessary and liaising with the Non-executive Directors outside of the Board and Committee meetings.

During 2022, the Chairman met with the Non-executive Directors without the CEO present and the Senior Independent Non-executive Director held a meeting with the Non-executive Directors without the Chairman.

Directors' governance statement continued

What was on the Board's agenda during 2022

The Board adhered to an annual schedule of rolling agenda items, designed to ensure all matters are given due consideration and reviewed at the appropriate point in the financial and regulatory cycle. The Board had an extensive agenda during 2022:

Financial and corporate reporting	<ul style="list-style-type: none">• Reviewed and approved quarterly, half-year and full-year results.• Received quarterly Group financial performance updates.• Declared a final dividend in respect of the period ended 31 December 2021 of GEL 2.33 per share, and an interim dividend in respect of the period ended 30 June 2022 of GEL 1.85 per ordinary share, in line with the updated dividend and capital distribution policy.• Approved the launch of a GEL 112.7 million share buyback and cancellation programme in the second half of 2022.• Discussed the Annual Report and received updated and recommendations.• Reviewed and approved the Group's Annual Report and Accounts.• Reviewed and approved the notice of AGM.• Appointed a new Company Secretary to the Board and its committees.
Strategy	<ul style="list-style-type: none">• Reviewed the Company's business principles, purpose and strategy.• Reviewed performance against strategy.• Received regular updates from key areas of the Group's operations.• Reviewed information technology and cyber risks.• Received regular updates on the Georgian macroeconomic environment as well as on global macro developments.• Monitored the ongoing impact of the Russia-Ukraine war.• Received updates on key projects.• Considered updates on ESG practices and assessed the climate risk management framework.• Approved the Bank's climate action strategy.
Governance and policies	<ul style="list-style-type: none">• Assessed the culture, and worked to reinforce the desired culture, of the Group.• Considered external legislative and governance developments and received regulatory updates.• Received an overview of the legal requirements toward the functions and duties of the supervisory board of the Bank.• Considered Board succession planning.• Reviewed policies.• Considered Board and committees' effectiveness.• Reviewed Committees' Terms of Reference and Schedule of Matters Reserved for the Board.
Stakeholder engagement	<ul style="list-style-type: none">• Received reports about engagement with shareholders and other stakeholders including reports from investor roadshows.• Received the results of employee and customer surveys.• Received reports on engagement with the NBG.• Received reports from the designated Non-executive Director for engagement with the workforce.• Received reports on shareholder engagement on the Directors' Remuneration Policy.
Standing agenda items	<ul style="list-style-type: none">• Received reports from the Chief Executive Officer.• Received feedback from Board committees.• Reviewed and approved the minutes of previous meetings.• Received status updates on any matters outstanding from previous meetings.

The Chairman and CEO receive regular input from the Non-executive Directors ahead of Board meetings to ensure that any matters raised by the Non-executive Directors are on the agenda to be discussed.

Culture

By setting the tone at the top, promoting an open and agile culture, establishing the culture of the Group and demonstrating our leadership, management is able to create and implement policies and procedures in a manner that clearly sets an expectation that every employee acts ethically and transparently in all their dealings. This fosters an environment where business and compliance are interlinked.

Maintaining a culture based on six key business principles and ensuring equal opportunities for personal and professional development are the key enablers to ensuring this purpose is delivered.

Our CEO has made culture one of his leadership priorities and is actively promoting diversity as one of the cornerstones of culture. The percentage of women in the Executive Committee equivalent and direct reports for the Group was 50% as at 31 October 2022 – the date of the most recent FTSE Women Leaders Review. According to the statistics in this external report on FTSE 250 companies, the Group is number 10 overall and ranked first in the banking sector.

To encourage all employees to participate in the development of the Group's culture, our CEO takes the following steps to promote engagement: he writes a blog for employees, records video messages, updates the Group with examples of employees going the extra mile to inspire, highlights where employees have shown potential, and holds live discussions during which employees can ask the CEO questions and talk directly with him. In addition, he has encouraged employees to engage in the talent development process introduced in 2020.

More information on our employee engagement initiatives can be found on pages 122 to 134 and 149 to 153, and later in this report.

Following employee feedback and outputs from eNPS surveys and Barrett Organisational Culture and Values Assessment, and the Board's ongoing emphasis on culture, the Board has identified the following core values, aligned with our mission

and key strategic and operational objectives:

- motivation;
- support;
- creation and action; and
- courage.

The Board, with management input, further identified key business principles designed to support the organisational values and reinforce the message of sustainable value creation within the Group. Our business principles are:

- teamwork;
- development;
- fairness;
- customer-centricity;
- operational excellence; and
- innovation.

The Board considered these business principles again during the period, taking into account employee feedback – including as raised in the Employee Voice (see below for details on this forum) – and how values and principles were being embedded to date, and confirmed that they continue to be appropriate.

The Board remains focused on culture and employee empowerment and engagement. The Board received an update on the eNPS and Employee Engagement scores (the details of which can be found on page 132 in our Sustainable Business section).

Every employee is encouraged to participate in the development of our culture, and the Board has received updates on the processes by which the culture is being shaped.

Foundations of our culture are embedded across various activities related to employee engagement and empowerment. For example, an updated Talent Assessment system was launched in 2020 and is based on our business principles, and employees were involved in developing this system. Other examples of providing employees with opportunities to provide feedback and direct communication are outlined in the Sustainable Business section on pages 84 to 148.

In line with the recommendations of the Code, Hanna Loikkanen has been appointed as the designated Non-executive Director to engage with the workforce.

Meetings of the Employee Voice, an information discussion forum for the Board to engage with the workforce, have been held during the year. These meetings, which aim to support the exchange of opinions, ideas and views between the Board and employees, are facilitated by Hanna Loikkanen as the designated Non-executive Director for workforce engagement, and all Board members are invited to participate. In 2022, Employee Voice meetings were held with three groups to discuss the current employee experience, challenges and opportunities, and how to increase employee engagement and attractiveness of the Bank as an employer.

In addition, several Board members provide regular mentoring to members of the Management Board and to senior management on leadership, employee engagement and culture creation.

In 2022, the Board continued to monitor and assess our culture. An Employee Engagement Survey was undertaken by Korn Ferry. An internal eNPS survey was also undertaken. We were pleased to see high levels of engagement with the survey. The Board discussed the parameters and growth areas as well as the main detractors. Also, the Board continued to further improve the employee experience through a number of initiatives, including: the Employee Experience Management team meeting with every employee to consider their specific experiences; enhancing the onboarding process; developing the exit interview process to better capture feedback from employees; and encouraging talent development, specifically for young talent and those with high potential. We also received regular reports on whistleblowing to help inform the Board's assessment of the development of the Group's culture.

The Board believes there is significant value in these actions, both in allowing Directors to gain further insight into the Group's culture and employee issues, and in providing employees with further opportunities to engage with the Board. These disclosures reflect how our employees are considered in the Board's decision-making.

Looking ahead to 2023, the Board will continue to monitor culture, further improve employee experiences and enhance the talent development platform, and monitor metrics and output from the eNPS survey. We will also continue to receive reports from Hanna Loikkanen on employee matters.

We will report in our 2023 Annual Report on the ways we have developed these initiatives over the coming year.

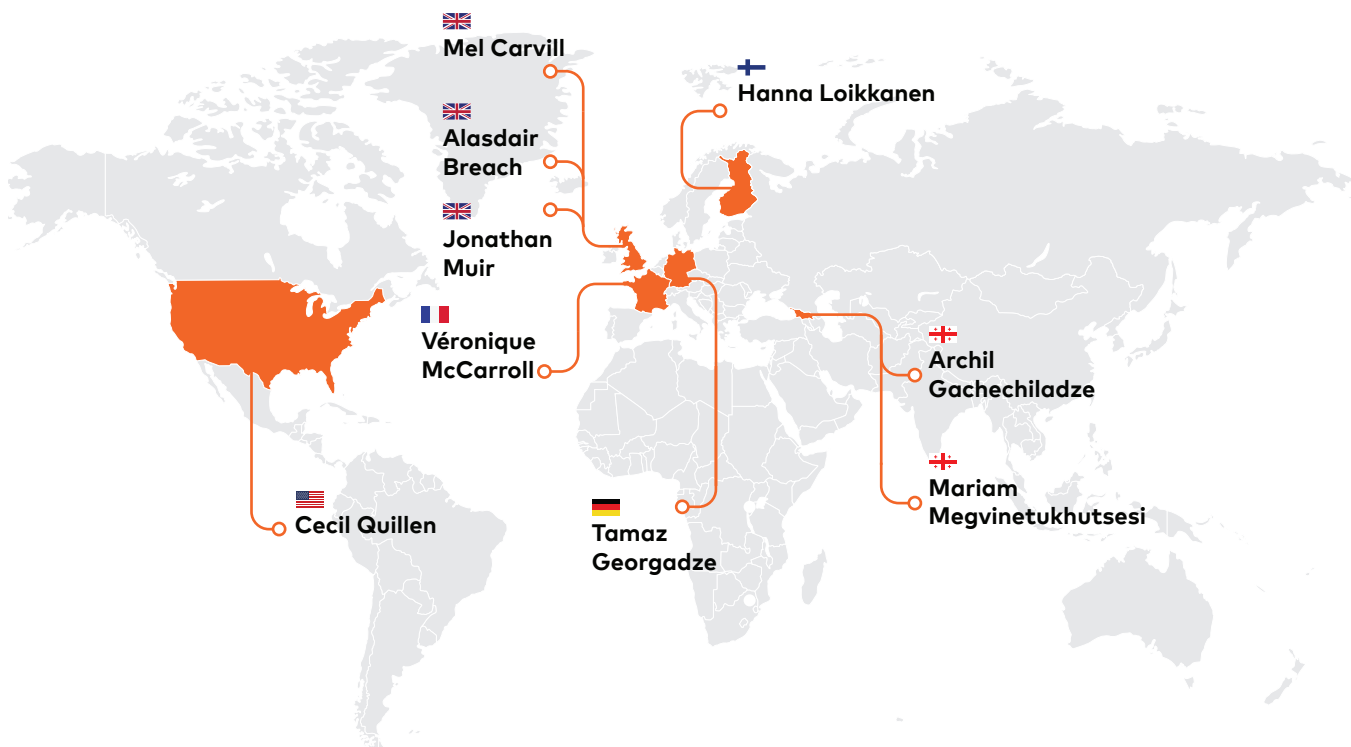
Directors' governance statement continued

Board and Committee meeting attendance

The Board and Committee meeting attendance can be found on page 170. The Board remain satisfied all Directors have sufficient time to perform their duties.

Board size, composition and independence

We consider that diversity of skills, background, knowledge, experience, geographic location, nationality, and gender is important to effectively govern the business. The Board and its Nomination Committee work to ensure the Board continues to have the right balance of skills, experience, knowledge and independence necessary to discharge its responsibilities in accordance with the highest standards of governance.



The Board is mindful of developing diversity both at Board level and at other levels in the Group, and during 2022 the Board approved a new Diversity and Inclusion Policy mirroring current best practice. The Board considers the following targets when considering Board composition, drawing on the FTSE Women Leaders Review, the Parker Review and the new Listing Rules and Disclosure Guidance and Transparency Rules:

- 40% of women on the Board and leadership teams by the end of 2025;
- At least one woman in the Chair, Senior Independent Director, Chief Executive Officer or Finance Director by the end of 2025; and
- One Director from a minority ethnic background on the Board by 2024.

We note that, in respect of the target outlined in the second bullet point and for the purposes of LR 9.8.6R(9), the Company has met this target as our Senior Independent Director is a woman. We are proud that in the recently released 2022 FTSE Women Leaders Review for the FTSE 250, with 50% women in the Executive Committee equivalent and direct reports,

we place number ten overall and number one for the banking sector.

Female representation on the Board is at 33%. Further information on the review of the Board and Committee Compositions can be found on pages 187 to 191. As a FTSE 250 company, the Board is also mindful of the aims of the Parker Review for companies to have at least one director from an ethnic minority background by 2024. As part of the ongoing succession cycle, the Board takes into consideration the need to improve the ethnic diversity of the Board during the process for recruiting new Non-executive Directors. It is anticipated that this process will satisfy the Parker Review requirements.

Our approach to diversity is balanced with the need to appoint directors who can best serve the interests of the Company and shareholders, as well as having relevant experience for a banking business substantially based in Georgia.

Following the appointment of Mel Carvill in March 2022, the Board considers the overall size and composition is appropriate, considering the independence of character and integrity of all the Directors. Each of our Non-executive Directors occupies – and/or has previously occupied – senior positions

in a broad range of relevant associated sectors, bringing valuable insights to the Board's deliberations and contributing significantly to decision-making. No individual, or group of individuals, can dominate the decision-making process and no undue reliance is placed on any individual.

The Board has assessed the independence of the Chairman and each of the seven Non-executive Directors in line with principle G and provisions 9 and 10 of the Code. The Board considers that the Chairman and each Non-executive Director act in an independent and objective manner. We consider that our Non-executive Directors are independent and free from any business interest or relationship that could materially interfere with the exercise of their judgement in accordance with the criteria outlined in the Code. In addition, the Board is satisfied that each Non-executive Director dedicates the necessary amount of time to the Company's affairs and their role.

Considering the matters above, the Board believes the Non-executive Directors have retained their independence and that it is appropriate to put them forward for election or re-election at the AGM. Further information on our work on succession planning can be found on pages 186 to 191 in the Nomination Committee Report.

Division of responsibilities

The Board has adopted written statements setting out the respective responsibilities of the Chairman, CEO, Senior Independent Director and Non-executive Directors. Biographies for the Board members are set out on pages 179 to 181. A summary of the responsibilities of the Directors is set out below.

Chairman	CEO	Senior Independent Director	Non-executive Directors
<ul style="list-style-type: none"> Guardian of the Board's decision-making process. Ensures the Board plays a full and constructive part in strategic decision-making. Sets the Board agenda. Ensures the Board receives accurate, timely and clear information. Shapes boardroom culture and sets clear expectations. Ensures a formal and rigorous evaluation of the Board takes place each year. 	<ul style="list-style-type: none"> Responsible for running the Group's business. Operational and strategic management of the Group. Develops the Group's strategy and commercial objectives. Leads communication with stakeholders. 	<ul style="list-style-type: none"> Provides a sounding board for the Chairman and serves as a trusted intermediary for the other Directors. Responsibility for an orderly succession process for the Chairman. Available to Non-executive Directors and shareholders if they have concerns that normal channels fail to resolve. Meets with other Non-executive Directors for an annual appraisal of the Chairman's performance. 	<ul style="list-style-type: none"> Provide constructive challenge and specialist advice. Provide strategic guidance. Take into account the views of shareholders and other stakeholders. Scrutinise the performance of management.

Further information on roles and responsibilities can be found on the Company website: <https://bankofgeorgiagroup.com/storage/documents/Roles%20and%20Responsibilities.pdf>

Board induction, ongoing training, professional development and independent advice

On appointment each Director participates in an induction programme, during which they meet members of senior management and receive information about the role of the Board and individual Directors, and each Board Committee and their respective delegated powers. They are also advised by the UK General Counsel and Company Secretary of the legal and regulatory obligations of a Director of a company premium listed on the London Stock Exchange. Induction sessions are designed to be interactive and are tailored to individuals based on their previous experience and knowledge. In addition, Directors are informed of the Company's strategy and structure, and how the business operates.

We are committed to ensuring the continuing development of our Directors, so they build on their expertise and develop an ever-more detailed understanding of the Business and the markets in which Group companies operate. All our Directors participated in ongoing training and professional development throughout 2022, which included briefings and presentations by the UK General Counsel, our Company Secretary, members of management and our professional advisors. During the year, our UK General Counsel and Company Secretary provided updates on regulatory and legislative changes, including: proposed and actual changes

to disclosure requirements of the UK Listing Rules; restoring trust in corporate governance and audit; climate risks reporting; changes to pre-emption right guidelines; diversity reporting requirements; and proxy advisor voting guidelines.

Audit Committee members also received updates on developments in audit and accounting, including: mandatory climate related financial disclosures; energy and carbon reporting; TCFD reporting; going concern and viability reporting; corporate governance reporting; and the revised accountancy fraud charter.

During the year, the Board appointed Computershare Company Secretarial Services Limited as Company Secretary to the Board and its committees. Computershare is a global company delivering governance solutions to listed companies through deep professional expertise and innovative technologies.

All Directors have access to the advice of the UK General Counsel and Company Secretary, as well as independent professional advice at the Company's expense, on any matter relating to their responsibilities.

Evaluation of Board performance

Following the external evaluation undertaken by Farman & Partners in 2020, the Board focused on continuous improvement and recognises that the annual evaluation process is an important tool in reaching that goal. The Board undertook an internal effectiveness

review in 2022, administered via a questionnaire enabling Directors to provide anonymous feedback, and collated by the Company Secretary. An external Board evaluation will be undertaken during 2023 in accordance with the requirement under the UK Corporate Governance Code to have an external evaluation at least every three years.

The conclusions of the 2022 effectiveness review were positive and confirmed that the Board, its committees and the Chairman operate effectively, and that each Director contributes to the overall effectiveness and success of the Company. The results confirmed that the Board has a good balance of skills, experience and diversity of backgrounds and personality that encourages open, transparent discussions and change.

The Board understands the importance of diversity and the increasing regulations from the NBG and UK PLC requirements, and that appropriate focus should be given to address future Board vacancies. The Board concluded that the key areas for 2023 included: Board succession planning and composition; continued improvement of the digital transformation programme; monitoring the implementation of the various ESG and sustainability initiatives; and maintaining and extending diversity in all its forms at Board and management levels.

Further information about the evaluation process for individual committees is provided in the Nomination Committee Report.

Directors' governance statement continued

In September 2022 the Non-executive Directors, led by the Senior Independent Non-executive Director, met to evaluate the performance of the Chairman. They concluded that the new Chairman was performing well and showed effective leadership. The Chairman also met with the Non-executive Directors without the CEO present in December 2022.

Internal controls and risk management

The Group has a comprehensive system of risk management and internal controls in place, designed to ensure that risks are identified, assessed and mitigated and that the Group's objectives are attained. The Board believes that risk culture is at the heart of the Group's Risk Management framework. Further information on the risk framework is available on page 57 and information on the risk culture of the Group is available on page 58.

The Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. The Board has overseen the process for determining whether the Annual Report and Accounts presented a fair, balanced and understandable assessment of the Group's position and performance, business model and strategy. A statement on this is made on page 223.

The Board is accountable for reviewing and approving the effectiveness of the internal controls operated by the Group, including financial, operational and compliance controls, and risk management. Further information on the Group's internal controls is available on page 58 and information on the effectiveness review is available on page 59.

The Board recognises its responsibility in respect of the Group's risk management process and system of internal controls, and oversees the activities of the Group's external auditor and the Group's risk management function supported by the Audit and Risk Committees.

The Group's risk management approach is further discussed in the Risk Management section of the Strategic Report on pages 56 to 61. For details on the management of principal risks and uncertainties please refer to pages 62 to 81. Please refer to pages 192 to 197 for further details on the role of the Audit Committee, and pages 198 to 201 for further details on the role of the Risk Committee.

The Group's governance structure for risk management is illustrated on page 59. See page 59 in the Risk Management section for the confirmation of effectiveness of our risk management processes and internal controls.

Diversity and Inclusion Policy

The Group's Diversity and Inclusion Policy applies to all employees of the Group, all functions, all units in the Group, and all subsidiaries with regard to age, gender, ethnicity, sexual orientation, disability and socio-economic backgrounds. The Board, the Audit Committee, the Nomination Committee, the Risk Committee and the Remuneration Committee have regard for the Diversity and Inclusion Policy when reviewing its composition, succession planning and future appointments.

The Diversity and Inclusion Policy commits to ensuring a diverse and inclusive culture within the Group. Our ongoing aim is to be a bank that develops and maintains diversity and inclusivity – for our employees, our customers, all our stakeholders and for society.

More information on the Group's Diversity and Inclusion Policy, its objectives, implementation, application to the Board and its committees, and results can be found on pages 187 to 189.

In December 2022, the Board also approved new or significantly revised policies, including:

- Diversity and Inclusion Policy
- Anti-Discrimination Policy
- Human Rights Policy

These policies have been drafted to be clear and easy to follow, and are based on international best practice. More information can be found on page 88 and pages 149 to 153 of the Sustainable Business section.

Board of Directors

Mel Carvill

Non-executive Chairman



Date of appointment

March 2022

Committee memberships

N Re

Skills and experience

Mr Carvill has extensive international experience across a broad range of companies in the financial sector. He qualified as a Chartered Accountant at Coopers & Lybrand and is a Fellow of the Institute of Chartered Accountants in England and Wales. He holds an Advanced Diploma in Corporate Finance, is a Chartered Insurer and an Associate of the Chartered Insurance Institute, as well as a Fellow of the Chartered Institute for Securities and Investment.

Career

Mr Carvill worked at the Generali Group from 1985 until 2009, holding various positions including Chief Risk Officer, Head of Corporate Finance and M&A and of Strategic Planning. He also served as Head of Western Europe, Americas and Middle East at Generali. In 2009 he joined PPF Partners, a private equity fund investing in Central Eastern Europe and Asia, where he held the position of President until 2014, and then worked for the wider PPF Group, latterly serving as an advisor. Mr Carvill served on company boards in European and Asian markets, including as senior independent director of Sanne Group plc.

Other appointments

- Vice-chairman of Aviva-Cofco Life Insurance Company Ltd
- Director of Singapore Life Holdings PTE Ltd and Singapore Life Ltd
- Director of Clearbank Group Holdings Ltd
- Member of the operating board of Genesis Investment Management LLP
- Director of Guernsey Investment Fund
- Director of Home Credit N.V.
- Commissioner of PT Home Credit Indonesia

Archil Gachechiladze

CEO



Date of appointment

January 2019

Skills and experience

Mr Gachechiladze has over 20 years of experience in financial services in both local and international organisations. He received his undergraduate degree in Economics from Tbilisi State University and holds his MBA with distinction from Cornell University. He is also a CFA Charterholder and a member of the CFA Society in the United Kingdom.

Career

Mr Gachechiladze held senior positions between 1998 and 2009 at the World Bank's CERMA, KPMG, The European Bank for Reconstruction and Development (EBRD), Salford Equity Partners, Lehman Brothers Private Equity (currently Trilantic Capital Partners) and TBC Bank. In 2009 he joined the Bank as Deputy CEO, Corporate Banking and has since held various roles with the Bank and the Group, such as Deputy CEO, Investment Management, CFO of BGEO Group and Deputy CEO, Corporate and Investment Banking. Prior to his appointment as CEO, Mr Gachechiladze served as CEO of Georgian Global Utilities (formerly part of BGEO Group PLC).

Hanna Loikkanen

Senior Independent Non-executive Director



Date of appointment

February 2018

Committee memberships

Re A N

Skills and experience

Ms Loikkanen has over 25 years of experience working with financial institutions in Russia and Eastern Europe. She holds a master's degree in Economics and Business Administration from Aalto University and has attained a certificate in Corporate Sustainability Management from Yale SOM.

Career

Ms Loikkanen has worked for Nordea Finance in various senior management positions in Poland, the Baltic States and Scandinavia with a focus on business development, strategy and business integration; for SEB in Moscow where she was responsible for the restructuring of SEB's debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking. In 2004, Ms Loikkanen joined FIM, a Finnish investment bank, to run their brokerage and corporate finance operations in Russia. From 2007 to 2015 Ms Loikkanen worked at the Moscow office of Swedish asset management company East Capital, managing a private equity fund focusing on investments in financial institutions in the region. She previously served as an independent director of BGEO Group PLC, which included positions on their Nomination and Risk Committees.

Other appointments

- Chairman of T&B Capital Oy
- Executive director of OnBoardSolution Oy
- Non-executive director of FinnFund (Finnish Fund for Industrial Cooperation Ltd)
- Non-executive director of VEF AB
- Non-executive director of Eastnine AB
- Non-executive board member of Finnish Church Aid Investments
- Non-executive board member of Caucasus Nature Fund

Board of Directors continued

Alasdair Breach

Independent Non-executive Director



Date of appointment

February 2018

Committee memberships

Re Ri N

Skills and experience

Mr Breach has extensive experience with European and Russian companies. He holds an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University.

Career

Mr Breach has close to 30 years' experience in markets, economics, banks and funds. From 1998 to 2002, he was a Russia and Former Soviet Union (FSU) economist at Goldman Sachs, based in Moscow, and from 2003 to 2007 he was at Brunswick UBS (later UBS Russia) as Chief Economist, Strategist and later co-Head of Research and Managing Director. Mr Breach is the founder, lead PM and co-CIO of Gemsstock Fund, a macro hedge fund based out of London and Switzerland. 12 years in existence (founded in 2010) it has won numerous awards and now has \$3bn AUM. He is also co-founder of a number of different enterprises, including: TheBrowser.com, a web-based curator of current affairs writing, FiveBooks.com, a web-based curated library and set of interviews on books with experts, Vinothek1620, a Swiss wine-bar and wine-merchant and Wald & Klima, a charity planting trees and rewilding Ursental in Switzerland. He previously served as an independent non-executive director of BGEO Group PLC, which included positions on their Remuneration, Nomination and Risk Committees.

Other appointments

- Director of the Browser Ltd, FiveBooks Ltd
- Director of Furka Holding AG, Furka Property AG, Enoteca1620 AG, Wachthuus AG, Sankt Wendelin AG
- Director of Gemsstock Ltd, Gemsstock AG and of the Gemsstock Fund

Tamaz Georgadze

Independent Non-executive Director



Date of appointment

February 2018

Committee memberships

Re Ri N

Skills and experience

Mr Georgadze has extensive experience with wide range of international companies. He holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig Universität Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

Career

Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995. He had a ten-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. In 2013, Mr Georgadze founded Raisin, which launched the first global deposit platform in Europe and he continues to serve as its CEO. Mr Georgadze previously served as an independent non-executive director of BGEO Group PLC, which included positions on their Audit, Nomination and Risk Committees.

Other appointments

- General director at Raisin GmbH

Jonathan Muir

Independent Non-executive Director



Date of appointment

February 2018

Committee memberships

A N

Skills and experience

Mr Muir has over 30 years' experience working as a professional in accounting and finance. He graduated with first class honours from St. Andrews University in the UK. He is a British-qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

Career

Mr Muir was a partner at the global audit and consulting company Ernst & Young from 1985 to 2000. From 2003 to 2013, he was Vice President of Finance and Control, then CFO of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Mr Muir is an executive director (CEO) of LetterOne Holdings SA and is CEO of LetterOne Investment Holdings. LetterOne is an international investment business consisting of two groups which target investments in the healthcare, energy, telecoms and technology, and retail sectors. Mr Muir previously served as an independent non-executive director of BGEO Group PLC's including positions on their Audit and Nomination Committees.

Other appointments

- Director of LetterOne Holdings SA and of LetterOne Investment Holding SA

Cecil Quillen

Independent Non-executive Director



Date of appointment

February 2018

Committee memberships

Re A N

Skills and experience

Mr Quillen has extensive legal and commercial experience in Europe and the United States. He received his undergraduate degree from Harvard and his law degree from the University of Virginia.

Career

Mr Quillen is a lawyer and a London-based US partner of Linklaters LLP, the global law firm where he is a leading US capital markets practitioner in the London market. He works on a broad spectrum of securities and finance matters; a particular focus of his practice has been transactions in the CIS and in central and eastern Europe. Mr Quillen became a partner of Linklaters in 1996 and was resident in the firm's New York office before transferring to the London office in 2000. He is admitted to practice in New York and the District of Columbia and is a registered foreign lawyer in England and Wales.

Other appointments

- Partner at Linklaters LLP
- Officer of the Securities Law Committee, and chair of the Public Company Practice and Regulation sub-committee, of the International Bar Association
- Officer of the Advisory Committee for Securities Regulation in Europe of the Practising Law Institute
- Trustee of the University of Virginia Law School Foundation
- Trustee of Harvard Global Foundation and UK Friends of Harvard University

Véronique McCarroll

Independent Non-executive Director



Date of appointment

October 2018

Committee memberships

Ri N

Skills and experience

Ms McCarroll has over 30 years' experience in financial services, with a strong focus on corporate and investment banking, risk management and digital banking. She graduated from ESSEC (Ecole Supérieure des Sciences Economiques et Commerciales) in 1985.

Career

Ms McCarroll started her career with Banque Indosuez in Capital Markets in 1986, serving in various front office fixed income and then market risk management roles. She was an executive director at Crédit Agricole CIB, in charge of Strategy and Business Transformation, and spent 19 years in consulting firms, helping large banking clients on risk and finance matters, including as a Partner at McKinsey & Company, Oliver Wyman and Andersen/Ernst & Young. As a Deputy CEO at Orange Bank S.A., Ms McCarroll has responsibility for finance, data office, risk and compliance and SME subsidiary, having previously headed Strategy and Innovation for Mobile Finance and Digital banking across Europe at Orange. She also teaches Finance at Paris Dauphine University.

Other appointments

- Non-executive director of Moonstone Lending Fund
- Deputy CEO – Finance, Risk and Compliance, Orange Bank S.A.

Mariam Megvinetukhutsesi

Independent Non-executive Director



Date of appointment

March 2021

Committee memberships

Ri N

Skills and experience

Ms Megvinetukhutsesi has extensive governance and financial experience. She received her undergraduate degree in Banking and Finance from Tbilisi State University and holds an MSc in Finance and Investments from the University of Edinburgh.

Career

Ms Megvinetukhutsesi has 20 years' prior experience in financial services, including in banking appointments at the European Bank for Reconstruction and Development from 1997 to 2007 and as Deputy CEO at TBC Bank from 2009 to 2014. Previously she served as Head of Georgia's Investors Council Secretariat from 2015 to 2019, promoting reforms for improvement of Georgia's investment climate. Ms Megvinetukhutsesi provides consulting services to businesses on governance and financial management.

Board Committees

Remuneration Committee	Re
Risk Committee	Ri
Nomination Committee	N
Audit Committee	A
Chairman	

Management Team



Archil Gachechiladze

Executive Director and CEO of Bank of Georgia Group PLC and CEO of Bank of Georgia

See page 179 for his biography



Sulkhan Gvalia

Deputy CEO, Chief Financial Officer

Appointed: May 2019

Skills and experience: Sulkhan has extensive experience in banking, having served in various senior roles at Bank of Georgia, including Deputy CEO – Chief Risk Officer (2005-2013) and Deputy CEO – Head of Corporate Banking (2013-2016). Prior to his recent appointment, Sulkhan was the founder and CEO of E-Space Limited – the only Georgian company developing electric car charging infrastructure in Georgia. Sulkhan started his career in banking

at TbilUniversalBank and served as its Deputy CEO before its acquisition by Bank of Georgia in November 2004.

Education: Sulkhan holds a bachelor's degree in law from Tbilisi State University.



David Chkonia

Deputy CEO, Chief Risk Officer

Appointed: July 2022

Skills and experience: Prior to his current role, David served as a senior advisor and Director of International Business at Bank of Georgia during 2021-2022. Before joining the Bank, he held senior positions in local and international organisations. He was Deputy CEO/Chief Risk Officer at TBC Bank during 2017-2020. Previous to that, David was Director at BlackRock in London, where he advised financial institutions and regulators on risk management, balance sheet strategy and regulation, Senior Vice President at PIMCO,

responsible for the risk advisory practice. During 2009-2011, David Chkonia worked at European Resolution Capital.

Education: David holds an MBA from the Wharton School of the University of Pennsylvania and a bachelor's degree in finance from San Jose State University.



Levan Kulijanishvili

Deputy CEO, Chief Operating Officer

Appointed: September 2017

Skills and experience: Levan joined the Bank in 1997 and held various senior positions throughout this career, including Head of Compliance and Internal Control from 2009 until his appointment as Deputy CEO/Finance in 2016, and Head of Internal Audit during 2000-2009.

Education: Levan holds an MBA from Grenoble Graduate School of Business and a bachelor's degree in economics and commerce from Tbilisi State University.



Nutsa Gogilashvili

Deputy CEO (subject to regulatory approval), Mass Retail Banking

Appointed: September 2022

Skills and experience: Nutsa became Head of Mass Retail Banking in September 2022 and was promoted to Deputy CEO (subject to regulatory approval) in December 2022.

Prior to her recent appointment, she was Head of Human Capital Management and Customer Experience during 2019-2022, directly reporting to the CEO.

Nutsa joined Bank of Georgia in 2016 as Head of Strategic Processes of Corporate and Investment Banking, responsible for human capital and customer experience initiatives in the Corporate and Investment Banking business. In 2017 she became Head of Customer

Experience and played a key role in building the customer experience management function at the Bank.

Before joining Bank of Georgia, Nutsa was at TBC Bank where she held the role of Head of Strategic Planning and Budgeting. Before taking up this role, during 2011-2014, Nutsa worked as an analyst at JP Morgan in London, covering different products.

Education: Nutsa holds a master's degree in finance from Bayes Business School and a bachelor's degree in economics from Moscow State Institute of International Relations



Eter (Etuna) Iremadze

Deputy CEO, Premium Banking

Appointed: March 2021

Skills and experience: Etuna was appointed Head of SOLO in May 2019 and became Deputy CEO in March 2021, and has been leading SOLO and WM businesses since April 2021.

Etuna joined Bank of Georgia early in her career in 2006 in Corporate Banking, in various roles, including senior positions. During 2009-2016 she was Head of Blue Chip Corporate Banking Unit, responsible for structured lending, M&A, significant buyouts and project financing.

Prior to her recent appointment, Etuna spent two years as Head of Strategic Projects Department at Georgian Global Utilities (formerly part of BGEO Group PLC).

Education: Etuna holds an MBA from Grenoble Business School and a bachelor's degree in economics and commerce from Tbilisi State University.



Zurab Masurashvili

Deputy CEO (subject to regulatory approval), SME Banking

Appointed: May 2019

Skills and experience: Zurab was appointed Head of SME Banking in May 2019 and was promoted to Deputy CEO (subject to regulatory approval) in December 2022.

Zurab joined Bank of Georgia early in his career in 2004 and then rejoined in 2015 in various senior positions, including Head of Express Banking, Head of MSME Banking, Head of Retail Business Banking, and recently as Head of SME Banking. Previous to Bank of Georgia, Zurab was Deputy CEO, responsible for Retail Banking at

PrivatBank, and Deputy CEO, Chief Operations Officer at Tao Bank. Before that, during 2002-2007, Zurab was a business and finance consultant on a variety of IFI projects globally.

Education: Zurab is a master's degree candidate in Innovation & Entrepreneurship from HEC Paris and holds a bachelor's degree in geology from Georgian Technical University.

Management Team continued



Zurab Kokosadze

Deputy CEO, Corporate and Investment Banking

Appointed: March 2021

Skills and experience: Zurab became Head of Corporate Banking in June 2020 and became Deputy CEO, leading Corporate and Investment Banking direction in March 2021.

Zurab joined Bank of Georgia in 2003 as a Junior Corporate Banker and has progressed through various positions, being in senior roles

prior to his recent appointment. He served as Head of Corporate Banking, under Deputy CEO, during 2017-2020.

Education: Zurab holds an MBA from Grenoble Graduate School of Business and a bachelor's in business administration from Caucasus School of Business.



Mikheil Gomarteli

Deputy CEO, Strategic Projects Direction

Appointed: September 2022

Skills and experience: Mikheil was appointed as Deputy CEO, Strategic Projects Direction of JSC Bank of Georgia in September 2022.

Prior to this appointment, Mikheil was Deputy CEO, leading the Bank's Retail Banking business since 2009. Mikheil joined Bank of Georgia in 1997 and served in various senior and executive roles.

Throughout his time with the Bank, Mikheil has been instrumental to Retail Banking and digital transformations and was behind many key initiatives launched during the past few years.

Education: Mikheil holds a bachelor's degree in economics from Tbilisi State University.



David Davitashvili

Deputy CEO, Data and Information Technology

Appointed: July 2022

Skills and experience: David joined Bank of Georgia in 2006 and served in various senior roles, including Deputy Chief Operating Officer, responsible for collections, cash operations, procurement, and information security, and Head of Internal Audit from 2009 to 2017, covering both banking and non-banking subsidiaries.

Education: David holds an Executive MBA from Bayes Business School and a bachelor's degree and a master's degree in management and microeconomics from Tbilisi State University.



Andro Ratiani

CEO of Digital Area

Appointed: February 2021

Skills and experience: Andro started his career in Bank of Georgia in 2002 and re-joined in January 2018 as Head of Innovation. He has extensive experience in financial services. Previous to Bank of Georgia, Andro was Director/Global Head of Product Management at IHS Markit, based in New York, responsible for global and US strategic technology projects for syndication lending. Before that,

he was at UBS AG Investment Bank and Wealth Management Bank in New York, and at Wells Fargo.

Education: Andro holds a master's degree in technology management from Columbia University and a bachelor's degree in business administration from University of Hawaii.



Levan Gomshiashvili

Chief Marketing and Digital Officer

Appointed: May 2019

Skills and experience: Levan was appointed Chief Marketing Officer in May 2019 and additionally became Chief Digital Officer in February 2023. Levan has extensive experience in marketing, having worked in different roles, including creative manager and chief marketing officer in international and local companies. Before joining the Bank, Levan was the founder of HOLMES&WATSON, a creative agency, where he served as an Account Manager for

clients operating in different sectors. Levan is also the founder of Tbilisi School of Communication, an educational facility focused on executive education.

Education: Levan holds a master's degree in management from the University of Edinburgh and a bachelor's degree in management from Saint Petersburg State University of Economics and Finance.



Ana Kostava

Chief Legal Officer

Appointed: June 2020

Skills and experience: Ana became a direct report of the CEO in October 2021. She joined Bank of Georgia in April 2018 as Senior Group Lawyer (2018-2020). Prior to that, Ana was an Associate at Dechert LLP during 2015-2018. Ana has experience working at the World Trade Organization Appellate Body Secretariat and European Court of Human Rights. She started her career in law as Associate at Legal Partners Associated LLC in 2010. Since 2015, Ana has been an Associate Lecturer at Free University of Tbilisi.

Education: Ana holds an LLM from University of Cambridge and an LLB from Caucasus University, Caucasus School of Law. She also holds a Harvard Law School Executive Education Certificate of Leadership in Corporate Counsel.



Elene Okromchedlishvili

Head of Human Capital Management

Appointed: September 2022

Skills and experience: Prior to her recent appointment, Elene served as Head of Business Processes, Lean Transformation and Transactions.

She joined the Bank in 2017 and held various positions, including Head of IFRS Reporting Unit responsible for the Bank's stand-alone financial statements and those of its subsidiaries, and Head of Operational Efficiency and Cost management Unit.

Before joining the Bank, Elene worked at EY, progressing to the position of senior auditor.

Education: Elene holds an MBA from IE Business School and a bachelor's degree in business administration from Free University Tbilisi.

Nomination Committee report



Mel Carvill

Chair of the Nomination Committee

Dear Shareholders,

I am pleased to present the Nomination Committee (the 'Committee') Report, providing an overview of the work of the Committee and its activities during the year.

The primary focus of the Committee during 2022 was on:

- Succession planning.
- Appointment of Chair of the Board and of the Remuneration Committee.
- Board and committee composition.
- Board diversity.

The Committee considered the composition of the Board and its committees throughout the year. The skills and experience of each of the existing directors were assessed, supported by the Board skills matrix, identifying opportunities to further align the composition of the Board with the Group's strategic aims.

As detailed in our Annual Report and Accounts 2021, I was delighted to be appointed as Chair of the Board and Chair of the Nomination Committee on 10 March 2022. This followed a thorough and orderly succession planning process, following Neil Janin's confirmation that he intended to step down from the role. You can read more about my background and experience on page 179.

In accordance with our succession planning procedures and in accordance with the National Bank of Georgia's Code of Corporate Governance (the 'NBG Code'), Neil Janin stepped down as a member of the Board of Directors of Bank of Georgia Group PLC with effect from 10 March 2022. He also stepped

down as a member of the Supervisory Board of JSC Bank of Georgia on 31 March 2022.

During the year, the Committee reviewed the composition of the Remuneration Committee, to ensure the requirements of the NBG Code were being met alongside the requirements of the UK Corporate Governance Code. As a result of this review Hanna Loikkanen stepped down as Chair of the Remuneration Committee and was replaced by Cecil Quillen with effect from 1 January 2023, in compliance with both Codes. I would like to thank Hanna for her hard work and diligence and welcome Cecil to his new role.

The Committee has continued to focus on diversity at both Board and management level, and we continue to apply the Company-wide Diversity Policy, which has been significantly revised and become the Diversity and Inclusion Policy. The Board considered a variety of diversity targets when reviewing new appointments, including the recommendations of the FTSE Women Leaders Review and the Parker Review. Whilst we continue to work towards being a more diverse company, we are proud to have 33% female representation on the Board and 50% female representation in the Executive Committee equivalent and direct reports, which places the Company at tenth place overall, and first for the banking sector, in terms of women in the Executive Committee equivalent and direct reports within the FTSE 250.

The Committee received a report on the recent updates to the Listing Rules and Disclosure Guidance and Transparency Rules related to diversity. We are mindful of these new targets and will provide a full update on our compliance with these obligations during next year's annual report.

I invite you to read more about our work in the following report.

Mel Carvill

Chair of the Nomination Committee
23 March 2023

The role of the Nomination Committee

The Committee provides dedicated focus to the following areas:

Board leadership

- Identifying the skills, knowledge and experience required for the effective leadership and long-term success of the Company, managing the balance of Board competencies through succession planning, knowledge development and targeted recruitment.

Board committees

- Monitoring the size, structure and composition of the Board's committees to ensure the necessary support now and in the future, in line with succession plans.

Talent pipeline

- Overseeing succession planning for senior management.

Diversity

- Under the Diversity and Inclusion Policy, considering the perspectives and attributes across the Board and senior management, confirming ambitions to drive progress in diversity across the Group.

The Committee's Terms of Reference were reviewed and approved by the Board in September 2022. The full Terms of Reference are available on our website at <https://www.bankofgeorgiagroup.com/governance/documents>.

Committee membership and attendance

The membership of the Committee and the members' meeting attendance for the year are set out in the Board and committee meeting attendance table on page 170, and the skills and experience that each member contributes can be found on pages 179 to 181.

All members of the Committee are independent Non-executive Directors of the Board. The CEO and other members of the management may be invited to attend meetings to provide more insight into key issues and developments.

Induction and training

Each Director, upon appointment, receives a comprehensive and tailored induction to the Company. This includes:

- meetings with executives, senior management and employees across the business to understand the Group's strategy, structure, risk profile and risk management procedures;

- meetings with a range of stakeholders, including shareholders (such as being available at the AGM), the Company's external advisors and senior governmental supervisors and regulators such as the NBG; and
- a session with the Company Secretary on the statutory and regulatory obligations upon the Company and upon each Director.

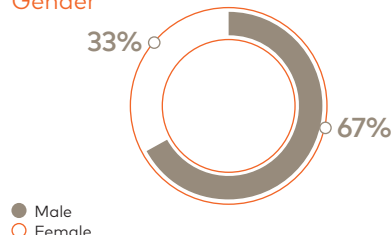
The induction for Mel Carvill included in-person and virtual meetings with Board members and senior management over a number of months. Topics included strategy, financial and legal position, and corporate governance. He spoke with shareholders at the 2022 AGM, and engaged in roadshows meeting individual investors in November and December 2022. Mel looks forward to further engagement with stakeholders in the future.

During the year, Committee members were briefed on recent developments in respect of diversity and inclusion in the UK and wider diversity initiatives, and were provided with information on appointment processes and independence criteria and review of the NBG requirements.

The graphs below show the gender diversity of the Board and Executive Committee equivalent and direct reports, as at 31 December 2022.

Board

Gender



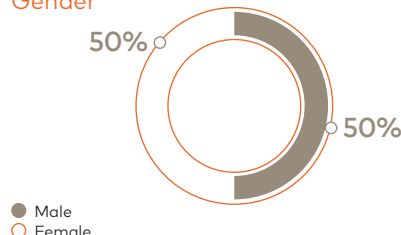
Diversity

The Board has adopted a Diversity and Inclusion Policy, which incorporates a wide range of factors such as, but not limited to, ethnicity, sexual orientation, disability and socio-economic background and mirrors current best practice, which was reviewed by the Board in December 2022.

The Board is supportive of the ambition shown in recent diversity reviews, including the Parker Review (ethnic diversity) and the FTSE Women Leaders Review (formerly Hampton-Alexander – gender diversity). The Committee will continue to examine ways the Board can become more diverse, and the

Executive Committee and direct reports

Gender



Business is also working to maintain high levels of female representation at senior management level. In 2020, we committed to a target for diversity of 33% female representation on the Board, which was achieved in 2021 and has been maintained in 2022. During 2022, the Committee received an update on the following targets:

- 40% of women on the Board and Leadership teams by the end of 2025;
- At least one woman in the Chair or Senior Independent Director role on the Board, and/or one woman as Chief Executive or Finance Director by the end of 2025; and

- One Director from a minority ethnic background on Board by 2024.

In the process, the Board considered the FTSE Women Leaders' Review, the Parker Review published in 2020 and the updated Listing Rules and Disclosure Guidance and Transparency Rules.

A full update on the work done in respect of the above items will be provided in next year's annual report. The Committee notes that in respect of the second bullet point above, and for the purposes of LR 9.8.6R(9), the Company has met this target as it's Senior Independent Director is a woman. The Board considers diversity to

Nomination Committee report continued

be important for the future development of the business, including the need to be representative of Georgian society.

During the year, the Committee continued to spend time reviewing the diversity of skills and experience, gender, social and ethnic backgrounds, cognitive and personal strengths, amongst other factors, including merit and other objective criteria.

The Committee noted that with the Group's workforce primarily based in Georgia, the ethnic make-up of its workforce is different to that of a UK-based group. The Board itself is highly diverse in terms of nationality: our nine Directors are citizens of six different countries. The Committee will continue to have regard for all diversity factors, including gender and ethnicity, in any future appointments as well as the appropriate knowledge, skills and experience in accordance with the Group's Diversity and Inclusion Policy.

Whilst the Committee is pleased with the progress made in increasing diversity within senior management positions and the Board, we recognise that there is always further work to do. We continue to score highly on gender diversity on the Executive Committee and direct reports. The Committee was pleased to note that in the 2022 edition of the FTSE Women Leader Review the Company was ranked tenth overall and first in the banking sector in respect of the Group's female representation in Executive Committee and direct reporting positions, with a combined total of 50%. This reflects some of the talent development and management processes and initiatives we have in place, detailed below.

We are pleased to report our progress on the Group's diversity initiatives:

1. Mentoring programme for women leaders:

The programme has been extended to include women as well as other leadership pool employees. The programme is merit-based and promotes diversity. We continue to develop the programme, adapting it with the changing business environment. The programme provides participants with tailored resources, including coaching and mentoring, as well as guidance and support from our senior management.

Since 2014, Bank of Georgia has also run a leadership development executive coaching programme, providing our middle and senior managers with a tailored approach to developing leadership skills. We focus on leadership

skills that underpin a culture of feedback, customer-centricity, collaboration and development. Since 2020, the Bank has implemented a new talent management system and extended the leadership pool – in addition to employees in managerial positions, we now include high-potential employees ('HiPOs') in non-managerial positions, as determined during the talent assessment process. They all participated in newly designed development programmes in 2021 (including training in project management, data analytics, emotional intelligence and design thinking, among others). We ensure the pool remains diverse, and we encourage managers to support and promote their female subordinates, while providing equal opportunities for both male and female employees. Since 2020, the Bank has prioritised different self-paced courses, which has significantly impacted gender representation in business management skills programmes. We also monitor gender balance. Our efforts towards supporting women have been recognised by 2XChallenge, and we continue our practices to provide equal opportunities in the workplace and to empower female employees.

2. Initiatives to promote Women in Business:

In 2021 we launched several initiatives to promote Women in Business. We helped 60 MSME women-owned businesses digitise their inventory, optimise logistics processes, sell online on [Extra.ge](https://extra.ge), Georgia's e-commerce marketplace, and take advantage of Extra.ge's delivery services, with the help of Visa and Adapter. The project also assisted with marketing and public relations activities, including TV stories about women entrepreneurs. Overall, this initiative raised the number of women-owned businesses in BOG's portfolio by 3,192, resulting in a 1.3% rise in the number of women-owned firms in the portfolio.

In 2020, the Bank received a 2XChallenge nomination from FMO – part of a syndicate of five European development finance institutions providing special support to women employees and clients. 2XChallenge is an initiative to increase access to finance for women-owned, women-led and women-supporting enterprises in developing and emerging countries. The nomination was awarded based on the following criteria related to employment:

1. Over 40% of the Bank's employees are women.
2. The Bank commits to or implements policies or programmes beyond those required for compliance, thus addressing barriers to women's quality employment.

The US International Development Finance Corporation also confirmed this nomination, adding the Leadership criterion:

3. Across the organisation, women represent 40% of senior management and 33% in three committees out of five.

By joining the 2XChallenge, we indicated our objective of providing women in Georgia with improved access to quality employment and economic participation. We closely monitor commitment thresholds.

From 2021, maternity leave was substituted with parental leave of two types: (i) exclusively for female employees relating to childbirth; and (ii) for childcare, which can be used by a mother or a father of a child. The Board supported the progressive approach towards working parents, which may also reduce possible gender bias, particularly with regard to the recruitment and promotion of women.

In July 2021, the Bank became the UN Global Compact (UNGC) participant, confirming the commitment to ensuring that the UNGC principles are integrated into the Bank's strategy, culture, and day-to-day operations. This commitment includes policies and practices which we already have in place as well as their further development to respect human rights and promote diversity and equal opportunities in the workforce.

The Committee was updated on these thresholds as at July 2022:

- Employment:
 - Women in the Bank workforce: 69%
 - "Quality" indicator beyond compliance:
 - Additional financial benefit: parental leave compensation
 - Support in back-to-work adaptation – training programmes for employees returning to work from parental leave
 - Health and wellbeing: corporate health insurance package, including pregnancy and childbirth coverage
 - Furthermore, female as well as male employees are provided with:
 - additional paid days off, beyond those defined by the Labour Code of Georgia.
 - childbirth bonus and marriage-related financial aid.

In September 2022, the Committee noted highlights from the talent management and leadership development programs including:

- the Front2IT retraining, which enables employees from the front office to transition to a new profession in the field of technology supported by training, mentoring and professional courses;
- the individual coaching sessions, for employees in managerial positions to develop leadership skills and set and work on personal and professional goals; and
- programmes for entry level managers.

Diversity remains an important area of focus, and we are committed to sustaining and developing our gender balance and wider diversity in 2023. We will oversee the following initiatives to help us promote gender diversity at both the Board and senior management level:

- A continuation of our sessions between our employees and successful Georgian women to build on the success of the initial event.

Details regarding equal opportunity and diversity are also provided in the Sustainable Business section on page 127.

In December 2022, the Board was pleased to approve the significantly improved Diversity and Inclusion Policy which commits to ensuring a diverse and inclusive culture within the Group, recognising that this is crucial to the Group's success, innovation, and progress. The Group has committed to several principles within this Policy to continue the transformation across the Group. The Diversity and Inclusion Policy includes focus areas supporting each principle to reflect what the Group is currently striving for. The 11 principles of the Diversity and Inclusion Policy are:

- Human rights
- Discrimination and harassment
- Gender equality
- Ability variation and accessibility
- Cultural diversity
- Age diversity
- Parental leave
- Equal pay
- Employee health, well-being and safety
- Fair and inclusive recruitment
- Education and training for professional development.

The full policy can be found on the Group's website at <https://www.bankofgeorgiagroup.com/governance/documents>.

In further support of the Group's commitment to the principles set out in the new Diversity and Inclusion Policy, the Board also approved an Anti-Discrimination and Anti-Harassment Policy in December 2022.

Through this policy, the Group commits to the elimination of discrimination and harassment of any form within the Group. The Anti-Discrimination and Anti-Harassment Policy sets out the principles and guidelines to support the Company to become a better institution for its employees, customers and all other stakeholders.

The Group has committed to several anti-discrimination and anti-harassment principles in this policy and continues the implementation of anti-discrimination transformation across the Group. The 10 principles of the Anti-Discrimination and Anti-Harassment Policy are:

- Equal opportunity and fair treatment
- Non-discrimination in the recruitment process
- Non-discrimination in remuneration and promotion
- Prohibition of workplace discrimination and harassment
- Prohibition of harassment
- Prohibition of sexual harassment
- Non-discrimination against and by suppliers and third parties
- Non-discrimination in lending
- Diversity and inclusion
- Marketing practices

The Group's work on diversity and inclusion and anti-discrimination and anti-harassment is based on, but not limited to, the following relevant local legal requirements and international standards:

- The United Nation's Universal Declaration of Human Rights
- The Charter of Fundamental Rights of the European Union
- International Labour Organization's Fundamental Instruments
- Convention on the Elimination of all forms of Discrimination against Women

- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- UNGC
- International Finance Corporation's Performance Standards

Both these policies will be kept under regular review and updated in accordance with local legal requirements and international standards.

Succession planning and Board composition

We believe effective succession planning mitigates risks associated with the departure or absence of well-qualified and experienced individuals.

To maintain the right balance of skills and knowledge on our Board, the Committee keeps Board composition under continual review. Board succession was discussed at each meeting of the Committee during 2022.

Our aim is to ensure the Board and management are always well resourced with the right people in terms of skills and experience, to effectively and successfully deliver on our strategy. We also recognise that continued tenure brings a depth of Company-specific knowledge that is important to retain.

In addition to the responsibilities set out above, the Committee is responsible for both Director and Executive Management succession planning, and for making recommendations to the Board regarding its composition.

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, including a review of other significant commitments Directors may have.

Appointment of the new Chairman

The process relating to the appointment of Mel Carvill as Chairman on 10 March 2022 was detailed in last year's Committee report.

Nomination Committee report continued

Appointment of the Chair of the Remuneration Committee

The Committee placed specific focus on reviewing the composition of the Remuneration Committee during the year. To ensure the requirements of the NBG Code, as well as the UK Corporate Governance Code were met, the former Committee Chair Hanna Loikkanen stepped down and was replaced by Cecil Quillen as Chair of the Remuneration Committee with effect from 1 January 2023. Mr Quillen has been a member of the Remuneration Committee since 24 February 2018 and the Committee believes he brings relevant and necessary skills to the position, gained through his prior experiences and roles as detailed on page 181.

Non-executive Directors' terms of appointment

On appointment, our Non-executive Directors are provided with a letter of appointment setting out the terms and conditions of their Directorship, including the fees payable and the expected time commitment. Each Non-executive Director is expected to commit approximately 25-35 days per year to the role. Additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairs, as applicable. The Committee was satisfied that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the Board.

External appointments

Prior to accepting any external appointments, Directors are required to seek the Board's consent. The Board believes that other external directorships and positions provide the Directors with valuable expertise that enhances their ability to act as Non-executive Directors of the Company. The number of external directorships and positions should, however, be limited, in particular for Executive Directors, to ensure they can dedicate the amount of time necessary to contribute effectively to the Board.

Independence

As part of the Board effectiveness review, the Committee asks Board members to evaluate their own contribution. For each Non-executive Director, the Committee reviews the time commitment required by them, taking into account any external directorships, their length of service and their independence of character and integrity. Based on the results of these reviews, the Committee makes a recommendation to the Board regarding the suitability of each Non-executive Director for re-election to the Board.

The Board has assessed the independence of the new Chairman and each Non-executive Director in line with principle G and provision 9 of the UK Corporate Governance Code, and are of the opinion the Chairman and each Non-executive Director act in an independent and objective manner. We consider that, under the Code, all of our Non-executive Directors are independent and free from any relationship that could affect their judgement.

As part of a wider assessment, the Committee considered the extent to which the length of time on the board of a predecessor company, BGEO Group Limited ('BGEO'), could impact the independence of the Independent Directors. Al Breach was appointed to the board of the predecessor company Bank of Georgia Holdings PLC (later BGEO Group PLC, and now BGEO Group Limited) on 20 October 2011.

He was appointed to the Board of the Company on 24 February 2018. The Committee concluded that he meets the Code's technical requirements in respect of independence as further explained below.

Hanna Loikkanen was originally appointed to the Board of BGEO on 24 October 2011, then resigned from their Board on 19 December 2013. She was reappointed to the Board of BGEO on 12 June 2015. The Committee concluded that the 18-month gap was deducted from any tenure calculations.

The Committee took into account their views, and also noted the following:

- There were substantial changes in the Executive Management upon demerger in 2018 and since (only two out of the 11 executive managers have remained since early 2018).
- There were substantial changes in the nature of the business and management personnel upon the demerger in May 2018.
- There are no other factors the Board considered could impinge on the independence of the Directors.

The Board also notes that in respect of succession and the recruitment of appropriate members to the Board in our particular geographical, geopolitical and market environment:

- Any new Board member must clearly understand the operating, economic and political environment in Georgia to give full and proper oversight.
- The Bank is a regulated company in Georgia, so Board members must meet the regulator's various requirements for the Supervisory Board, but also be willing to take responsibility for an emerging-markets-focused group.

Considering the matters above, the Board considers that all current Directors have retained their independence and strongly recommends their appointment or re-appointment by shareholders.

However, under the amended NBG Code which came into force from 2022, the length of time a member of the Supervisory Board is considered independent is seven years – and, further, a Chair of the Board must be independent. As such, several Directors were no longer considered independent under the NBG Code, but they remain independent under the UK Corporate Governance Code. This included Neil Janin, who stepped down from the Board on 10 March 2022, Tamaz Georgadze, Al Breach and Hanna Loikkanen (the NBG Code does not take into account the 18-month period she was not on the Board). The NBG regulations on the membership of committees also differ from the UK Corporate Governance Code.

The Board of the Company believes the mirror board structure, where the same members sit on the Board of the Company and the Supervisory Board of JSC Bank of Georgia, with the same roles in the mirror committees, remains the best structure for the governance of the Group.

As noted in last year's report, the Committee is overseeing an orderly transition of changes to the Board, with those Directors who are no longer independent under the NBG Code stepping down or changing roles over the next few years. Initial changes were Tamaz Georgadze who stepped down as Risk Committee Chair on 31 December 2021 but remains a member of the Risk Committee, Neil Janin who stepped down as Chair of the Board and from the Board on 10 March 2022, followed by Hanna Loikkanen who stepped down as Remuneration Committee Chair, but remained a member of the Committee, on 31 December 2022.

Board and Committee effectiveness

During 2022, an internal Board effectiveness review was undertaken. It concluded that the Board functions as an effective and efficient team, with the required skills to meet current and future priorities.

As part of this review, the Committee undertook a self-assessment of its effectiveness.

The findings of the review were considered by the Committee at its September 2022 meeting. The Committee was satisfied with the results of the evaluation and is confident it continues to operate and perform appropriately and fulfil its responsibilities. For more information on the Board and Committee evaluation see pages 177 and 178.

Director re-election

Following the Board effectiveness review, and with careful consideration of a range of factors, including Directors' other commitments, the Committee recommended to the Board the re-election of Mel Carvill, Archil Gachechiladze, Al Breach, Tamaz Georgadze, Hanna Loikkanen, Véronique McCarroll, Mariam Megvinetkhutsesi, Jonathan Muir and Cecil Quillen at the 2023 AGM.

Senior and middle management succession planning

We are committed to talent development programmes and initiatives within the Group. We increase the skills of our existing executive managers and develop a pipeline of new executive, senior and middle managers through coaching, mentoring and leadership programmes. We continue to expand our programmes to include management at lower levels.

Our talent development programmes are transparent and promote teamwork and development, in line with our business principles. We aim to nurture managers who:

- have the courage to give and seek honest feedback;
- realise 'a stronger me plus a stronger you makes a stronger us';
- value meritocracy over favouritism;
- encourage dialogue over an authoritative decision-making style; and
- favour cooperation over individualistic or 'heroic' behaviour.

During 2022, the Bank continued initiatives to encourage talent development across the Bank, with a focus on young talent and those with high potential.

The Bank runs Leaderator, the most recognised student development programme on the market, designed to provide opportunities for young people to develop skills and competencies, explore various business and operational units, and gain practical experience with real projects. Leaderator is one of the most extensive student programmes implemented by the Bank in recent years. We have expanded its offerings for the past few years and, in 2022, ran programmes in: Corporate and Investment Banking, Premium Banking and Brokerage, Small and Medium Business, Financial Management, Business Analysis and Reporting, Risk Governance, Business Efficiency, Retail Banking, Digital Channels Development, Information Technologies, Quantitative Models Analysis, Data Science, Human Capital Management, Marketing and Compliance. Participants were assigned mentors within the Bank or from G&T.

In accordance with the Group's senior management succession planning, the Group was pleased to announce that members of JSC Bank of Georgia's Executive Management Team, Nutsa Gogilashvili – Head of Mass Retail Banking, and Zurab Masurashvili – Head of SME Banking, were promoted to Deputy CEOs for the Bank on 19 December 2022, subject to NBG approval. Both Zurab and Nutsa have been key to Bank of Georgia's success over the past few years. Zurab has transformed SME banking, resulting in our leadership position in this segment. Nutsa has demonstrated great achievements in developing a customer-centric culture and a new human capital management strategy, which led to a major improvement in customer and employee experience and high NPS and eNPS scores. The Committee has confidence that Zurab and Nutsa will further strengthen the Executive Management team and keep contributing to the success of the whole organisation.

Further information on talent management can be found in the Sustainable Business section on page 128.

During 2022, the Committee received reports on the talent pipeline across the Group for senior management positions and has, alongside the Board, dedicated time to strengthening the senior management team as part of the wider strategic development of the Group.

Looking ahead to 2023

In the coming year, the Committee will spend time on succession planning and diversity at Board and senior management level, including a review of Committee composition.

Consideration and additional focus will be given to the governance requirements of both the UK Corporate Governance Code as well as the NBG Code, in particular in relation to Board composition and independence requirements, and of the new Listing Rules, the Parker Review and the FTSE Women Leaders Review.

We will also focus on the talent management of leadership and high potential roles within the senior management team, with focus on ensuring that the approach and outcomes align with the Company's strategic aims.

Audit Committee report



Jonathan Muir

Chair of the Audit Committee

Dear Shareholders,

I am pleased to report on the activities of the Audit Committee (the 'Committee') throughout 2022, in which ten formal Committee meetings were held.

The Committee's role is to recommend the financial statements to the Board and review the Group's financial reporting and accounting policies, including formal announcements and trading statements relating to the Company's financial performance. We also oversee the internal control environment and the relationship with Ernst & Young LLP ('EY'), the Group's external auditor, and the role and effectiveness of the Internal Audit function.

A particular focus of the Committee in 2022 and ongoing in 2023 is on the impact of the ongoing economic uncertainty for the Georgian economy, as a result of the Russia-Ukraine war and global macroeconomic challenges.

In addition, during 2022, the NBG granted an extension of two years in respect of the mandatory audit rotation, under NBG rules, to allow EY to continue as auditor of Bank of Georgia Group PLC for the 2023 and 2024 audits. A resolution to reappoint EY as auditor will be put to shareholders at the 2023 AGM. There was no requirement in 2022 for mandatory audit rotation under the UK Listing Rules or the UK Corporate Governance Code.

In advance of the extension and the Board's decision to retain EY, the Committee undertook a competitive tender for the role of external auditor.

The Committee Chair led a thorough, carefully considered process resulting in the identification of a preferred and second-choice audit firm. However, due to the impact of the Russia-Ukraine war, neither were able to accept the appointment.

The Committee sought an extension of the mandatory audit rotation period from the NBG, alongside the final stages of the audit tender process. On the basis that it was in the best interest of the Company, and as EY remained independent, it was agreed that EY's reappointment be recommended at the AGM in 2023.

The Committee has reviewed and challenged management across a number of areas during 2022, including the monitoring of the control framework during the changing environment. It has overseen work on critical areas such as loan loss provisions and the accounting treatment of key non-recurring items. The Committee heard how management assessed the ECL provision in light of current economic conditions, and challenged the assumptions and controls around the model used to assess their impact. An update on the ECL provision was provided at regular Committee meetings, with further updates provided at ad hoc meetings to review and approve the regular quarterly and annual financial reports.

Further, the Committee continues to give considerable focus to reviewing management's work in addressing cybersecurity and IT-related issues arising during the year, in light of ongoing remote working and the increased potential for attacks on the infrastructure.

The Committee also received reports and held regular discussions regarding the ongoing viability of the Company and its liquidity status. The Committee continued to focus on the key issues relevant to the Group's financial reporting, and worked with management and EY to review any changes required in response to the introduction of new accounting or regulatory guidance. The Committee receives a report at each meeting on specific areas of accounting and quality of earnings, and where material judgement has been applied. These areas

are discussed, challenged, and the opinion of the external auditor sought before final conclusions on appropriate treatment are reached. Such areas in 2022 included ECL provisions and impairments, impact of sanctions, cost capitalisation and accounting/valuation for repossessed assets.

The Committee is responsible for ensuring the Bank maintains a risk-aware culture. We receive regular reports on financial crime risk management, including fraud risks and sanctions compliance, information security and data protections risks, and compliance-related matters, among others. These will continue to be areas of focus in 2023.

During the year, the Committee reviewed and approved the Internal Audit Plan and its execution for 2022, and approved the Internal Audit Plan for 2023. We recognise the importance of the Internal Audit function to the control environment.

We also continued to ensure the integrity of the Company's published financial information, and reviewed the judgements made by management and the assumptions and estimates on which they were based.

As a Committee, we have worked closely with our colleagues on the Risk Committee on matters including liquidity, adequacy of capital (including adequate buffers), the impact of the Russia-Ukraine war, the NBG's transition to IFRS-based accounting, information security, cybersecurity and compliance matters.

The Committee will continue to play an active role in continuing to oversee the development of the Group's risk management and internal control processes during 2023.

Jonathan Muir

Chair of the Audit Committee
23 March 2023

Composition and operations of the Audit Committee

The composition of the Committee complies with the 2018 UK Corporate Governance Code (the 'Code'), which provides that the Audit Committee should comprise at least three Independent Non-executive Directors. The independent Committee members are Jonathan Muir (Chairman), Hanna Loikkanen and Cecil Quillen. The Board is satisfied that Jonathan Muir has recent and relevant financial experience, which is a requirement of at least one Committee member. It is also satisfied the Committee, as a whole, has competence relevant to the financial and banking sector in which the Company operates, and that it holds the relevant combination of skills and experience to discharge its responsibilities.

Full details of the Committee members' biographies and qualifications can be found on pages 179 to 181.

The Committee works to a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it regularly considers under its Terms of Reference. It also reacts quickly to business developments.

Details of attendance at Committee meetings can be found on page 170. The Company Secretary is secretary to the Audit Committee and attends all meetings. The meetings are also attended by the Company's CFO, CRO, COO, Head of Internal Audit as well as representatives of EY, the CEO, the Chief Legal Officer, UK General Counsel and Head of Compliance where required. Invitations to attend are occasionally extended to other members of the Board and management where necessary, to provide a deeper level of insight into key issues and developments.

The Chairman of the Committee, Jonathan Muir, will be available at the AGM to respond to any shareholder questions that may be raised on the Committee's activities.

Meetings with the auditor

During the year, the Committee met privately, without management present, with EY and the Head of Internal Audit. The Chairman of the Committee also held discussions with the lead audit partner in advance of meetings. The focus of these private meetings was to encourage discussion of any issues of concern in more detail, directly with the external auditor and the Bank's Head of Internal Audit. EY confirmed it was satisfied with the communication between management, EY and the Committee. In addition, the Chair of the Committee has maintained regular dialogue with the external auditor throughout the year.

Key purpose and responsibilities

On behalf of the Board, the Committee safeguards high standards of integrity and oversees conduct in financial reporting, internal control and risk management (together with the Risk Committee), and internal audit. It also oversees the work of our external auditor. The Chairman of the Committee reports to the Board on how it has discharged its responsibilities at subsequent Board meetings.

A full description of the Committee's roles and responsibilities is set out in its Terms of Reference, as reviewed and updated in September 2022, available at: <https://www.bankofgeorgiagroup.com/governance/documents>.

Financial reporting

One of the Committee's key responsibilities is reviewing the integrity of the financial statements, considering the appropriateness of accounting policies and practices, and reviewing the significant issues and judgements considered in relation to the financial statements.

The Committee received detailed reporting from the Chief Financial Officer and the external auditor in respect of the key areas of management's judgements, reporting and audit during the year. The Committee and the external auditor, without management present, discussed the key areas of audit focus, the suitability of the accounting policies adopted and whether management's key reporting estimates and judgements were appropriate. Considering the external auditor's assessment of risk, but also using our own independent knowledge of the Group, we reviewed and challenged – where necessary – the actions, estimates and judgements of management in relation to the preparation of the financial statements.

Audit Committee report continued

The significant governance and control matters and financial judgements considered by the Committee in relation to the financial statements are addressed below.

Matter considered	Action taken by the Audit Committee
Governance	<ul style="list-style-type: none"> Reviewed governance processes and policies. Reviewed the Terms of Reference of the Committee. Oversaw the creation of a team responsible for working with KPMG to assess readiness for internal control reporting under new UK regulations. Undertook an externally facilitated committee effectiveness evaluation. Undertook a review of the effectiveness of the external auditor. Reviewed control assessments around non-financial disclosures. Reviewed ECL provisions. Initiated an external audit tender.
Financial reporting	<ul style="list-style-type: none"> Reviewed the appropriateness and disclosure of accounting policies and practices; Reviewed the Annual Report and Accounts content and advised the Board on whether the Annual Report and Accounts were fair, balanced and understandable; Reviewed changes to deferred tax balances and disclosures following announced changes to the Georgian Tax Code at the end of 2022; Reviewed the Company's annual and interim financial statements and quarterly accounts relating to the Company's financial performance, including a review of the significant financial reporting policies and judgements contained therein; Reviewed the stress scenarios as a consequence of the ongoing economic environment and the continuing Russia-Ukraine war; and Reviewed and recommended to the Board for its approval of the going concern and viability statements.
Internal Audit	<ul style="list-style-type: none"> Reviewed reports of internal audits and monitored action points and follow-up actions arising from audits. Approved the annual internal audit plan and budget for 2022 and 2023. Approved internal audit function KPIs. Reviewed the internal audit satisfaction survey results and issues statistics. Approved amendments to the Group Internal Audit Charter. Monitored and reviewed the effectiveness of the Company's internal audit function, including overseeing an independent review.
Litigation	<ul style="list-style-type: none"> Reviewed litigations that could be material to the Company, and whether provisions for contingent liabilities were required in respect of such cases. For further information please see Note 21 to the Consolidated Financial Statements on page 306.
ECL provisions	<ul style="list-style-type: none"> Reviewed the controls around the development of the model used to assist in determining the appropriate provisions. Reviewed the key inputs into the models, including key economic scenarios and management overlays. Assessed outputs against peers and industry. Sought external audit opinion and views on the model and its output. Reviewed and challenged the judgements used and resolution of any model deficiencies.
Global sanctions	<ul style="list-style-type: none"> Oversaw the response and controls on additional measures to address the risks associated with significant inflows of Russian nationals. Reviewed the assessment of AML and sanctions risk and any impact on the Company.
Accounting for repossessed assets	<ul style="list-style-type: none"> Agreed the approach for re-valuation of repossessed assets.
BNB governance	<ul style="list-style-type: none"> Reviewed BNB's AML/sanctions compliance processes.

The Committee also received regular reports on recoveries and loan write-offs, information security strategy and cyber risks.

Internal Audit

The Committee is responsible, on behalf of the Board, for overseeing the Internal Audit function, which serves as the Group's independent assurance over the adequacy and effectiveness of the systems and processes of risk management and control across the Group.

The Committee monitors the scope, extent and effectiveness of the Group's Internal Audit function. It reviews and approves the Internal Audit Policy and Internal Audit Plan, which is designed using a risk-based approach aligned with the Group's overall strategy. Regular reports are received from Internal Audit on audit activities and significant findings, as well as on corrective measures and follow-ups. In certain cases the Committee invites heads of divisions and departments to present their responses and mitigating actions regarding Internal Audit findings.

The Head of Internal Audit reports functionally to the Chairman of the Audit Committee and administratively to the CEO and has direct access to the Committee and the opportunity to discuss matters with the Committee without other members of management present. The Committee also monitors the staffing of the Internal Audit department as well as the team's qualifications and experience.

The Committee continues to monitor the effectiveness of the Internal Audit function and receives regular updates on internal audits and remediation actions.

The Committee considered the quality of the reporting by Internal Audit to the Committee and its ability to address unsatisfactory results. In addition, the independent assessment of the function confirmed its independence, and many areas of compliance with international standards, while identifying areas for improvement. These formed the basis of a plan of action commenced in 2022 and continuing into 2023, to enhance the efficiency and overall effectiveness going forward.

The effectiveness of the Internal Control function and its work is continually monitored using a variety of inputs, including quality of reports, status of completion of audit plan and execution of remediation actions. These are reported on a quarterly basis. In addition regular meetings are held between the Audit Chair and Head of Internal Audit to discuss ongoing matters and results. On this basis, the Committee concluded that the Internal Audit function is effective.

External audit

With respect to our responsibilities for the external audit process on behalf of the Board, the Committee:

- approved the annual audit plan, which included setting the areas of responsibility, scope and key risks identified;
- oversaw the audit engagement, including the degree to which the external auditor was able to assess key accounting and audit judgement;
- reviewed the findings of the external audit with the external auditor, including the level of errors identified during the audit;
- monitored management's responsiveness to the external auditor's findings and recommendations;
- reviewed the qualifications, expertise and resources of the external auditor;
- monitored the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirements;
- reviewed audit fees;
- monitored the rotation of key partners in accordance with applicable legislation;
- initiated an audit tender; and
- recommended the appointment, reappointment or removal, as applicable, of the external auditor.

Auditor independence

The Committee has adopted a Non-audit Services Policy to safeguard the auditor's independence and objectivity, which was reviewed and updated in September 2022.

The provision of non-audit services by our external auditors aligns with the current EU Statutory Audit regime, the FRC Ethical Standards and the Code. Any work – other than for audit or review of interim statements to be undertaken by the external auditor – now requires authorisation by the Committee, except in very narrow circumstances. The Policy is available at <https://www.bankofgeorgiagroup.com/governance/documents>.

The Committee has formally assessed the independence of EY, which included the review of:

- (i) a report from EY describing its arrangements to identify, report and manage any conflicts of interest, and its policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and

- (ii) the value of non-audit services provided by EY. EY has also confirmed its independence throughout the year, within the meaning of the regulations on this matter and in accordance with its professional standards. As indicated in Note 25 to the Consolidated Financial Statements on page 310, the total fees paid to EY for the year ended 31 December 2022 were GEL 2.1 million, of which GEL 44,000 related to work other than the audit of year end or review of the interim accounts.

The Committee asserts that engaging EY on occasions for non-audit work is the most efficient method of having those particular services delivered to the Company and does not consider that this work compromised EY's independence.

Auditor effectiveness

The Committee has an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the auditor and the process adopted to identify financial statement risks and key areas of audit focus;
- regular communications between the external auditor and both the Committee and management, including discussion of regular papers prepared by management and EY;
- regular discussions with EY (without management present) and management (without EY present) to discuss the external audit process;
- a review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached; and
- a formal questionnaire issued to all Committee members and to the management of the Group responsible for interaction with the external auditors – which covers, among other items, the quality of the audit and audit team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the audit team's communication with the Audit Committee, and management and the auditor's independence and objectivity.

Following the Committee's assessment of the external auditor, it formed its own judgement (which was consistent with management's view) and reported to the Board that:

- the audit team was sound and reliable, providing high-quality execution and service;
- the quality of the audit work was of a high standard;

Audit Committee report continued

- EY's independence and objectivity were affirmed;
- EY was able to challenge management on its approach to key judgements; and
- appropriate discussions were held with the Committee during the audit planning process.

The Committee is satisfied that the relationships between the external auditor and management allow for scrutiny of views on both sides, and is pleased the evaluation highlighted the ability and willingness of the external auditor to challenge management's views in a constructive and proportionate manner.

The Committee recommended to the Board that EY be reappointed as auditor of the Company, and the Directors will be proposing the reappointment and determination of EY's remuneration at the 2023 AGM.

Audit tender and lead partner rotation

EY was appointed as auditor of Bank of Georgia Group PLC in 2018 and reappointed by shareholders at the 2022 AGM. The Committee was also authorised to set the remuneration of the auditor, with 98.40% and 100.00% of votes in favour for each resolution respectively.

Since the rotation of the Audit Partner during 2021, Peter Wallace has served as the lead audit partner for the Company, and the Committee believes this supports the continuance of EY's independence.

Although the Group was not required to put the external audit contract out to tender before 2027, the NBG transition rules required EY to rotate out from the JSC Bank of Georgia audit following the 2022 audit. The Committee Chair led a thorough, carefully considered process, resulting in the identification of a preferred and second-choice audit firm. However, due to the impact of the Russia-Ukraine war, neither was able to effectively support Bank of Georgia Group PLC audit or accept the position.

During the process, the Bank applied for – and was granted by the NBG – a two-year waiver in respect of the mandatory audit rotation, allowing EY to remain in place for the 2023 and 2024 audits after seeking assurance from EY that it remained independent.

During 2022, the Company complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Committee Responsibilities) Order 2014.

Viability statement

In accordance with the provision 31 of the Code, the Board is required to make a statement in the Annual Report and Accounts regarding the Group's viability over a specified time horizon. In collaboration with the Risk Committee, and considering the recommendations of the FRC guidance, we spent time considering the timeframe over which the viability statement should be made – as well as an assessment of the period of coverage, which we agreed should be three years. This period is considered to be appropriate as the budget and business processes are based on a three-year horizon and it also considers that uncertainty increases as the time horizon extends.

In assessing the Group's viability over the three-year time horizon, the Committee considered different types of information including:

- The Group's business model and strategic plans.
- Current capital position and projections over the relevant period.
- Liquidity and funding profile and projections over the relevant period.
- The Group's risk profile, including any breaches of risk appetite, and principal and emerging risks that could have a significant negative impact on the Group.
- The effectiveness of the Group's risk management framework and internal control processes.
- Stress testing and reverse stress testing.

Our full viability statement can be found on page 83.

Whistleblowing, conflicts of interest, anti-bribery and anti-corruption, and data protection

The Audit Committee ensures there are effective procedures in place relating to whistleblowing. The Whistleblowing Policy is reviewed annually and allows employees and stakeholders to confidentially raise concerns about business practices. The Group has an advanced independent whistleblowing reporting channel and case management tool, WhistleB, in place. The Company has continued to promote the importance of the whistleblowing process and procedures to employees.

In line with the Code, responsibility for the whistleblowing process sits with the Board. The Audit Committee continues to monitor the use of the system. Updates on whistleblowing procedures, the actions

undertaken to promote the WhistleB platform and the case management tools are provided to the Audit Committee quarterly.

The Audit Committee reviews the Group's Anti-Bribery and Anti-Corruption Policy and procedures and receives reports from management on a regular basis in relation to any actual or potential wrongdoing.

It also receives reports on any Code of Conduct and Ethics violations. There were four claims in the year from Russian and Belarussian citizens claiming that the Bank's decision to refuse to open accounts in their names was discriminatory. After careful review these claims were deemed unfounded. There were no other significant findings during 2022.

The Committee also oversees compliance with the General Data Protection Regulation and receives regular updates from the Bank's Personal Data Protection Officer.

Risk management and internal controls

Although the Board assumes ultimate responsibility for the Group's risk management and internal control framework, its work is supported by the Audit Committee and the Risk Committee.

The Audit Committee assists the Board in fulfilling its responsibility to review the adequacy and effectiveness of the controls over financial reporting.

The Committee also monitors the Group's compliance with corporate governance policies and procedures related to anti-bribery and anti-corruption, conflicts of interest, and whistleblowing.

During the year, the Committee received updates on the UK Corporate Governance reform, in particular on the Audit, Reporting and Governance Authority reforms. The Committee has discussed proposals and started preparations that it envisages would be required, and will carefully monitor the progress of further regulatory updates.

In light of the Russian-Ukraine war, the Committee kept the evolving sanctions landscape under review and ensured that the Company remained compliant with sanctions. The Bank's compliance programme ensured there were processes in place to manage these risks, and reviews performed to evaluate compliance with the applicable requirements of the sanctions regimes.

The Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities. Risks are regularly

reviewed, and management provides updates to the Committee on how they are managed within particular business areas. It also receives reports from the Internal Audit team, as well as reports on any compliance issues and litigation updates.

The Internal Audit Plans for 2022 and 2023 included a thorough risk heat map.

The Internal Audit Plan is risk-based and aligns with the Company's strategy. We challenged the reports by management and Internal Audit and requested data regarding compliance with key policies and procedures related to operational risk.

With respect to external assurance, the Committee reviews the external auditor's reports presented to the Committee, which include its observations on risk management and internal financial controls identified as part of its audit.

Fair, balanced and understandable reporting

The Committee reviewed drafts of this Annual Report and Accounts to consider whether it is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy. We also gained assurance that there is a robust process of review and challenge at different levels within the Group to ensure balance and consistency.

We also discussed the overall messages and tone of the Annual Report with the Bank's CEO and CFO, and considered other information regarding performance presented to the Board during the period, both from management and the external auditor. After consideration of all this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts are fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness

As part of the wider Board and Committee effectiveness review, an internally facilitated evaluation of the Committee's effectiveness was undertaken during 2022 and the findings were considered by the Board at its September 2022 meeting. The review concluded the Committee functioned well, had the appropriate composition to fulfil its duties, and that the interaction between the Committee and the Board was appropriate. The Committee agreed the practice of organising joint meetings of the Audit and Risk Committees continued to be a success and enhanced effectiveness. The Committee was

pleased with the results of the evaluation and will continue to consider areas in which it can improve in the future to the benefit of the Company. For more information on the evaluation of the Board and committees see pages 177 and 178.

Priorities for 2023

The Committee has agreed several focus areas for 2023, including:

- enhanced risk management processes and cyber and IT risks;
- continued interaction between the Risk Committee and the Committee on specific topics of relevance to both, in particular capital adequacy and liquidity;
- ensuring continued integrity and balance in the Group's financial reporting;
- monitoring proposals for UK Corporate Governance reform and considering appropriate processes;
- consideration of new and emerging risks;
- continued focus on the ECL provisions;
- continued work to improve the performance of Internal Audit as it implements recommendations from the independent review;
- monitoring specific implications of the Russia-Ukraine war on the Bank, including macro and regional-specific impacts, and assessing financial impacts; and
- continued monitoring of controls in relation to sanctions compliance.

Risk Committee report



Véronique McCarroll

Chair of the Risk Committee

Dear Shareholders,

Having been appointed as Chair of the Risk Committee from 1 January 2022, I am delighted to present the Risk Committee (the 'Committee') report on behalf of the Board – and to provide details on how the Committee discharged its responsibilities throughout 2022.

The Committee has assisted the Board in providing oversight of the Group's overall risk exposure profile in what continues to be a challenging global macroeconomic environment. A key focus area for the Committee during the year was oversight of the impact of the Russia-Ukraine conflict and global macroeconomic factors. The Committee monitored these risks and challenges and received regular risk reports from the Chief Risk Officer regarding the effects on the Company, including the sanctions imposed on Belarus and Russia, and the impact on the Bank's loan book and customer portfolios. The Committee reviewed the processes in place to assess, monitor and mitigate the risks linked with these events.

Following the appointment of David Chkonia as Chief Risk Officer in July 2022, there have been substantial developments to the operational risk management framework, the organisational structure of the Risk department and reporting to the Committee. The scope of the ERM framework has also been redefined. The Committee has been pleased with the ongoing implementation and improvements to the Group's risk management framework.

I am pleased to confirm that the Group's operational risk management framework has enabled the Group to proactively manage the operational requirements of the business and ensure our operational risk profile remains robust.

Throughout the year, the Committee has carefully monitored the development of the credit portfolio, ensuring compliance with the risk appetite level. In addition, the Committee has continued to monitor liquidity, interest rate and FX risk, for which the Bank has solid positions within the parameters of the limits it has defined.

The Committee recognises the importance of monitoring other risks such as information security, cyber risk and financial crime which may affect the business.

I'd like to take this opportunity to thank the Committee for its support during the year, and the management team for its hard work, the quality of reporting to the Committee and the continued steps being taken to assess, monitor and mitigate risk.

Further detail of the Committee's work during the year is set out in the following report.

Véronique McCarroll
Chair of the Risk Committee
23 March 2023

An overview of our risk management framework is set out on pages 57 to 61.

A description of principal risks and recent trends and outlook, as well as mitigation efforts, can be found on pages 63 to 81.

Key purpose and responsibilities

Ensuring dedicated focus on the following areas, the Committee:

Risk oversight

- Provides advice in relation to current and potential future risk exposures.
- Oversees the risk management policies, processes and infrastructure.
- Oversees, supports and evaluates the risk management roles of the senior management team.

Risk appetite

- Reviews Group risk appetite in line with strategy.
- Supports the Board to ensure the risk profile is in line with the overall strategy, and well managed within a sound and comprehensive risk appetite framework.

Risk management

- Identifies and monitors risk exposure and the risk management infrastructure.
- Assesses the strength and effectiveness of the risk management and internal control framework.
- Assesses the Group's capability to identify and manage new types of risk.
- Assesses, reviews and challenges the emerging and principal risks facing the Company.
- Assesses the adequacy and quality of the Risk Management function in conjunction with the Audit Committee.
- Oversees the risk management policies, processes and infrastructure.
- Reviews the principal risks and uncertainties disclosures in the Half-Year and Annual Reports.

The Committee works closely with the Audit Committee to ensure both are updated and aligned on matters of common interest, including those relating to information security risks and other operational risks which are reviewed in a joint Risk and Audit Committee session. The Committee also considers external risks arising from macroeconomic developments, regional instability and regulatory changes.

The Committee operates under Terms of Reference, which are reviewed annually and are available on the Group's website at <https://www.bankofgeorgiagroup.com/governance/documents>.

Composition and meetings of the Committee

On 1 January 2022, Véronique McCarroll was appointed as Chair of the Committee – bringing extensive experience in financial services with a strong focus on corporate and investment banking and risk management. In addition to Véronique McCarroll, the other members of the Committee are Al Breach, Tamaz Georgadze and Mariam Megvinetukhutsesi. Full details of members' biographies and qualifications can be found on pages 179 to 181.

Details of Committee meeting attendance can be found on page 170. The Company Secretary is secretary to the Committee and attends all meetings. In July 2022, the Company's Chief Risk Officer, Giorgi Chiladze, was succeeded by David Chkonia – who has full access to the Committee and attends all its meetings.

David Chkonia has leveraged his experience in international risk management to focus on strengthening the Company's internal risk culture and implementing best practices in the risk management framework. The risk team has been reorganised to address the future needs of the risk management model. In addition, particular areas of focus have included building the ERM function, updating the operational risk management framework and redesigning the end-to-end consumer finance credit process.

Other members of management are invited to provide a deeper level of insight into key issues and developments as and when required. Other Board members are also invited to attend Committee meetings, and the Committee Chair reports to the Board on its activities.

During 2022, the Committee considered a range of reports providing ongoing risk identification, assessment, mitigation and management.

The Committee received reports on the Group's overall risk profile using quantitative models and risk analytics; the loan portfolio; key risk exposures, with detail of how they are being managed; performance against risk appetite for credit, liquidity, interest rates and foreign currency; emerging and potential risks, including the drivers of risk throughout the Group; financial risk and capital adequacy; and analysis of stress-testing scenarios and the results of stress tests and reverse stress tests. The underlying assumptions, methodology and results of these tests were reviewed and challenged by the Committee. Jointly with the Audit Committee, the Committee considered reports detailing the Bank's information security and cyber risk, KYC procedures, AML, compliance and other operational risks.

External risks

Prior to Committee meetings the Board considers the macroeconomic situation and political risks which provide context for the Committee's discussions on the Group's management of financial risks.

The Committee discussed updates on political and geopolitical events relating to the economies of Georgia's key trading partners, as well as the impact those events may have on the Georgian economy.

The Bank discussed the correspondent relationship and SWIFT transactions considering the Russian bank sanctions and determined there was no exposure at present. However, challenges in relation to increased client inflows were highlighted as potential risks to some entities using legal channels for sanction evasion/avoidance. Accordingly, several mitigations were introduced – including heightened monitoring capabilities in the front and back offices, increased AML resources for sanctions screening, and enhanced due diligence for SWIFT transactions from or to Russia, with online transactions blocked by default.

Georgia continues to align its regulatory framework with that of the EU according to the Association Agreement signed in 2014. Further changes to the framework are expected which may impact the business and competitive landscape in the financial services industry overall. The Bank is engaged in discussions on regulatory changes with the NBB and other stakeholders, such as government bodies or banking and business associations, to assess and manage the impacts of these changes. The Committee is regularly updated on regulatory developments.

Emerging risk

The Company has continued to work on integrating climate-related risks and implementing the TCFD recommendations. The Committee reviewed and discussed environmental and social risks. For more details on climate action, please see pages 103 to 117 in the Sustainable Business section.

During the year, the Committee noted the impact of change management on the Company's risk management framework, and it was anticipated that the redesign of the organisational structure, in conjunction with the operational risk management framework as detailed below, would help address these concerns.

As part of the new organisational structure, credit risk has been split into three separate units, giving the Company a more in-depth understanding of each. ERM was redesigned and now has holistic oversight of credit risk.

Risk Committee report continued

Financial risks and our loan book

The Committee receives regular updates regarding the Company's financial risks and loan book, including profiles of the businesses with the most significant Group exposures; management's plans to manage exposures through initiatives including increasing local currency loans and de-dollarisation of the portfolio; analysis of retail borrowers' debt-bearing capacity; capital buffer change decomposition; and capital adequacy. Reports are discussed at scheduled meetings and, where necessary, during informal interim calls with management.

The Committee continues to monitor the credit risk exposure, sector and single-name concentration of the corporate loan book, as well as the foreign currency share of the retail loan book. It also reviews the stress testing results, including internally developed stress tests and the stress test using the criteria specified by the NBG.

During 2022, the Committee continued to monitor NPL levels and management actions to assure adequate NPL coverage. The share of NPLs was up 30 bps year-on-year driven by a one-off methodological change as the Group sought to align its internal NPL definitions more closely to IFRS Stage 3 definitions. As a result, the Group classified some Retail Stage 3 loans that had already been provisioned as NPLs. Consequently, the NPL coverage ratio decreased to 66.4% at 31 December 2022 versus 95.5% at 31 December 2021.

In March 2022, the Committee reviewed the impact of the PTI penalty issued by the NBG on the portfolio and noted the additional controls implemented to quickly detect any errors in automated process and to ensure model algorithms fully comply with the approved policies and procedures. Throughout the year, more specific focus was also made on our consumer loans portfolio to review scoring model calibrations and end-to-end risk management.

Operational risks

Jointly with the Audit Committee, the Risk Committee reviews the operational risk profile through a comprehensive risk heat map and a description of the top incidents and key risk scenarios. Compliance risk and financial crime risk, including internal and external fraud risk, remain areas of focus. The Audit and Risk Committees received a report considering fraud risks and the actions being undertaken to mitigate them.

The Committee considered the events that had caused business disruption, their root causes, mitigative actions and remediation plans. Furthermore,

the Committee continued to review monitoring metrics and agreed to include an additional metric for operational risk monitoring.

The Committee approved the redesign and implementation of a new operational risk management framework that aims to enhance the first line engagement in the processes and improve operational risk management governance. The Group has also established an Operational Risk Management Committee to further improve decision-making processes.

IT and information security risks

Strong IT infrastructure is key to ensuring the Bank is resilient and able to maintain necessary systems and processes. During the year the Audit and Risk Committees worked together to oversee the development of a risk-based information security approach, which included the implementation of a cyber risk management framework-policy and maintenance of a cyber risk register. A third-party security assessment of the Group's network for external vulnerabilities was undertaken.

In May 2022, a new metric was introduced to help monitor and track the number of unique individuals intensively attacking the Company.

The Company has established a cybersecurity risk management framework to align with risk methodology and compliance with the new Georgian laws on information security, and to develop appropriate cyber response plans. A key achievement during the year was the introduction of a vandal-protected backup storage system to ensure that neither external nor malicious internal threat actors can harm the core database backup in any technological way.

The Bank has also appointed a new DDoS mitigation service provider which has the capability to defend the Bank's infrastructure from larger DDoS attacks and keep services available. The Committee has seen positive progress of the cyber response plans with IT and other key stakeholders actively engaged.

Risk management

In 2022, the Committee considered a wide range of risks facing the Group, both principal and emerging, across all key areas of risk management. The Committee assisted the Board in setting the Group's Risk Appetite Statement and updating the Company's risk appetite metrics in response to our major strategic stakes and in consistency with our recovery planning framework.

During the year, the Committee continued to work closely with the Audit Committee to ensure the risk management framework and systems of internal controls operate effectively and in compliance with the Code and FRC guidance. This included the redefining of the Company's ERM scope and restructuring of the Risk Management function.

During the year, management reviewed the risk mitigation tools and control functions. Management reported to the Committee (and to the Audit Committee) on their assessment of the effectiveness of these controls.

The Committee completed a robust review of the principal risk disclosures and other relevant risk management disclosures, and provided recommendations to the Board on their inclusion in the Half-Year Report and this Annual Report.

Finally, the Committee reviewed the viability statement in conjunction with the Audit Committee and management. The viability statement can be found on page 83.

Committee effectiveness

As part of the wider Board and Committee effectiveness review, an internally facilitated evaluation of the Committee's effectiveness was undertaken during 2022. The results of the evaluation were discussed by the Committee in September 2022, and it was concluded that the Committee continued to function well, had the appropriate composition to fulfil its duties, and that its interaction with the Board was appropriate. The Committee agreed the practice of organising joint meetings of the Risk and Audit Committees continued to be a success and enhance effectiveness. The Committee highlighted the high quality of reporting to the Risk Committee and were pleased to welcome the new Chief Risk Officer, who has provided insight into the Group's evolving risk environment.

Overall, the results of the evaluation were positive and the Committee will continue to consider areas where it can improve in the future to the benefit of the Company. For more information on the evaluation of the Board and Committees see pages 177 and 178.

Focus for 2023

A key focus for the Committee during 2023 will be oversight of the implementation of the new organisation structure and operation risk management framework to ensure the Group's objectives are met.

The Committee has identified areas of improvement within the risk management framework, including the control environment for fraud risk management, and will work with management to ensure these are addressed during 2023.

The Committee will continue to monitor and review the risks and potential threats caused by the Russia-Ukraine war, particularly in relation to compliance and information security and fluctuations in interest and FX rates, as well as consideration for longer-term economic impacts.

As the NBG adopted IFRS 9 provisioning standards from January 2023, the Group will focus on running two IFRS 9 impairment methodologies in 2023, including the existing internal IFRS 9 methodology for external reporting and internal risk management, and NBG IFRS 9 for regulatory reporting purposes. After year one, the Group will assess the possibility of moving to a single methodology. The Committee will focus on the impact of IFRS 9 on capital requirements and internal triggers.

The Committee will pursue the good collaboration and links with the Audit Committee to maintain the broad and global view of the Bank risk management matters.

Directors' Remuneration report



Cecil Quillen

Chair of the Remuneration Committee

What is in this report?

This Directors' Remuneration Report is divided into two sections:

- The Annual Report on Remuneration (set out on pages 202 to 222), which includes the Annual Statement by the Chair of the Remuneration Committee, describes the implementation of Bank of Georgia Group PLC Directors' Remuneration Policy and discloses the amounts earned relating to the year ended 31 December 2022.
- A summary of the current Remuneration Policy (set out on pages 217 to 222), the full text of which can be found on our website at <https://bankofgeorgiagroup.com/governance/documents>.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. It has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

Dear Shareholders,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the 2022 financial year. I became Chair of the Remuneration Committee on 1 January 2023, having been a member of the Committee since February 2018. I would like to take this opportunity to thank my predecessor Hanna Loikkanen for all her work as Chair.

Our Directors' Remuneration Report is set alongside a background of strong growth momentum for the Group, excellent financial results and the digital transformation of the Bank. The Group's full year financial results were exceptional, with ROAE at 32.4%, cost to income at 32.0%, cost of risk ratio at 0.8% and PBT at GEL 1,244 million. Non-financial measures were also impressive, with NPS at 58.4, eNPS healthy at 52.9, and strong progress on the material ESG focus area of financial inclusion. The Group maintained a strong balance sheet and continued investments in building the business.

Shareholder engagement and response

The Directors' Remuneration Policy ('the Policy') was put to shareholders and approved at the 2022 Annual General

Meeting ('AGM'), in accordance with the mandatory three-year cycle. The Policy was also changed as required by the regulator as a result of the new National Bank of Georgia Code of Corporate Governance ('the NBG Code'), as set out in the 2021 Directors' Remuneration Report, available at <https://bankofgeorgiagroup.com/reports/annual>.

Ahead of determining the revised Policy, a number of major shareholders were consulted. As Chair, Hanna Loikkanen held individual video calls with large shareholders and spoke to proxy agencies, to discuss the impact of the NBG Code changes and solicit specific shareholder feedback.

The Committee considered feedback, including feedback from a major shareholder which led to the Committee implementing an extension of the total vesting and holding period of the discretionary deferred shares from six years to eight.

At the 2022 AGM, 68% of shareholders approved the Policy. The Remuneration Committee was pleased that the Policy was approved, but recognised that a meaningful proportion of shareholders did not support the resolution.

Since the AGM, the Committee, represented by Hanna Loikkanen and management representatives, has held discussions with a significant number of our major shareholders – in particular those who voted against the resolution. Following this recent outreach, which covered over 50% of our investor base, a significant majority of our largest investors remain overwhelmingly supportive of our Executive Director and the Group's strategic ambitions.

In addition, post-AGM discussions were held with wider stakeholders – including a proxy voting agency which recommended that shareholders vote against the Policy – to understand their concerns.

Shareholders recognised that our Policy appropriately aligns executive pay with performance, and highlighted the importance of the Committee's ongoing commitment to stretching performance targets and greater disclosure around variable pay. In light of the conversations with shareholders, the Committee is comfortable that the targets were stretching and that achievement against targets for discretionary is in line with shareholder expectations. Investors were also pleased that the pension of the Executive Director is completely aligned to the Georgian workforce.

Shareholders emphasised the need to remain competitive in the local and regional talent market, and expect the Remuneration Committee and the Board to take necessary measures to position the Group accordingly. In response to one investor's request for greater discussion in the Remuneration Report, where appropriate, with regard to the context of the regional recruitment market, we have expanded the "CEO's pay and comparators – peers" section later in this Report.

Following our consultation meetings, we were very pleased with the high quality of engagement. This confirmed that, with the new Policy approved by shareholders in June 2022, the focus of our shareholders and proxy agencies should now be on ensuring its continuing successful implementation.

We issued an update statement on the consultation on 16 December 2022, which can be found at <https://bankofgeorgiagroup.com/information/meetings>.

You can read more about the Remuneration Structure later in this Statement. As explained in last year's Directors' Remuneration Report, new NBG regulations required that we change the fixed number of salary shares and the fixed number of maximum opportunity discretionary deferred shares into dollar amounts which could then be translated in deferred shares. This also involved renegotiating the CEO's and Executives' contracts. In doing so we aimed for economic neutrality over the three-year period.

As part of the feedback process we noted stakeholders had questioned whether the share price assumptions used to estimate an equivalent amount in dollars for the three-year Policy were optimistic. In some cases, the stakeholder analysis was based on a spot price taken at a dip in the market after Russia's invasion of Ukraine.

As explained and illustrated in last year's Directors' Remuneration Report, GBP 17.00 (US\$ 23.46) was the reference price per share used by the Company – taking into account a more long-term analysis of the share price, both in terms of past and future expectations. As discussed with our major shareholders, this was then linked to an imputed 15% cost of equity in ensuring the economic neutrality of the new Policy.

In response to this, and as discussed with stakeholders in the consultation, we would like to note that, as at year end, this estimate has been proven to be conservative, rather than excessive.

The Executive Director Archil Gachechiladze receives less compensation under the new Policy that he would have under the old Policy.

- The US\$ 370,000 cash salary remained unchanged.
- Under the old Policy, Mr Gachechiladze would have also received 75,000 deferred salary shares. Under the new Policy, using the average share price of the five business days leading up to Christmas Day, he received 71,694 deferred salary shares at the beginning of 2023 – a reduction of 3,306 shares.
- Under the old Policy, the maximum opportunity for performance remuneration (100%) was 75,000 shares (plus US\$ 370,000 converted into shares), deferred over a six-year period. In accordance with the new Policy, the last closing share price at the date of the determination of the performance pay for work year 2022 was US\$ 33.22, and shares and maximum opportunity was 77,360 shares – rather than the 86,137 shares it would have been under the old Policy (75,000 shares, plus US\$ 370,000 converted into shares). This is a reduction of 8,777 shares.
- To translate this into the actual discretionary deferred share remuneration awarded in accordance for 2022, at 96.9% of maximum opportunity performance outcome he received 74,962 shares under the new Policy – versus the 83,467 he would have received under the old Policy. This is a reduction of 8,505 shares.

In addition to disclosing this important point, we have set out the actions we have taken to address shareholder concerns below:

- With the new Policy having been approved, we are committed to a period of stability in our approach to executive remuneration, and confirm our intention for our Policy to remain in effect for three years.
- Notwithstanding the recent global inflationary pressures, there will be no inflation-linked increases over the length of the contract, with no renegotiation or salary uplift in 2023 or 2024.
- We remain committed to performance-related pay and the alignment of long-term management and shareholder outcomes, which our shareholders have supported for many years.

- We will continue to focus on setting stretch performance targets and improving the transparency and quality of disclosure in the Directors' Remuneration Report, which shareholders recognised has improved significantly with recent years' inclusion of minimum and stretch targets and weightings.
- We will continue to engage regularly with shareholders and other stakeholders, and commit to ensuring we consult with major shareholders ahead of any further major regulatory change impacting our Remuneration Policy.

The Committee notes from the engagement exercise that shareholders and stakeholders are now focused on ensuring the continuing successful implementation of the Policy. The Committee would like to thank shareholders for their engagement. The Board, as always, continues to be available to shareholders on such matters.

We were pleased that the Remuneration Report was supported by shareholders at the 2022 AGM with 93% approval.

Remuneration Structure

The Committee continues to believe the Policy is in the best interests of the Group. It was approved by more than two-thirds of shareholders, is in line with the NBG's new regulatory requirements, and has very strong shareholder alignment.

The structure dictates that a high proportion of the salary, and all performance-related pay, is in deferred shares (no cash bonus). This creates strong medium- to long-term alignment with shareholders. Shares are allocated at the time of grant, rather than vesting, which ensures maximum alignment with shareholders. Performance-related deferred shares are subject to an extensive malus and clawback regime

As set out in more detail in last year's Directors' Remuneration Report, the key elements of the Policy are as follows:

- In accordance with the NBG's requirements, share salary is fixed in monetary value in the contract, which is translated into deferred shares. Vesting and holding periods are set out in the new Policy table and are over a total period of five years.
- In accordance with the NBG requirements, performance-based remuneration is capped at a maximum of 100% of salary (cash and share salary).

Directors' Remuneration report continued

- The vesting and holding periods for discretionary performance-based remuneration mean shares are released over a period of eight years from the beginning of the work year – an increase from the six-year period under the previous Policy.
- Malus provisions, which were already extensive, were expanded further for discretionary remuneration – including for material breach of applicable regulations, the Bank's internal policies, or significant increases in the Bank's regulatory capital requirements.
- Clawback applies for two years from the date of vesting, an increase from one year.
- Pension entitlements for Executive Directors and senior management remain in line with the Georgian workforce, at 0-2% contribution by the Bank with a further 0-2% contribution by the Georgian Government.
- Shareholding guidelines require Executive Directors to build and maintain a shareholding requirement equivalent to 200% of total salary, to be built up and maintained for two years post-employment. Given the high proportion of remuneration in deferred shares, and the length of deferral, Executive Directors who have been with the company more than a couple of years will naturally hold a higher amount than the shareholding guidelines at any particular time.
- No cash bonus and no LTIP.

Non-executive Directors' fees

The revised Policy did not propose any changes to the section on Non-executive Directors' fees. Fees have not been increased since the Company was listed in 2018, and further the Board has not proposed an increase in Directors' fees, despite inflation.

Further stakeholder considerations for the Remuneration Report

Feedback on the new level of disclosure for CEO KPIs (including the minimum, target and maximum, and their weightings) was very positive during 2021 and 2022, and we have ensured a similar level of disclosure for this year's KPIs.

Further to feedback in previous years, we have also retained a higher overall weighting for financial KPIs than for non-financial KPIs. In addition, following feedback from a major shareholder, we disclose the total shareholdings of top management in this report.

Given the importance of ESG matters to stakeholders, the CEO has KPIs and personal Key Business Objectives relating to material ESG matters. This year we have introduced metrics (with threshold, target and maximum levels) for financial inclusion. The Company identified financial inclusion as a key material ESG area given our position as a systemic bank in an emerging economy.

Further, ESG and the share price of companies is becoming increasingly correlated. The Committee notes that the majority of compensation delivered to executive management is in shares which are deferred for up to eight years. The incentive structure for senior management is inherently geared towards the medium- to long-term success of the Company and does not create ESG risks (or other material risks) by inadvertently motivating irresponsible behaviour, instead supporting behaviour with medium- to long-term positive impact on ESG matters.

The Group's purpose is helping people achieve more of their potential, and KPIs are chosen to reflect sustainable growth so the Company can support its customers. This is underpinned by a structure that defers remuneration, in shares, for up to eight years. The KPIs also reflect the Group's contribution to the UN Sustainable Development Goal's through the financial inclusion targets.

The Group's values, identified by the employee engagement exercise described in more detail on page 175 of the Director's Governance Statement, are motivation, support, creation and action, and courage. Our business principles, identified by a management team exercise based on the outcome of the employee engagement exercise, are teamwork, development, fairness, customer-centricity, operational excellence, and innovation. The CEO is held accountable for these values and principles by the Net Promoter Score (NPS) and Employee Net Promoter Score (eNPS) KPIs.

Workforce remuneration and engagement

Hanna Loikkanen is a member of the Remuneration Committee and designated Non-executive Director to engage with the workforce. She has facilitated quarterly informal discussions known as 'Employee Voice' to engage with the workforce. All Board members are invited to participate in these meetings, which aim to facilitate the exchange of opinions, ideas and views between the Board and the workforce and allow the workforce to raise matters (including remuneration). Further information on

the output from these meetings can be found in the Directors' Governance Statement on page 175.

The Committee considered and approved an overview of the employee bonuses for 2022. These are divided along business lines and comprise both cash bonuses and share bonuses.

Further to the substantial amendments in last year's workforce policies, this year the Committee considered further minor amendments to workforce remuneration policies for employees of the Bank. The main principles of the policy are competitiveness, flexibility and fairness.

The policies cover fixed and variable remuneration as well as benefits. Employees can be awarded deferred shares via the Employee Equity Compensation Plan on a discretionary basis. The alignment with the Group's values and its long-term sustainable success is enhanced by this scheme.

The Committee was updated on workforce remuneration and discussed gender pay gap data and analysis for front-office, back-office and IT positions. It supported the ongoing review of workforce remuneration to ensure incentives and salary bands are gender-neutral.

The Committee was pleased to oversee the changes in employee remuneration. Year on year, the average employee total bonus for 2022 increased 27.6%, the average cash salary increased 26.3%, and the average deferred share salary increased 28.9%.

2022 performance-based remuneration for Executive Director

2022 was a year of significant growth momentum for the Group, with strong financial results and the Bank's growing and more digitally customer base. Its market-leading digital channels and payment solutions, coupled with top-of-mind customer franchise¹ and a dedicated team with a strong, customer-centric culture, ensured it was well-positioned to benefit from economic growth. The Group reported strong financial results, culminating in excellent full-year performance with operating income before cost of risk (adjusted for one-off items) increasing 59.4% year-on-year, profit (adjusted for one-off items) increasing 55.7% to GEL 1,132 million, and full-year return on average equity standing at 32.4% (adjusted for one-off items). The Group maintained a strong balance sheet and continued investments in building the business.

1. Based on fall 2022 independent research by IPM Georgia.

The Committee considered the personal contribution of the CEO to the overall corporate performance. The Group achieved excellent results under his leadership and in part through his initiatives.

The CEO outperformed against most of the KPIs and was awarded 96.9% of his maximum opportunity, which was paid in deferred shares. This level of award is considered to be appropriate as it reflected his performance, all KPIs including financial metrics, strategic and ESG metrics, the experience of shareholders in terms of value creation (through the buybacks, dividends and the share price movement) and the wider experience of stakeholder experience of the company (including the increase to the employees' salaries and bonuses).

The Remuneration Committee noted that, in 2022, the Group continued to implement its capital distribution policy. Shareholders were pleased to receive a dividend in July following the 2022 AGM. An interim dividend of GEL 1.85 per share was paid in October 2022 and a new GEL 112.7 million buyback programme was implemented and completed from July to December 2022. A further tranche of the buyback programme, of up to GEL 148 million, was launched after the 2022 Full Year Preliminary Financial Results release. For full year 2022 the Board intends to recommend to shareholders at the AGM a final dividend of GEL 5.80 per share.

The Committee also took into consideration the employee experience, including the 26.3% and 28.9% increases for average employees cash and deferred salary respectively, and the average total bonuses of 27.6%, as set out above.

The Group monitored its material ESG metrics in respect of its key material area of financial inclusion, and Digital Monthly Active Users and Payment Monthly Active Users were included as measurable and material ESG KPIs.

You can read the KPI calculations and disclosures, and notes on each KPI, in the section entitled 'Basis for determining Mr Gachechiladze's discretionary deferred share remuneration in respect of 2022' later in this Report.

Cecil Quillen

Chair of the Remuneration Committee
23 March 2023

Annual Report on Remuneration

The Remuneration Committee and its advisors

The Remuneration Committee is principally responsible for establishing and implementing a Remuneration Policy that rewards fairly and responsibly and is designed to support the Company's strategy and promote its long-term sustainable success. The Committee takes into account pay and employment conditions elsewhere in the Group, and oversees any major changes in employee benefits structures throughout it. The Committee comprises five independent Non-executive Directors, with Cecil Quillen serving as Chair – having taken over from Hanna Loikkanen on 1 January 2023. Mr Quillen has been a member of the Committee since February 2018 and Ms Loikkanen continues as a Committee member. Neil Janin stepped down from the Board and as a member of the Committee on 10 March 2022, and from that date Mel Carvill was appointed to the Board and as a member of the Committee. Other members during 2022 were Al Breach and Tamaz Georgadze. Members' attendance is shown in the Board and Committee meetings attendance table on page 170.

Outside of formal meetings held during the year, the Committee also participated in various telephone discussions. Other attendees at Committee meetings who provided advice or assistance on remuneration matters from time to time included the CEO, other Board members, and the UK General Counsel. Attendees at Committee meetings do not participate in discussions or decisions related to their own remuneration, which helps avoid conflicts of interest.

The Committee may also consider outside guidelines. For example, it follows the Investment Association Principles of Remuneration, and the UK General Counsel attends events organised by accountancy firms, law firms, stock exchanges, investor bodies and similar organisations to keep the Committee up to date with developing market practice.

The Committee was not advised by remuneration consultants during 2022 or 2023 to date. The Committee received additional advice on compliance from Baker McKenzie LLP, the Group's legal advisors, and is of the view that this advice was objective and independent.

Shareholder context

The Directors' Remuneration Policy applicable to this section of the Annual Report on Remuneration was approved by shareholders at our AGM on 20 June 2022. The Policy received the following votes from shareholders:

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Policy	26,378,680	67.62	12,629,820	32.38	39,008,500	250

Below are the shareholder voting figures for the Directors' Remuneration Report 2021 (including the Annual Statement of the Chair of the Remuneration Committee), as presented at our 2022 AGM:

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Report	35,988,946	93.32	2,576,116	6.68	38,565,062	443,688

Directors' Remuneration report continued

How the Remuneration Committee addressed the factors in provision 40 of the UK Code

The Remuneration Committee pays close attention to the requirements of the UK Corporate Governance Code ('the Code') in determining the Policy and its structure. This includes the factors set out in provision 40 of the Code:

Principle	Approach
Clarity	The rationale is clear: the Executive Director and senior management are incentivised towards the medium- to long-term success of the Company. Targets for annual bonuses are aligned to the Group's strategic priorities. This provides clarity to shareholders and other stakeholders on the relationship between the successful delivery of the Group's strategy and remuneration paid.
Simplicity	The Policy is designed to retain simplicity while complying with all relevant regulatory requirements and meeting shareholder expectations. Remuneration elements include fixed pay (base salary comprising cash salary and deferred salary shares, pension and benefits) and variable pay (discretionary deferred shares and no cash bonus).
Risk	By its nature, having such a high proportion of the remuneration in shares deferred over several years, the structure drives the CEO and senior management to mitigate reputational and behavioural risks or short-termism in their actions and decisions, and avoids conflicts of interest. Changes to the Policy aim to further reduce risk-taking behaviour in line with the new NBG Code. The Policy also has minimum shareholding and post-employment shareholding requirements.
Predictability	The Policy describes the purpose, operation and maximum potential of each remuneration element and illustrates a range of potential outcomes for Executive Directors. Weighted KPIs and ranges for the targets of KPIs are used in the financial year's performance review.
Proportionality	Outcomes reward performance proportionately by reference to performance targets, although the Remuneration Committee retains its discretion to adjust the award as it considers appropriate. For further considerations on proportionality, see the 'CEO's pay and comparators – peers' section on page 211, which includes a list of possible peers. The CEO's performance-based remuneration is subject to extensive malus and clawback provisions.
Alignment to culture	A high proportion of remuneration paid in deferred shares rather than cash promotes alignment with the culture and long-term success of the Company. Further, the CEO's performance KPIs include: (i) Employee Net Promoter Score; and (ii) developing ESG (including new metrics on our key pillar of financial inclusion). See the Chair's Letter for further explanation of the alignment to the Group's purpose and values.

Single total figure of remuneration for the sole Executive Director (audited)

The table below sets out the remuneration earned by the Company's Executive Director, Archil Gachechiladze, in respect of his employment with the Company for the years ended 31 December 2022 and 31 December 2021.

Mr Gachechiladze's current service agreements provide for salary in the form of cash and deferred shares. In addition, he is eligible to receive discretionary deferred share remuneration up to a maximum of 100% of total salary. In accordance with the NBG regulatory requirements, the new Policy has applied since 1 January 2022 and includes the change in deferred share salary (both quantum and structure), and variable pay for work year 2022.

For 2022, 86.8% of Mr Gachechiladze's remuneration as set out in the table below is in the form of deferred shares. Deferred shares will vest in tranches, with vesting and holding periods of up to eight years from the start of the work year in accordance with the current Policy. The change in quantum and structure in deferred share salary and maximum variable pay was set out in the 2022 Policy and approved by shareholders.

The changes in share salary and discretionary remuneration from 2021 to 2022 are reflective of the change in Policy, including that the fixed number of shares for the share salary and maximum discretionary remuneration under the old Policy were changed to fixed dollar amounts under the new Policy which could then be translated into deferred shares as per the NBG regulations. Please see the above Annual Statement by the Chair of the Remuneration Committee on page 203 above for more details on how this conversion was carried out and the comparative levels of remuneration if the old Policy were still in place.

	Cash salary ¹ (US\$)	Deferred share salary ² (US\$)	Taxable benefits ³ (US\$)	Pension benefits ⁴ (US\$)	Dividend equivalents ⁵ (US\$)	Total fixed pay (US\$)	Discretionary deferred share remuneration ⁶ (US\$)	Total variable pay (US\$)	Single total figure (US\$)
2022	370,000	2,200,000	58,054	3,400	282,676	2,914,130	2,490,343	2,490,343	5,404,473
2021	370,000	1,686,000	3,141	3,287	32,575	2,095,003	1,791,927	1,791,927	3,886,930

Notes:

- Expressed in US Dollars but paid in British Pounds and Lari, as applicable, converted into the respective currency as at the date of payment. Accordingly, there may be variations in the numbers above and those provided in the accounts.
- Deferred share salary. The figures show the value of the underlying nil-cost options over BOGG shares granted in respect of the 2022 and 2021 work years. For 2022 under the new Policy approved by shareholders in June 2022, Mr Gachechiladze was awarded 106,034 BOGG shares, the number of shares were calculated by reference to US\$ 20.7481 which is the average share price of the five working days before 25 December 2021. For 2022 the shares vest on the first anniversary of the start of the work year but are subject to holding periods so that 40% is released on the second anniversary, and 20% is released on each of the third, fourth and fifth anniversaries, of the start of the work year, all subject to the terms of his service agreement. Share salary was 75,000 deferred shares per full year for 2021 under the previous Policy. The value attached to each BOGG share for 2021 was calculated at a US\$ 22.480 share price (based on the official share price of GBP 16.680 share closing price on 31 December 2021 converted into Dollars using an exchange rate of 1.3477, being the official exchange rate published by the Bank of England on the same date).
- Benefits. The figures show the gross taxable value of Mr Gachechiladze's health, life and personal accident insurance and tax equalisation payments.
- Pensions. The figures show the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme. Under the Group's defined contribution pension scheme, normal retirement age is 65. Mr Gachechiladze receives up to 2% employer contribution, in line with other Georgian employees.

5. Dividend equivalents. The figure shows the dividend value paid in respect of nil-cost options exercised in the relevant year.
6. Discretionary deferred share remuneration. The figures show the value of the underlying nil-cost options over BOGG shares granted in respect of bonus awards in the relevant year. For 2022 Mr Gachechiladze was awarded 74,962 BOGG shares. The number of shares were calculated by reference to the closing share price on 9 February 2023 (the working day before the meeting) which was US\$ 33.2214 (based on the official share price of GBP 27.30 per share converted into Dollars using an exchange rate of 1.2169, being the official exchange rate published by the Bank of England on the same date). For 2021, Mr Gachechiladze was awarded 90,970 BOGG shares. The value was calculated by reference to the closing share price on 31 January 2022 (the working day before the meeting at which the award was determined) which was US\$ 19.698 (based on the official share price of GBP 14.68 per share converted into Dollars using an exchange rate of 1.3418, being the official exchange rate published by the Bank of England on the same date). For 2022 the discretionary remuneration is deferred and any discretionary deferred shares will vest as follows: 40% vests immediately, and 15% will vest on each of the third, fourth, fifth and sixth anniversaries of the start of the work year; each tranche is subject to a further two-year holding period and so are released on the fifth, sixth, seventh and eighth anniversaries of the start of the work year. The awards are subject to the leaver provisions as described in the 2022 Policy available at <https://bankofgeorgiagroup.com/governance/documents>. The means of determining the number of shares underlying this remuneration and the terms and conditions are described in the 2022 Policy. The basis for determining Mr Gachechiladze's 2022 discretionary award is described on pages 207 to 209.
7. Mr Gachechiladze was reimbursed for reasonable business expenses, on provision of valid receipts in line with company policy.
8. No money or other assets are received or receivable by Mr Gachechiladze in respect of a period of more than one financial year. The Company does not operate an LTIP.
9. The number of shares awarded pursuant to the deferred share salary and discretionary deferred share remuneration is fixed on grant. No discretion has been exercised as a result of share price appreciation or depreciation. Discretionary deferred shares are subject to one-year targets which are satisfied pre-grant. No amounts were recovered or withheld in 2019, 2020, 2021 or 2022. The values reported at grant are not attributable to share price appreciation.

It is notable that the deferred share salary is released over a five-year period, and discretionary deferred share remuneration vests in tranches over a total vesting and holding period of eight years from the start of the work year, during which actual share prices will also vary.

The following table sets out details of total remuneration for the CEO, Mr Gachechiladze, for the period from 28 January 2019 (effective date of appointment) to 31 December 2022, and his discretionary compensation as a percentage of maximum opportunity.

Note that 2019 was not a complete year, that in 2020 part of his cash salary was voluntarily reduced, and that variations in share price affect the total figure of remuneration for 2019, 2020 and 2021 – these years used a share salary of 75,000 deferred shares for a complete year and a maximum discretionary opportunity of 75,000 deferred shares plus cash salary equivalent in deferred shares. The cash value of the maximum discretionary deferred remuneration varied according to the share price at the date of Remuneration Committee meetings.

	2019	2020	2021	2022
Single total figure of remuneration (US\$)	3,558,415 ¹	1,561,020	3,886,930	5,404,473⁴
Discretionary compensation as a percentage of maximum opportunity (%)	100%	0% ²	97.0% ³	96.9%

Notes:

1. 2019 was not a complete year as Mr Gachechiladze was appointed from 28 January 2019.
2. Mr Gachechiladze did not receive a bonus for the 2020 work year after the NBG informed the Remuneration Committee that, as the Bank had utilised the Pillar 2 or conservation buffers, no bonus should be granted – please see the Chair's Letter in the Directors' Remuneration Report of the Annual Report and Accounts 2021 for further information. For 2020, the approved discretionary deferred share award, which considered KPIs disclosed in the 2020 Directors' Remuneration Report and subsequently approved by shareholders, was 67% of maximum opportunity (but was not paid, as per the previous sentence). Mr Gachechiladze's 2020 cash salary (and that of senior management) was voluntarily reduced by 20% from 1 March 2020 to 31 December 2020, and the amount donated to charity by Mr Gachechiladze – half of the remaining cash salary for that period – has not been taken into account.
3. The increase in remuneration in 2021 compared to 2020 is attributable partly to the reinstatement of the normal cash salary as per note 2, partly to the bonus being paid, and partly to variations in share price. Share salary and bonus were calculated in accordance with the share price at the time; for each of 2019, 2020 and 2021, share salary would have been 75,000 shares for a complete year, and for 2022 was cash converted into deferred shares in accordance with the approved Policy and NBG requirements.
4. For 2022 share salary and bonus were calculated using a cash value converted into deferred shares in accordance with the amounts in and terms of the approved Policy and with NBG requirements.

Basis for determining Mr Gachechiladze's discretionary deferred share remuneration in respect of 2022

Mr Gachechiladze's KPIs included both financial and non-financial components. The financial elements largely track the Group's published KPIs as he is expected to deliver on the Group's key strategic priorities, while non-financial factors include developing Group culture and ESG performance.

The following table sets out the financial KPIs set for Mr Gachechiladze in respect of 2022, and his performance against them. The table below provides further explanation of each KPI.

The financial KPIs were selected to reflect medium-term financial metrics for our investors and the sustainable health of our business. The Remuneration Committee ensures targets set are relevant drivers of required annual performance. KPIs also take into account stakeholders of the Group and its culture, alongside non-financial strategic priorities, and were disclosed in last year's Annual Report.

To improve accountability, we have included two metrics within the Developing ESG KPI to help measure our key initiative of financial inclusion in Georgia: Digital Monthly Active Users and Payments Monthly Active Users.

Directors' Remuneration report continued

KPI with weighting % (Numbering refers to the notes below the table)	Threshold (25%)	Target (70%)	Max (100%)	Achievement	Weighted performance outcome (see corresponding notes below for further explanation)
Financial KPIs – 60%					
1. ROAE (15%) 20% is the medium- to long-term target, in line with strategy	16.0%	21.0%	24.0%	32.4% See note 1 below	15.0%
2. Cost to Income ratio (15%)	40.0%	39.0%	37.2%	32.0% See note 2 below	15.0%
3. COR (15%) Cost of credit risk ratio	1.8%	1.1%	0.9%	0.8% See note 3 below	15.0%
4. PBT (15%) Profit before tax	GEL 780mln	GEL 830mln	GEL 990mln	GEL 1,244mln See note 4 below	15.0%
Non-financial KPIs – 20%					
5. NPS (5%) Net Promoter Score	35.0	40.0	55.0	58.4 See note 5 below	5.0%
6. eNPS (5%) Employee Net Promoter Score	46.0	54.0	62.0	52.9 See note 6 below	3.2%
7. Developing ESG (10%) in line with the Group's championed SDGs, with financial inclusion metrics of • Digital MAU and • Payments MAU	900,000 900,000	1,000,000 1,000,000	1,050,000 1,050,000	1,121,434 1,039,834 See note 7 below	9.7%
Individual KPIs 20%					
8. Individual Key Business Objectives	Below	Met	Exceeded	95% See note 8 below	19%
Total					96.9%

Notes for each KPI in turn:

- Return on Average Equity (ROAE):** 32.4% achieved. ROAE is a long-standing metric of the Company and a key determinant of profitability for shareholders. Our communicated medium-term target remains 20%+. ROAE was adjusted for one-offs, ROAE reported was 41.4%. ROAE was 25.8% in 2021, 13.0% in 2020 and 26.1% in 2019. The Committee notes that the achievement of 32.4% represents an extraordinarily high result.
- Cost to Income ratio:** 32.0% achieved. Positive operating leverage delivered with great operational efficiencies achieved by the CEO in 2022. Cost to Income was adjusted for one-offs, Cost to Income reported was 26.8%. Cost to Income was 37.2% in 2021, 39.7% in 2020 and 37.8% in 2019.
- Cost of Credit Risk ratio (COR):** 0.8% achieved. COR allows the businesses to focus on areas of operation that will have the greatest long-term effects on its total risk management costs. Cost of credit risk ratio was 0.0% in 2021, 1.8% in 2020 and 0.9% in 2019.
- Profit before tax (PBT):** GEL 1,244 million achieved. PBT is an important measure of overall performance for any business. Profitability was outstanding in 2022, with GEL 1,244 million being the highest level ever achieved. PBT was adjusted for one-offs, PBT reported was GEL 1,635 million. PBT was GEL 802 million in 2021, GEL 316 million in 2020 and GEL 573 million in 2019.
- Net Promoter Score (NPS):** 58.4 achieved in the fourth quarter 2022. NPS is based on external research and is the key measure for measuring customer satisfaction. NPS surveys are conducted by external surveyors and are not only aimed at customers (which tends to give a higher score to companies) but by surveying the Georgian public at random. Mr Gachechiladze lead a focus on customer satisfaction: (i) engage with customers proactively and responding in real time; (ii) anticipate customer needs, wants and future behaviour; (iii) harness strong human relationships with data analytics for dynamic customer insights; and (iv) invest in technology to deliver customer experience. The Bank believes that satisfaction feeds customer loyalty, which in turn impacts the sustainable profitability and the long-term success of the Group. NPS was 55 in 2021, 46 in 2020 and 37 in 2019.
- Employee Net Promoter Score (eNPS):** 52.9 achieved. Employee NPS is calculated by the response to a confidential external survey of employees. It is based on the question, "On a scale of 0-10, how likely is it that you as an employee would recommend our Bank to a friend or a colleague as an employer?" Responses of 9 and 10 are counted as promoters; 7 and 8 are neutral; and 0-6 are detractors. eNPS is calculated as the percentage of promoters minus the percentage of detractors. eNPS was 61 in 2021, 58 in 2020 and 46 in 2019. This metric feeds into profitability of the Bank through higher retention rates and thus lower recruitment requirements. It also supports the Bank in the recruitment of the best talent, which is crucial in a small market like Georgia. To ensure employee engagement and open lines of communication, the CEO held town halls and periodic live sessions with employees, and maintained a CEO vlog on Workplace

7. **Developing ESG, in line with the Group's championed SDGs and market best practice, focusing on the two material ESG pillars for the Bank:** 1,121,434 Digital Monthly Active Users (MAU) and 1,039,834 Payments MAU. In 2021 the Group launched and completed a formal ESG materiality assessment process to gain a multi-stakeholder perspective on ESG issues. This was a combination of research, data analysis and internal and external stakeholder engagement, including interviews with investors and surveys. The Bank was able to identify 27 topics, which were then mapped by importance to stakeholders and to business, with 14 priority topics selected.

Following this, three pillars were identified for the Bank's most material ESG impact areas: employee engagement, sustainable financial inclusion, and education/financial education. Two new metrics have been identified in respect of financial inclusion: Digital MAU and Payments MAU. A monthly active digital user has logged in at least once within the past month to the mBank/iBank app, and a payment monthly active user has made at least one payment with their card (this method of calculation ensures dormant accounts are not included). Please see the Sustainable Business section on the importance of financial inclusion for individuals and businesses in our emerging economy, in particular pages 92 to 94.

Digital MAUs increased 31.5% year-on-year. Payments MAUs (also called monthly active card users in this Annual Report) increased 33.0% year-on-year.

8. **Individual Key Business Objectives:** 95% achieved. Mr Gachechiladze's leadership style, and vision and implementation of strategy in the face of significant regional difficulties, has been impressive during 2022. His drive for digitalisation means that the Bank's digital transformation has even been recognised externally with Bank of Georgia named World's Best Consumer Digital Bank 2022, becoming a winner in one of only four global award categories by Global Finance (in addition to other awards). In addition to the financial inclusion initiative covered by the KPI above, in 2022 on the initiative of Mr Gachechiladze the Bank progressed financial education and inclusion from a younger age. The Bank offers a free account and card for school students and the associated sCool Card has active lifestyle and education-related offers. The Bank launched an associated mobile app in 2022 – sCoolApp, which has had a great take up to date with 33,167 monthly active users by December 2022. The Bank also reached 2.1 million people with the financial literacy initiatives through media (1,200 written pieces), social network, TV channel visits and events. To further support the financial inclusion initiative, in 2022 the Bank launched subscription sets for mass retail customers, and a payments platform (online analogue of its self-service terminals, bogpay.ge), to make banking easier and more accessible. One of the biggest obstacles micro business and MSMEs face when they need access to finance is a lack of proper accounting. Great progress was made in 2022 to fulfil the needs of small businesses, resulting in a 26.2% year-on-year increase in monthly active MSME clients. The Bank has been fostering financial inclusion for MSMEs by the launch in 2022 of the Accounting Development Programme, with 145 MSMEs participating since its introduction in 2022. The new low cost brokerage platform also offers fractional trading capabilities for the first time in Georgia. Mr Gachechiladze has continued to strengthen the management team and has been actively promoting the necessity of creating a diverse leadership pool to help secure the growth of the business and succession plans, including in the promotion of women. Changes in leadership roles have been smooth and resulted in improved efficiency, results and adherence to corporate culture.

Investor confidence in the Company is strong. As at the date of the closing price before the Remuneration Committee meeting, the share price was US\$ 33.22. This is extraordinary, particularly given the high levels of uncertainty and volatility during the year in the region caused by the Russian-Ukraine war.

The Company distributed a full-year dividend in July 2022 and an interim dividend of GEL 1.85 per share in October 2022. The Board intends to recommend a final year dividend of GEL 5.80 per share for the full year 2022. Further in 2022 the Group carried out and completed a GEL 112.7 million buyback and cancellation programme, and this was extended by up to a further GEL 148 million in February 2022.

The Committee was pleased to note that the average employee bonus for 2022 increased by 27.6% year-on-year, the average cash salary increased by 26.3% and average employee deferred share salary by 28.9%.

The Committee considered the personal contribution of the CEO to the overall corporate performance. The Group achieved excellent results under his leadership and in part through his initiatives. The CEO outperformed against most of the KPIs and was awarded 96.9% of his maximum opportunity, which was paid in deferred shares. This level of award is considered to be appropriate as it reflected the experience of shareholders in terms of value creation (through the buybacks and dividends) and the wider experience of stakeholder experience of the company (including the increase to the employees' salaries and bonuses).

Alignment with shareholders is built into the structure by the award being entirely in deferred shares, which have a total vesting and holding period of eight years from the beginning of the work year. The discretionary deferred shares in relation to Mr Gachechiladze's 2022 performance-based remuneration are awarded in accordance with the Policy. There is no cash bonus and the Company does not operate an LTIP. The Remuneration Committee concluded that the level of deferred share award as calculated against the KPIs remained appropriate and did not exercise discretion. As the number of deferred discretionary shares to be awarded is determined in shares and fixed on the grant date, share price appreciation/depreciation did not impact the Remuneration Committee's decision to increase the number of shares to be awarded to Mr Gachechiladze for the 2022 financial year.

In accordance with the results of the KPIs as determined above, taking into account the above stakeholder matters and Mr Gachechiladze's outstanding performance despite the very challenging market environment, the Remuneration Committee awarded the CEO 96.9% of the maximum deferred share opportunity.

Directors' Remuneration report continued

Percentage change in remuneration of Directors and employees

The following table details the percentage change in the remuneration awarded to Directors, compared with the average percentage change in the per capita remuneration awarded to the Group's employees, in line with the requirements of the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019. Given the small number of employees employed by the Bank of Georgia Group PLC entity (fewer than five), we instead consider comparison against the Group. A comparison of full-time UK employees in compliance with the requirements of the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 is included below.

The 'Single total figure of remuneration' table on page 206 includes an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred remuneration of the Executive Director in their notes to the table.

Year-on-year change in pay for Directors compared to the Group's employees as a whole for FY2022											
	Average employee	Executive Director Archil Gachechiladze ³	Neil Janin ⁴	Mel Carvill ⁵	Hanna Loikkanen ⁶	Al Breach ⁷	Jonathan Muir	Tamaz Georgadze ⁸	Cecil Quillen	Véronique McCarroll ⁹	Mariam Meghvinetukhutsesi ¹⁰
Total cash salary	26.3%	0.0%	(77.0)%	100%	0.0%	0.0%	0.0%	(6.6)%	0.0%	7.9%	41.6%
Total deferred share salary ¹	28.9%	30.5%	–	–	–	–	–	–	–	–	–
Taxable benefits	14.1%	1748.3%	–	–	–	–	–	–	–	–	–
Total bonus ²	27.6%	39.0%	–	–	–	–	–	–	–	–	–

Year-on-year change in pay for Directors compared to the Group's employees as a whole for FY2021											
	Average employee	Executive Director Archil Gachechiladze ³	Neil Janin ⁴	Hanna Loikkanen ⁶	Al Breach ⁷	Jonathan Muir	Tamaz Georgadze ⁸	Cecil Quillen	Véronique McCarroll ⁹	Mariam Meghvinetukhutsesi ¹⁰	
Total cash salary	(5.7)%	20%	0.0%	2.7%	(3.4)%	0.0%	0.0%	0.0%	0.0%	–	
Total deferred share salary ¹	89.9%	35%	–	–	–	–	–	–	–	–	
Taxable benefits	1.9%	229.2%	–	–	–	–	–	–	–	–	
Total bonus ²	66.0%	NMF	–	–	–	–	–	–	–	–	

Year-on-year change in pay for Directors compared to the Group's employees as a whole for FY2020									
	Average employee	Executive Director Archil Gachechiladze ³	Neil Janin ⁴	Hanna Loikkanen ⁶	Al Breach ⁷	Jonathan Muir	Tamaz Georgadze ⁸	Cecil Quillen	Véronique McCarroll ⁹
Total cash salary	(2.8)%	(16.7)%	0.0%	6.5%	(1.8)%	(0.6)%	(0.6)%	(0.6)%	7.2%
Total deferred share salary ¹	(27.3)%	(22.4)%	–	–	–	–	–	–	–
Taxable benefits	(4.4)%	(42.8)%	–	–	–	–	–	–	–
Total bonus ²	(43.1)%	NMF	–	–	–	–	–	–	–

Notes:

- The share prices at 31 December 2019 (US\$ 21.466), 31 December 2020 (US\$ 16.652), 31 December 2021 (US\$ 22.480) and 31 December 2022 (US\$ 31.362) were used for the deferred shares salary comparison. Alternatively calculated using closing price at the date of the agreements, for FY2022 the y-o-y change was 57.8% for other employees and 59.3% for the CEO for the deferred salary shares element. The number of salary shares under the CEO's agreement remained constant at 75,000 shares per annum for 2019, 2020 and 2021 but in accordance with the 2022 Policy and NBS requirements is based on a cash value for 2022 onwards.
- Total bonus in each case is discretionary deferred share remuneration for Mr Gachechiladze, which was not granted for 2020 (hence NMF), and deferred discretionary share remuneration and/or any cash bonus in the case of other employees of the Group.
- Mr Gachechiladze's 2020 cash salary was voluntarily reduced by 20% from 1 March 2020 to 31 December 2020 (as was the cash salary of senior management). The amount was contributed to charity by Mr Gachechiladze – half of the remaining cash salary for that period – has not been taken into account. The increase in cash salary in 2021 compared to 2020 is therefore fully attributable to the reinstatement of the normal cash salary. Mr Gachechiladze was appointed on 28 January 2019 and therefore for the FY2020 table (which shows the changes from 2019) his 2019 remuneration was scaled up pro rata to a full year for comparison reasons. Mr Gachechiladze did not receive a bonus for FY2020 after the NBS informed the Remuneration Committee that, as the Bank had utilised the Pillar 2 or conservation buffers, no bonus should be granted – please see the Chair's Letter in the Directors' Remuneration Report of the Annual Report and Accounts 2021 for further information.
- Neil Janin stepped down from the PLC Board on 10 March 2022 and from the JSC Board on 31 March 2022.
- Mel Carvill was appointed to the PLC Board on 10 March 2022. JSC Bank of Georgia fees include those paid for Supervisory Board member services performed pending official approval from the NBS and technical registration, which was confirmed on 1 July 2022.
- Hanna Loikkanen was appointed to the Remuneration Committee on 20 September 2019, and as its Chair on 26 September 2020.
- Al Breach stepped down as Chair of the Remuneration Committee on 26 September 2020 but remained a member of the Committee.
- Tamaz Georgadze stepped down as Chair of the Risk Committee on 31 December 2021 but remained a member of the Risk Committee.
- Véronique McCarroll was appointed to the JSC Board on 11 February 2019. She was appointed as Chair of the Risk Committee on 1 January 2022.
- Mariam Meghvinetukhutsesi was appointed to the PLC Board, and as a member of the Risk Committee and the Nomination Committee, on 12 March 2021. She was appointed to the JSC Board, and as a member of its Risk Committee and Nomination Committee, on 6 May 2021.
- The Company has fewer than five UK (parent company) employees and the percentage changes could be considered distortive. Year-on-year changes for UK employees from 2019 to 2020 for cash salary was 1.8% and for bonus was 29.6%; year-on-year changes from 2020 to 2021 for cash salary was -4.0% and bonus was -2.9%; year-on-year changes from 2021 to 2022 for cash salary was 12.2% and bonus was -4.4%; deferred share salary and taxable benefits are not applicable for all years.

CEO's pay and comparators – peers

It is noted that the Group has fewer than 250 UK employees and is therefore not required to disclose ratios of the CEO's pay against UK pay – indeed, given it in fact has fewer than five UK employees, to do so would be distortionary. Instead, the Committee benchmarked the CEO's remuneration against FTSE 250 and FTSE small cap companies in financial services. Moreover, CEO pay was benchmarked against comparable peer financial services companies in emerging markets (in particular other former Soviet republics and South Africa), comparable listed companies in financial services in the UK, and all UK-listed companies based in Georgia: Halyk Savings Bank of Kazakhstan JSC; OTP Bank Nyrt; Moneta Money Bank a.s.; Erste Group Bank AG; FirstRand Ltd; Raiffeisen Bank International AG; Virgin Money UK PLC; One Savings Bank PLC; Close Brothers Group PLC; Nationwide Building Society; Georgia Capital PLC and TBC Bank Group PLC.

The delayed receipt of the majority of salary and of all performance-based remuneration (in deferred shares vesting and being released across several years) means that the time value of money and also the risk of salary and performance-based remuneration not vesting (due to malus but also to shares lapsing in the event of early termination under certain circumstances) were factored in.

The view of the Board and the Committee is that Company's CEO must fit a number of important criteria and that there are very few candidates globally who could satisfy these criteria. Our CEO must be of high overall calibre, with significant international training and experience, and in particular sufficient banking expertise effectively to run a systemically significant financial institution. The CEO must be able to communicate with and lead Georgian colleagues, interact effectively with Georgian regulators and play a role in the Company and in the larger national community which is commensurate with the Company's significant role in the Georgian economy. At the same time, the CEO must be an internationally credible investor-facing figure who can lead a premium-listed FTSE 250 constituent of the London Stock Exchange.

The relevant candidate pool for a role such as this is understandably significantly limited and the number of persons who could meet both these Georgian and international criteria is very small. Such persons are in very high demand and command generous compensation. We aim to achieve fair and competitive remuneration commensurate with the size, nature and complexity of the business and the roles, whilst ensuring compliance with institutional and regulatory policies.

The Committee carried out further research in early 2023, seeking to assess CEO compensation at comparable organisations, to the extent practicable, although relevant available information is limited and often non-public for many such organisations. We have also assessed relative compensation levels on the basis of approaches, over the past few years, to senior management talent from organisations in surrounding countries, where remuneration packages for financial roles can be more generous and significantly higher, for persons with relevant experience, than those which the Company provides.

Directors' Remuneration report continued

Further details of fixed and discretionary deferred share compensation granted during 2022 (audited)

The following table details nil-cost options over BOGG shares granted to Mr Gachechiladze in 2022.

	Deferred share salary	Discretionary deferred share remuneration
Number of underlying shares and basis on which award was made	106,034 granted for the 2022 work year on the basis of the 2022 Policy available at https://www.bankofgeorgiagroup.com/governance/documents	90,970 granted for the 2021 work year on the basis of the 2019 Policy available at https://bankofgeorgiagroup.com/reports/annual
Type of interest	Nil-cost option	Nil-cost option
Cost to Group	US\$ 2,200,000	US\$ 1,791,927
Face value	US\$ 2,200,000	US\$ 1,791,927
	Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable)	Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable)
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since it is part of salary set out in the service contract and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since it is based on 2021 performance (and is not an LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise. There has been no change in exercise price.	Nil. The options form part of the Executive Director's performance-based remuneration under the policy and so no payment is required upon exercise. There has been no change in exercise price.
Vesting period	100% of award vested in 2023 but is subject to holding periods so that 40% is released in 2024, and 20% is released in each of 2025, 2026 and 2027.	40% will vest in 2024, and 60% in 2025. Each tranche is subject to a further two-year holding period.
Performance measures	None. See the 2022 Policy available at https://www.bankofgeorgiagroup.com/governance/documents	See the 2019 Policy available at https://www.bankofgeorgiagroup.com/governance/documents

Notes: Figures calculated as described in note 2 of the 'Single total figure of remuneration' for the Executive Director.

Single total figure of remuneration for Non-executive Directors (audited)

The table below sets out the remuneration received by each Non-executive Director in 2021 and 2022.

	Bank of Georgia Group PLC fees (US\$)		JSC Bank of Georgia fees (US\$)		Total fees (US\$) ^a	
	2021	2022	2021	2022	2021	2022
Mel Carvill ¹	–	83,934	–	157,735	–	241,669
Neil Janin ²	103,587	19,582	210,313	52,578	313,900	72,160
Alasdair Breach	53,405	53,405	96,391	96,391	149,796	149,796
Tamaz Georgadze ³	55,502	53,405	104,964	96,391	160,466	149,796
Hanna Loikkanen	71,582	71,582	129,022	129,022	200,604	200,604
Véronique McCarroll ⁴	46,835	48,932	87,631	96,204	134,466	145,136
Mariam Meghvinetukhutsesi ⁵	37,693	46,835	57,243	87,631	94,935	134,466
Jonathan Muir	53,405	53,405	96,391	96,391	149,796	149,796
Cecil Quillen	56,471	56,471	100,479	100,479	156,950	156,950
Total	478,480	487,551	882,434	912,822	1,360,914	1,400,373

Notes:

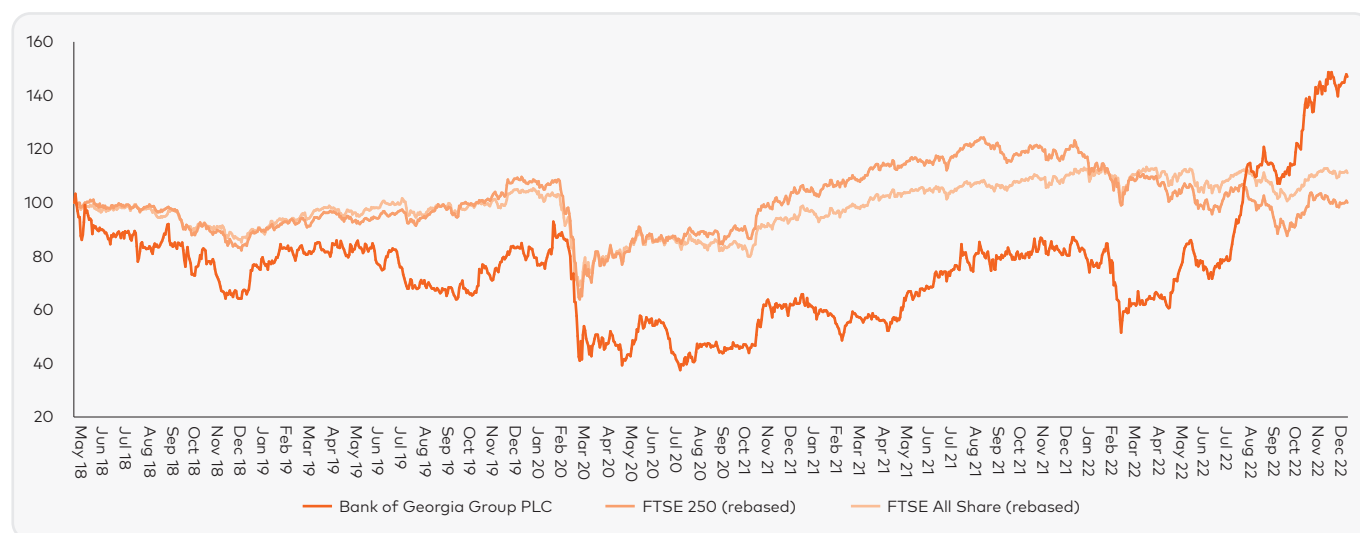
- Mel Carvill was appointed to the PLC Board on 10 March 2022. JSC Bank of Georgia fees include fees paid for Supervisory Board member services performed pending official approval from the NBS and technical registration, which was confirmed on 1 July 2022.
- Neil Janin stepped down from the PLC Board on 10 March 2022 and from the JSC Board on 31 March 2022.
- Tamaz Georgadze stepped down as Chair of the Risk Committee on 31 December 2021 but remained a member of the Committee.
- Véronique McCarroll was appointed as Chair of the Risk Committee on 1 January 2022, having previously been a member.
- Mariam Meghvinetukhutsesi was appointed to the PLC Board, and as a member of the Risk Committee and the Nomination Committee, on 12 March 2021. She was appointed to the JSC Board, and as a member of its Risk Committee and Nomination Committee, on 6 May 2021.
- The maximum amount for Non-executive base fees, including the Chairman, as provided for in BOGG PLC's Articles of Association, is GBP 750,000. This does not affect JSC fees. The Non-executive Directors do not receive any taxable benefits, pension benefits or variable remuneration.

Payments to former Directors and payments for loss of office

No payments were made to former Directors or in respect of loss of office during the year ended 31 December 2022.

Total Shareholder Return ('TSR')

We note that, given the demerger and the creation of two separate businesses with separate listed shares in May 2018, it is not possible to compare a five-year TSR against other companies. The following graph compares the TSR of Bank of Georgia Group PLC with the companies comprising the FTSE 250 index and the FTSE All Share index, for the period since BOGG's listing on the Premium segment of the LSE on 21 May 2018 until 31 December 2022.



Relative importance of spend on pay

The following table shows the difference in remuneration paid to all employees of the Group between 2021 and 2022, as well as the difference in value of distribution paid to shareholders by way of dividends and buybacks between 2021 and 2022.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends and buybacks
Year ended 31 December 2022 (US\$)	131,910,967	106,060,435
Year ended 31 December 2021 (US\$)	94,125,942	22,303,501
Percentage change	40.1%	375.5%

Notes:

1. Difference in remuneration paid to all employees of the Group were for reasons including salary and bonus increases, growth in number of employees and growth due to GEL appreciation against the US Dollar.
2. The Company did not make any other significant distributions in 2021 and 2022. The 2021 amount was distributed in dividends alone. In July 2022 the Group commenced its buyback programme in line with its capital allocation framework, with US\$ 38,460,983 of the 2022 figures for buybacks and cancellation and US\$ 67,400,181 for dividends.

Directors' Remuneration report continued

Directors' interests in shares (audited)

The following table sets out the respective holdings of the Company's shares of each Director as at 31 December 2022 and 2021.

	As at 31 December 2021				As at 31 December 2022			
	Number of BOGG shares held directly	Number of vested but unexercised BOGG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised held under option BOGG shares through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BOGG shares	Number of BOGG shares held directly	Number of vested but unexercised BOGG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised held under option BOGG shares through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BOGG shares
Mel Carvill ¹	–	N/A	N/A	–	–	N/A	N/A	–
Archil Gachechiladze ²	153,839	N/A	288,395	442,234	209,225	N/A	414,753	623,978
Alasdair Breach ³	30,000	N/A	N/A	30,000	30,000	N/A	N/A	30,000
Tamaz Georgadze	5,000	N/A	N/A	5,000	5,000	N/A	N/A	5,000
Hanna Loikkanen	–	N/A	N/A	–	–	N/A	N/A	–
Véronique McCarroll	–	N/A	N/A	–	–	N/A	N/A	–
Mariam Megvinet-Ukhutsesi ⁴	3,102	N/A	N/A	3,102	4,102	N/A	N/A	4,102
Jonathan Muir	–	N/A	N/A	–	–	N/A	N/A	–
Cecil Quillen	2,900	N/A	N/A	2,900	2,900	N/A	N/A	2,900

Notes:

1. Mel Carvill was appointed as a Director of the Board on 10 March 2022. On 13 May 2022, MDB Ltd, a PCA of Mel Carvill, acquired 19,018 BOGG shares.
2. On 24 March 2022, Mr Gachechiladze exercised options in respect of 70,646 Bank of Georgia Group PLC shares, of which 15,260 were withheld to satisfy tax liabilities. The net gain of these options was US\$1,113,601. On 31 May 2022, Mr Gachechiladze received 90,970 nil-cost options over ordinary shares in respect of discretionary deferred shares for the 2021 work year and, on 8 September 2022, Mr Gachechiladze received 106,034 nil-cost options over ordinary shares in respect of deferred salary shares for the 2022 work year. On 3 January 2023, Mr Gachechiladze received 71,694 nil-cost options over ordinary shares in respect of deferred salary shares for the 2023 work year. On 24 February 2023, Mr Gachechiladze exercised options in respect of 106,688 shares, of which 23,045 were withheld to satisfy tax liabilities. As at the last practicable date of 17 March 2023, Mr Gachechiladze's total number of share interests is 672,627.
3. At 2022 year-end, Gemsstock Fund, which Mr Breach manages, held 1,373,779 beneficial holdings in ordinary shares or economic interests in financial instruments with a similar economic effect. This is not included in the table.
4. On 7 March 2022, Mariam Megvinetukhutsesi acquired 1,000 shares.

As at 31 December 2022, Mr Gachechiladze's total vested and unvested and direct shareholding was 623,978 shares, representing approximately 1.3% of the share capital of BOGG. Mr Gachechiladze's connected persons do not have any interests in the shares of the Company.

The Policy is heavily weighted towards remuneration in deferred salary shares and discretionary compensation in deferred shares. The Policy and the long vesting periods, even for salary shares, naturally results in the Executive Director and our senior management team holding a significant number of unvested shares and achieves a delay between performance and vesting. This is reinforced further by formal guidelines on shareholding and on post-employment shareholding in the Policy (200% of total salary to be built up within five years). Further, Mr. Gachechiladze is expressly contractually bound to build up and to hold this level for two years post-employment. As at 31 December 2022, Mr Gachechiladze met the shareholding requirement.

There are no shareholding requirements for Non-executive Directors, and they are not awarded incentive shares. Changes in shareholding for PLC Directors between 31 December 2022 and the last practicable date of 17 March 2023 are as shown in the notes to the table above.

Executives' interests in shares

In response to a shareholder feedback requests to show our top senior executives' level of total shareholding, to demonstrate their level of alignment with shareholders, below we disclose the shareholdings of our top executives as at 31 December 2022 (unvested shares vest in tranches over several years):

	Total vested and unvested and direct shareholding in number of shares
Archil Gachechiladze	623,978
Sulkhan Gvalia	243,521
Zurab Kokosadze	76,667
Nutsa Gogilashvili	20,174
Levan Kulijanishvili	202,104
Mikheil Gomarteli	375,276
Andro Ratiani	4,587
Eter Iremadze	76,734
Zurab Masurashvili	21,271
Levan Gomshiashvili	8,807
Ana Kostava	21,719
David Chkonia	50,721
David Davitashvili	42,466
Levan Kobakhidze	8,122
Elene Okromchekhlshvili	5,900

Details of Non-executive Directors' terms of appointment

The Company has entered into letters of appointment with each Non-executive Director. The letters of appointment require them to provide one month's notice prior to termination and, for the majority of current Non-executive Directors (Hanna Loikkanen, Al Breach, Tamaz Georgadze, Jonathan Muir and Cecil Quillen) are effective from 24 February 2018 – with Véronique McCarroll's letter of appointment being effective from 1 October 2018, Mariam Megvinetukhutsesi's from 12 March 2021 and Mel Carvill's from 10 March 2022. Each Non-executive Director is put forward for election at each AGM following his or her appointment. Continuation of a Non-executive Director's employment is conditional on his or her continued satisfactory performance and re-election by shareholders at each AGM.

A succession plan adopted by the Board provides for a tenure of six years on the Bank of Georgia Group PLC Board. Upon the expiry of such a tenure, the Board will consider if the appointment of the relevant Non-executive Director will cease at the next AGM. If the Board determines that, in order to maintain the balance of appropriate skills and experience it requires, it is important to retain a Non-executive Director beyond the relevant six-year period, the Board may offer the Non-executive Director a letter of appointment for an additional one-year term. Such a 'reappointment' may be renewed no more than twice, and the usual six-year tenure extended to a maximum of nine years, if circumstances were to warrant such extension.

Remuneration Committee effectiveness review

An external review was undertaken in 2020 by Farman and Partners, as documented in the 2020 Annual Report and Accounts, and an internal review was undertaken in 2021, as documented in the 2021 Annual Report and Accounts. In 2022 the Committee undertook an internal review, supported by the Company Secretary. The Committee concluded that it operated effectively, while Committee members acknowledged the ongoing challenge with stakeholder communication. They also acknowledged that Hanna Loikkanen in particular had worked diligently to balance all stakeholder demands, given the significant changes occurring around remuneration – including those required by the NBG. The Committee intends to undertake an external review in 2023.

Directors' Remuneration report continued

Implementation of Remuneration Policy for 2023

Details of how the current Policy will be implemented for the 2023 financial year are set out below. There will be no significant change in the way the 2022 Policy will be implemented in 2023, and no deviations from the procedure for the implementation of the 2022 Policy as set out in the Policy.

For Archil Gachechiladze:

Fixed pay

Total cash salary (combined BOGG and Bank)	US\$ 370,000
Total deferred share salary (combined BOGG and Bank)	US\$ 2,200,000 in deferred shares
Pension	The Executive Director and the Company each contribute 0-2% and the Georgian Government contributes between 0-2% of total remuneration from the Bank, all in line with Georgian legislation and with the pension arrangements for the Georgian workforce.
Benefits	Details of the benefits received by Executive Directors are on page 219.

There are circumstances in which unvested deferred shares may lapse, and very limited circumstances in which such shares may vest immediately (i.e. when an Executive Director's employment is terminated without cause) and these are summarised in the Policy.

Discretionary deferred share remuneration

Opportunity	Maximum is 100% of total salary (total cash salary and total deferred share salary as explained in the table and notes to the Policy) in deferred shares.
Deferral terms	<p>The Remuneration Committee will determine whether an award is merited, based on an Executive Director's achievement of the KPIs set for the work year and the performance of the Group during the work year. Assuming the new Policy is approved by shareholders, if Mr Gachechiladze is awarded discretionary deferred shares, 40% will vest immediately and 15% will vest on each of the third, fourth, fifth and sixth anniversaries of the start of the work year. Each tranche will be subject to a further holding period of two years. This decision will be set out in the 2023 Director's Remuneration Report.</p> <p>Upon vesting, Mr Gachechiladze will receive (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the date the award was made and the vesting date.</p>
Performance measures	<p>The Remuneration Committee has set Mr Gachechiladze's KPIs for 2023:</p> <ol style="list-style-type: none">1. Return on Average Equity (ROAE)2. Cost to income ratio3. Cost of risk ratio4. Profit before tax (PBT)5. NPS6. eNPS7. Developing ESG, in line with material areas of focus8. Individual Key Business Objectives.

See the Policy available at <https://www.bankofgeorgiagroup.com/governance/documents>, for details of malus and clawback, and of provisions lapse of shares in the event of termination of the contracts (natural malus).

For Non-executive Directors:

The table below shows the fee structure for Non-executive Directors for 2023. Non-executive Directors' fees are determined by the Board. There will be no significant change in the way the 2022 Policy will be implemented in 2023, and no deviations from the procedure for the implementation of the 2022 Policy as set out in the Policy.

Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee	<p>The fee for the Board is competitive enough to attract and retain individuals.</p> <p>The Chairman receives a fee that reflects the extra time committed and responsibility.</p> <p>The Senior Independent Non-executive Director receives a higher base fee, which reflects the extra time and responsibility.</p>	Cash payment on a quarterly basis.	<p>The amount of remuneration may be reviewed from time to time by the Board.</p> <p>Fees may also be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review. In such circumstances, any significant increase shall be the minimum reasonably required.</p> <p>The maximum aggregate BOGG PLC fees for all Non-executive Directors which may be paid by the PLC itself is GBP 750,000, which is consistent with the PLC's Articles of Association.</p>
Cash fee for each Committee membership	Additional fee to compensate for additional time spent discharging Committee duties.	Cash payment on a quarterly basis.	<p>The amount of remuneration for the membership may be reviewed from time to time by the Board.</p> <p>The Chairman does not receive Committee fees.</p>

Summary of Directors' Remuneration Policy

The Remuneration Policy was approved at the AGM on 16 June 2022. To comply with NBG requirements, as disclosed in the 2021 Annual Report, the amendments to the Policy are deemed effective as of 1 January 2022. It is intended that approval of the Remuneration Policy will be sought at three-year intervals, unless amendments to the Policy are required, in which case further shareholder approval will be sought. No changes are proposed for 2023. The full policy is available at <https://www.bankofgeorgiagroup.com/governance/documents>.

The tables in this section provide a summary of the Directors' Remuneration Policy.

Remuneration Policy table for Executive Directors

Cash salary	<p>Purpose and link to strategy</p> <p>To reflect the role and required duties, skills, experience and individual contribution to the Group, and to encourage commitment to the Group and recruit and retain high-calibre talent.</p> <p>Operation</p> <p>Fixed in the Executive Director's service agreements. The level of cash salary is reviewed when a service agreement is up for renewal or if there is a significant change in circumstances, and the Executive Director and Remuneration Committee agree to consequent changes to their agreements.</p>	<p>Opportunity</p> <p>The level of cash salary in Executive Directors' service agreements will be no more than the Remuneration Committee considers reasonable, based on his or her duties, skills and experience.</p> <p>The total amount payable to the current CEO and sole Executive Director, Mr Gachechiladze, is US\$ 370,000 per annum.</p> <p>Performance measures</p> <p>N/A</p>
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Directors' Remuneration report continued

Deferred share salary	<p>Purpose and link to strategy</p> <p>To closely align the Executive Directors' and shareholders' interests, and to promote long-term value creation and share price growth.</p> <p>Operation</p> <p>Awarded annually in the form of nil-cost options in respect of the work year, and released over five years from the start of the year in which the salary is earned, as follows: 100% of the deferred share salary vests on the first anniversary of the start of the work year and is subject to holding periods so that 40% is released on the second anniversary, and 20% is released on each of the third, fourth and fifth anniversaries of the start of the relevant work year. Upon vesting, the Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.</p> <p>Lapse provisions (natural malus) for an incomplete year are built into the deferred share salary. Extended malus and clawback provisions do not apply to the deferred share salary as the awards attach to salary already earned.</p>	<p>Opportunity</p> <p>The value of deferred share salary for Mr Gachechiladze is fixed at the equivalent of US\$ 2,200,000 per annum, to be awarded in deferred shares. The number of shares shall normally be calculated using the average price of the shares over the five working days prior to 25 December of the year immediately preceding the year of award.</p> <p>Performance measures</p> <p>N/A</p>
Discretionary deferred shares	<p>Purpose and link to strategy</p> <p>In the context of overall Group performance, to motivate and reward an Executive Director in relation to his or her contribution to the achievement of the KPIs set for him or her by the Remuneration Committee towards the beginning of the year.</p> <p>Performance-based remuneration is solely in the form of deferred shares (no cash), designed to closely align the interests of an Executive Director with shareholders, avoid inappropriate risk-taking for short-term gain, and encourage long-term commitment to the Group.</p> <p>Operation</p> <p>The Remuneration Committee will determine annually the number of shares to be awarded, based on the Executive Director's achievement of his or her KPIs set for the work year and the performance of the Group during that year. Awards are made annually entirely in the form of nil-cost options over shares based on performance against the targets. There is no contractual right to discretionary deferred shares and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory.</p> <p>Discretionary deferred shares will vest as follows: 40% vests immediately, and 15% will vest on each of the third, fourth, fifth and sixth anniversaries of the start of the work year. Each tranche will be subject to a further holding period of two years (effectively, discretionary deferred shares are released over eight years from the beginning of the work year).</p> <p>Upon vesting, the Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.</p> <p>Extended malus and clawback applies as per the notes to the Policy table approved at the 2022 AGM.</p>	<p>Opportunity</p> <p>The maximum discretionary deferred shares that may be awarded in respect of the previous work year is capped at 100% of total salary (which includes cash and deferred share salaries), as set out in the notes to the Policy table approved at the 2022 AGM.</p> <p>Performance measures</p> <p>KPIs for the Executive Director are set near the start of each work year and reflect the Executive Director's targeted contribution to the Group's overall key strategic and financial objectives for the work year. KPIs may also include non-tangible factors such as self-development, mentoring and social responsibility.</p>

Pension	<p>Purpose and link to strategy</p> <p>The Group complies with pension requirements set by the Georgian Government.</p> <p>Operation</p> <p>Pension provision will be in line with Georgian pension legislation, which may change from time to time. There is no provision for the recovery or withholding of pension payments.</p>	<p>Opportunity</p> <p>In line with current Georgian legislation, the Executive Director and the Bank each contribute 0-2% of total remuneration from the Bank, and the Georgian Government may contribute a further small amount (0-2% depending on income levels). Pension contributions will only increase above this level if mandated by Georgian legislation or if mandated by any other applicable legislation.</p> <p>The same arrangement applies to employees across the Group in Georgia.</p> <p>Performance measures</p> <p>N/A</p>
Benefits	<p>Purpose and link to strategy</p> <p>Non-cash benefits are in line with Georgian market practice and designed to be sufficient to attract and retain high-calibre talent.</p> <p>Operation</p> <p>Benefits consist of: life insurance; health insurance; incapacity/disability insurance; directors' and officers' liability insurance; physical examinations; tax gross-ups and tax equalisation payments; company car and driver; mobile phone costs; personal security arrangements (if requested by the Executive Director); assistance with completing tax returns (where required); relocation costs for Executive Director; and close family and legal costs.</p> <p>Other benefits may be provided from time to time if considered reasonable and appropriate.</p>	<p>Opportunity</p> <p>There is no prescribed maximum on the value of benefits payable to an Executive Director. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Executive Director is based.</p> <p>Performance measures</p> <p>N/A</p>
Shareholding guidelines	<p>Purpose and link to strategy</p> <p>To ensure Executive Directors build and hold a significant shareholding in the Group over the long term, and to align Executive Directors' interests with those of shareholders.</p> <p>To ensure departing Executive Directors make long-term decisions and maintain an interest in the ongoing success of the Group, post-employment.</p> <p>Operation</p> <p>Executive Directors are required to build and then maintain a shareholding with 200% equivalent of total salary (which includes cash and deferred share salaries), with such amount to be built up within a five-year period from appointment as an Executive Director. All beneficially owned shares, as well as unvested (net of tax) and vested deferred share salary and discretionary deferred shares, count towards the Required Shareholding (as such, awards are not subject to any performance conditions after grant).</p> <p>Executive Directors are to retain the lower of the Required Shareholding or the Executive Director's actual shareholding at the time employment ceases, for a period of two years from the date on which employment ceases, unless the Remuneration Committee determines otherwise. It is noted that a good leaver may hold substantially higher than this in unvested shares alone.</p> <p>In very exceptional circumstances, for example in the event of a serious conflict of interest, the Remuneration Committee has the discretion to vary or waive the Required Shareholding, but must explain any exercise of its discretion in the Group's next Remuneration Report. It should be emphasised that there is no present intention to use this discretion.</p>	<p>Opportunity</p> <p>N/A</p> <p>Performance measures</p> <p>N/A</p>

Directors' Remuneration report continued

Malus and clawback, and shareholding guidelines

Discretionary deferred shares are subject to malus and clawback for Executive Directors in the following circumstances:

- misconduct in the performance or substantial failure to perform duties by the Executive, or material breach of applicable regulations and/or the Bank's internal policies;
- significant financial losses, serious failure of risk management or serious damage to the reputation of BOGG or the Bank caused by misconduct or gross negligence (including inaction) of the Executive;
- material misstatement or material errors in the financial statements that relate to the area of responsibility of the Executive or can be attributed to action or inaction of the Executive's performance of their duties;
- deliberately misleading BOGG or the Bank in relation to financial performance;
- failure to continue to meet the fitness and propriety criteria for an Executive of the Bank;
- material increase with respect to the required regulatory capital of the Bank that can be attributed to the action or inaction of the Executive;
- misconduct that contributed to the imposition of material regulatory or other similar sanctions;
- payments based on erroneous or misleading data, for which malus and clawback apply to discretionary deferred remuneration awarded for the year in question; and
- significant increases in the Bank's regulatory capital requirements (for clawback to apply such failures/problems are to have been caused by or attributable to the actions or inactions of the Executive).

The Remuneration Committee has the right to withhold the release of already-awarded discretionary deferred share remuneration if mandated by the needs of preservation of the Bank's regulatory capital.

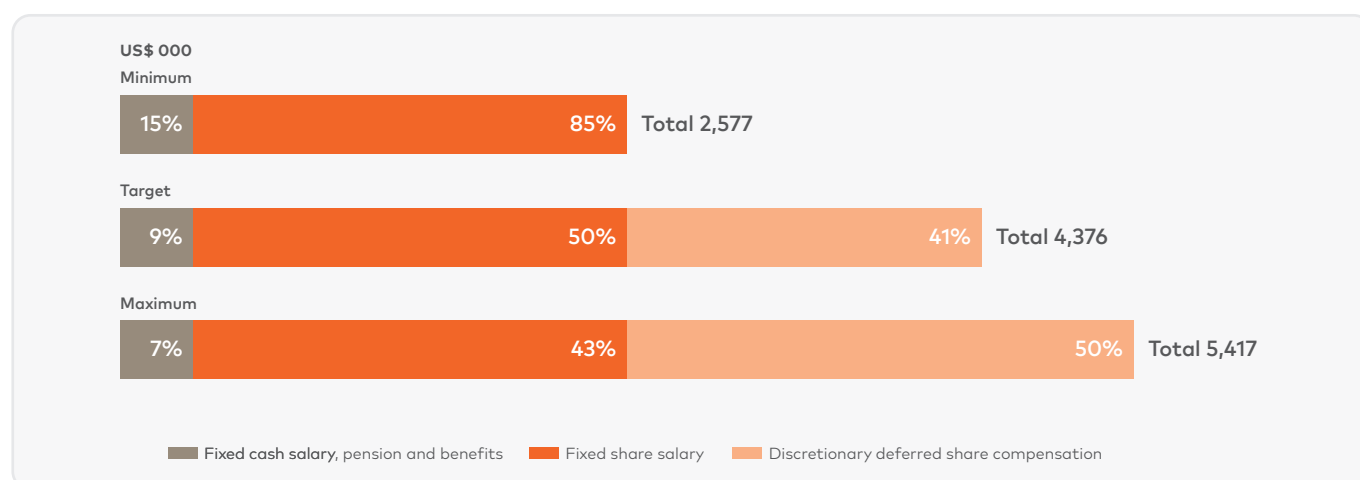
The above provisions form part of Mr Gachechiladze's service contract. The Group has also amended the Executive Equity Compensation plan to allow shares to be lapsed, including to zero, or clawed back in accordance with the provisions in the Executive Director's contracts.

Clawback is for up to two years from vesting and, for Mr Gachechiladze, the Group also has unusually strong malus provisions where unvested discretionary deferred shares lapse when the service contract is terminated under certain circumstances, including for 'Cause' such as gross misconduct, failure to perform duties, material breach of obligations and/or unethical behaviour. This may be several years worth of discretionary deferred shares.

The shareholding guidelines, to build and then maintain a shareholding with a 200% equivalent of total salary and then to maintain such for two years post-employment, are set as express provisions in Mr Gachechiladze's contract.

Illustration of application of Remuneration Policy

The chart below shows an estimate of the remuneration that could be received by Mr Gachechiladze, our sole Executive Director and CEO, in respect of 2022 under the Policy at three different performance levels. The chart represents a full year's remuneration for illustration purposes.



The Group voluntarily discloses that there is no effect on share growth or decline in the value of awards at the time of award because they are calculated using a fixed cash value as required by per the new NBG regulations.

(For long-term incentive awards which have performance targets or measures relating to more than one financial year, disclosure of the value of the award in the event of a 50% share price appreciation is required by the Companies (Miscellaneous Reporting) Regulations 2018. However, the Group is not subject to such disclosure requirements as performance measures for the discretionary deferred share award are limited to one year. Such disclosure is also not required for salary compensation in the form of shares.)

Notes:

1. Salary is comprised of cash and deferred salary shares. Mr Gachechiladze's total cash salary in 2022 in respect of his service agreement with the Group would be US\$ 370,000. The value of the deferred share salary is US\$ 2,200,000, and for 2022 it will vest in January 2023, with 40% released from holding in January 2024, and 20% released in each of January 2025, January 2026 and January 2027.
2. The means of determining the number of shares underlying the discretionary deferred share remuneration and terms and conditions applicable to this remuneration are described in the Policy table. Discretionary deferred shares in respect of 2022 will be formally granted in 2023 and 40% will vest immediately but is subject to a two-year holding period and so released in January 2023. 15% will vest in each of January 2025, January 2026, January 2027 and January 2028, subject to a further two-year holding period and so released in January 2027, January 2028, January 2029 and January 2030.
3. Minimum opportunity reflects a scenario where Mr Gachechiladze receives only fixed remuneration of salary (cash and deferred share salary), pension contributions and benefits, and where the Remuneration Committee considers the performance of the Group and/or Mr Gachechiladze in 2022 does not warrant any award of discretionary deferred shares.
4. On-target opportunity reflects a scenario where Mr Gachechiladze receives fixed remuneration (as described in note 3 above) and discretionary deferred shares with a value of US\$ 1,799,000, being 70% of the maximum opportunity (as described in note 5 below). In this scenario, the Remuneration Committee considers the performance of the Group and Mr Gachechiladze in 2022 is in line with the Group's expectations.
5. Maximum opportunity reflects a scenario where Mr Gachechiladze receives fixed remuneration and discretionary deferred shares with a value of US\$ 2,570,000 being 100% of total salary (i.e. cash and deferred share salaries). In this scenario, the Remuneration Committee considers the performance of the Group and Mr Gachechiladze in 2022 warrants the highest possible level of discretionary deferred share remuneration.

Remuneration Policy table for the Non-executive Directors

Chairman's and Non-executive Directors' fees	Purpose and link to strategy	Opportunity
	<p>To attract and retain high-performing Non-executive Directors with the requisite skills, knowledge, experience, independence and other attributes to add value to the Group.</p> <p>To reflect the responsibilities and time commitment dedicated by Non-executive Directors.</p>	<p>The maximum aggregate BOGG PLC fees for all Non-executive Directors which may be paid for PLC fees under the PLC's Articles of Association is GBP 750,000. A specific maximum has not been set for the individual base cash fee.</p> <p>The Senior Independent Non-executive Director receives a higher base fee, which reflects the extra time commitment and responsibility.</p> <p>The Chairman receives a fee that reflects the extra time commitment and responsibility. The Chairman does not receive Committee fees.</p>
	<p>Operation</p> <p>All fees are paid in cash on a quarterly basis. Fees may be reviewed from time to time by the Board (but not necessarily changed), considering the time commitment, responsibilities and technical skills required to make a valuable contribution to the Board – with reference to comparators, benchmarking, results of the annual review and other guidance. Fees may also be amended and varied if there are genuinely unforeseen and exceptional circumstances necessitating such review and, in such circumstances, any significant increase shall be the minimum reasonably required. The Board reserves the right to structure Non-executive Directors' fee differently at its absolute discretion.</p> <p>Non-executive Directors receive a base fee. Additional Committee fees are payable to compensate for time spent discharging Bank and Committee duties.</p> <p>There is no remuneration in the form of deferred share salary or discretionary deferred shares, pension contributions, benefits or any variable or performance-linked remuneration or incentives.</p> <p>Non-executive Directors are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.</p>	<p>Performance measures</p> <p>N/A</p>

Directors' Remuneration report continued

Service agreements

At the date of this Annual Report, Mr Gachechiladze is the sole Executive Director of the Company. Mr Gachechiladze has a service agreement with an effective date of 28 January 2019 with BOGG for an indefinite term (subject to annual re-election at the AGM), which is terminable by either party on four months' notice unless for cause where notice served by BOGG shall have immediate effect.

Mr Gachechiladze also has a service agreement with JSC Bank of Georgia with an effective date of 1 January 2022 (as per the NBG Code requirements, signed 22 June 2022 after the new Policy had been approved at AGM) for an employment term of three years from the effective date, which is terminable by the Company with immediate effect and by the Executive Director on not less than four months' notice.

Non-executive Directors' letters of appointment

Each Non-executive Director is required to submit himself or herself for annual re-election at the AGM. The letters of appointment for Non-executive Directors provide for a one-month notice period, although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-executive Director has committed any serious breach or non-observance of his or her obligations to the Group, is guilty of fraud or dishonesty, brings the Company or him/herself into disrepute, or is disqualified as acting as a Non-executive Director, among other circumstances. Upon termination, the only remuneration a Non-executive Director is entitled to is accrued fees as at the date of termination, together with reimbursement of properly incurred expenses incurred prior to the termination date.

The service agreements and letters of appointment are available for inspection at the Company's registered office.

Signed on behalf of the Remuneration Committee and the Board of Directors

Cecil Quillen

Chair of the Remuneration Committee

23 March 2023

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and consolidated and separate financial statements in accordance with applicable law and regulations.

Company law requires us to prepare financial statements for each financial year. As required, we have prepared the accompanying consolidated and separate statements in accordance with UK-adopted international accounting standards (IFRSs).

Directors cannot approve the consolidated and separate financial statements contained within this Annual Report unless they are satisfied that they are a true and fair reflection of the state of affairs of Bank of Georgia Group PLC (the 'Company') and the Group as a whole, and of the profit or loss of the Company and the Group for that period.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, Group financial statements are required to be prepared in accordance with UK-adopted international accounting standards (IFRS).

In preparing the accompanying consolidated and separate financial statements, Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

Directors are also responsible for keeping adequate accounting records that sufficiently show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable us to ensure that the consolidated and separate financial statements comply with the Companies Act 2006. The Directors are responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that each comply with that law and those regulations. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are also responsible for the maintenance and integrity of the Company's website.

Each of the Directors, whose names and functions are listed in Board of Directors on pages 179 to 181 confirm that, to the best of their knowledge:

- the consolidated and separate financial statements, prepared in accordance with UK-adopted international accounting standards (IFRSs), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole; and
- the Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

The Directors consider the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and give shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Board

Mel Carvill
Chairman
23 March 2023

Archil Gachechiladze
CEO
23 March 2023

Directors' report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2022.

Strategic report

The Strategic Report on pages 4 to 167 was approved by the Board of Directors on 23 March 2023 and signed on its behalf by Archil Gachechiladze, Chief Executive Officer.

Management report

This Directors' Report, together with the Strategic Report on pages 4 to 167, forms the Management Report for the basis of The Disclosure Guidance and Transparency Rules 4.1.5 R.

Information contained elsewhere in the Annual Report

Information required to be included in this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Location in Annual Report
Future Developments, including Research and Development activities	pages 4 to 167
Going Concern Statement	page 83
Viability Statement	page 83
Risk Management	pages 56 to 61
Principal Risks and Uncertainties	pages 62 to 81
Directors' Governance Statement	pages 169 to 178
The Board of Directors	pages 179 to 181
Nomination Committee Report	pages 186 to 191
Audit Committee Report	pages 192 to 197
Risk Committee Report	pages 198 to 201
Related Party Disclosures	Note 32 on page 341
Details of Long-Term Incentive Schemes	pages 202 to 215
Climate-related Financial Disclosures	pages 103 to 117
Greenhouse Gas Emissions	pages 113 to 116
Energy Consumption	pages 101 to 102
Energy Efficient Action	pages 101 to 117
Employee Matters, including Employee Engagement	pages 122 to 134 and Nomination Committee Report pages 186 to 191
Environmental Matters	pages 84 to 148
Share Capital	Note 22 on page 307
Engagement with suppliers, customers and others in a business relationship with the Company	pages 149 to 153
Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, foreign currency risk and financial instruments	Note 29 on pages 315 to 332

Information to be disclosed in accordance with the Listing Rule 9.8.4R

The following information required to be disclosed in accordance with Listing Rule 9.8.4R is not applicable unless stated otherwise:

- the amount of interest capitalised during the period under review and details of any related tax relief;
- information in relation to the publication of unaudited financial information;
- any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Group;
- details of any non-pre-emptive issues of equity for cash by the Group;
- any non-pre-emptive issues of equity for cash by the Group or by any unlisted major subsidiary undertaking;
- parent participation in a placing by a listed subsidiary;
- any contract of significance in which a Director of Bank of Georgia Group PLC is or was materially interested; and
- any waiver of dividends by a shareholder.

Articles of Association

The Articles of Association of Bank of Georgia Group PLC may only be amended by a special resolution at a general meeting of the shareholders. The process for the appointment and removal of Directors is included in the Company's Articles of Association, available at:

<https://www.bankofgeorgiagroup.com/governance/documents>.

Share capital and rights attaching to the shares

Details of the movements in share capital during the year are provided in Note 22 to the consolidated financial statements on page 307 of this Annual Report.

As at 31 December 2022, there was a single class of 47,498,982 ordinary shares of one pence each in issue, each with one vote. As of 17 March 2023, there was a single class of 47,498,982 ordinary shares, of which 276,449 ordinary shares were held in treasury pending cancellation. The rights and obligations attaching to the Company's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and the Company's Articles of Association, to:

- have shareholder documents made available to them, including notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

Under the terms of a demerger agreement between the Company and Georgia Capital PLC, the latter has agreed that for so long as its percentage holding in the Company (directly or indirectly) is greater than 9.9% of the voting rights exercisable at the Company's general meetings, these voting rights will be exercised in general meetings of the Company in accordance with votes cast by all other shareholders. This agreement was put in place to ensure Georgia Capital PLC will not be able to influence the voting outcomes of the Company's shareholder resolutions at general meetings. Votes will be made in accordance with the following mechanism:

- on a resolution proposed to a general meeting, all shareholders of the Company (other than JSC Georgia Capital and its concert parties) will be entitled to vote at their discretion on a poll vote (each an 'Initial Vote'); and
- following the closing of the Initial Vote(s), the poll will reopen as soon as possible for the sole purpose of enabling the shares held by JSC Georgia Capital (or its concert parties) to be voted in each case proportionally (calculated to two decimal places) in accordance with the votes cast on each resolution on an Initial Vote (the 'Proportional Voting Mechanism').

As the latest practicable date before annual report released of 17 March 2023 the "Effective Rule 9 Threshold" (as defined in the Company's 2018 listing prospectus and in summary being the level of holding of the Company's shares carrying voting rights above which a mandatory offer would be triggered under Rule 9 of the Takeover Code once the shares held by Georgia Capital are removed from the denominator) is 9,544,849 shares representing 20.21% of the Company's issued share capital. The latest Effective Rule 9 Threshold is available on the FAQ section of our website.

There are no other restrictions on exercising voting rights, except in situations where the Company is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to the Company).

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

The Company is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting, and subject to and in accordance with section 701 of the Companies Act 2006. Authority was given by special resolution at the AGM of the Company on 20 June 2022 for the Group to purchase up to 4,916,943 shares (approximately 10%) of the Group's shares. This authority will expire at the conclusion of the Company's AGM in 2023 or, if earlier, the close of business on 20 July 2023. A renewal of the authority to make market purchases will be sought from shareholders at each AGM of the Company. Purchases of ordinary shares will be made within guidelines established from time to time by the Board. Any purchase of ordinary shares would be made only out of the available cash resources of the Company. Ordinary shares purchased by the Company may be held in treasury or cancelled.

During 2022, Apex Group Fiduciary Services Limited, acting as a trustee of the BOG Group Employee Trust, purchased 319,231 ordinary shares, with a nominal value of one pence per share, representing 0.672080% of the issued share capital as at 31 December 2022. Apex Group Services Limited, acting as a trustee of the Rubicon Executive Equity Compensation Trust, purchased 675,953 ordinary shares, with a nominal value of one pence per share, representing 1.423% of the issued share capital as at 31 December 2022. The trusts hold the shares for the purpose of satisfying awards to be awarded to beneficiaries.

At the 2022 AGM, the Directors were given the power to (a) allot shares up to a maximum nominal amount of GBP 163,898.09, representing approximately one third of the Company's issued share capital as at 25 April 2022; and (b) to allot equity securities up to an aggregate nominal amount of GBP 163,898.09, in connection with an offer by way of a rights issue: (i) to holders of shares in proportion (as close as practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or

Directors' report continued

legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2023 AGM (or, if earlier, at the close of business on 20 September 2023) and approval will be sought at that meeting to renew a similar authority for a further year.

None of the ordinary shares carry any special rights regarding control of the Company.

There are no restrictions on transfers of shares other than:

- certain restrictions which may from time to time be imposed by law or regulations such as those relating to insider dealing or pursuant to the Company's Inside Information Disclosure Policy;
- pursuant to the Company's Securities Dealing Policy and Code, whereby the Directors and designated employees require approval to deal in the Company's shares or cannot deal at certain times; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

Results and dividends

The Group made a profit before taxation and one-offs of GEL 1,243.55 million for the year ended 31 December 2022. The Group's profit after taxation for the year was GEL 1,444.00 million.

The Company may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by the Company's Directors. The Directors may also pay such interim dividends as appear to be justified by the profits of the Group available for distribution. As Bank of Georgia Group PLC is a holding company, the Group relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividends to its shareholders.

On 16 August 2022 the Group announced that the Board declared an interim dividend of GEL 1.85 per ordinary share in respect of the period ended 30 June 2022, payable to ordinary shareholders of the Group on 20 October 2022. The Board of Directors approved a GEL 72.7 million share buyback in June 2022, extended to a total of GEL 112.7 million which concluded in December 2022. This was consistent with the Group's capital and distribution policy, announced in September 2021, to target a dividend/share buyback payout ratio in the range

of 30-50% of annual profits. The Board believed this to be in the best interests of the Company and its shareholders.

The Board of Directors intend to recommend a final dividend in respect of the year ended 31 December 2022 of GEL 5.80 per ordinary share. On 16 February 2023, the Board approved an increase of up to GEL 148 million in its share buyback and cancellation programme commencing on 16 February 2023.

Equity Settled Option Plan (ESOP)

The Group operates two employee benefit trusts ('EBT') – one for Executive Management, and the other for employees below the executive level (the 'ESOPs') – which hold ordinary shares on-trust for the benefit of employees and former employees of the Group, and their dependents, and which are used in conjunction with the Group's employee share schemes. Whilst ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares may be exercised by the trustees of the EBT.

In accordance with ESOP documentation, Apex Group Fiduciary Services Limited has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by the Company. The Company has committed that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the premium segment of the LSE will not exceed 10% of Bank of Georgia Group PLC's ordinary share capital over any ten-year period.

Powers of Directors

The Directors may exercise all powers of the Company subject to applicable legislation and regulations and the Company's Articles of Association.

Conflicts of interest

In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2022. The Company's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of their duty under Company Law.

Directors' remuneration

Directors' fees are determined by the Remuneration Committee from time to time. The remuneration of Directors must be in accordance with the Directors' Remuneration Policy, which was last approved by shareholders in 2022. The fees paid to the Non-executive Directors in 2022 pursuant to their letters of appointment

are shown on page 212. The fees paid to our sole Executive Director for the period 1 January 2022 to 31 December 2022 pursuant to his service agreements are shown on page 206.

Directors' interests

The Directors' beneficial interests in ordinary shares of Bank of Georgia Group PLC as at 31 December 2022 are shown on page 214, together with any changes in those interests between the financial year-end and the date on which this Directors' Report was approved by the Board.

Company Secretary

The Board appointed Computershare Governance Services to act as Company Secretary to Bank of Georgia Group PLC on 25 November 2022, taking over from Link Company Matters Limited. Computershare is a global company delivering governance solutions to listed and private companies through professional expertise and innovative technologies.

Re-election of Directors

In line with the Code's recommendations, all Directors seek re-election every year and accordingly, all Directors who wish to continue on the Board will stand for election or re-election in 2023. The Board will set out in its AGM Notice the qualifications of each Director and support for re-election as applicable.

Annual General Meeting

The AGM Notice is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the AGM, where there is an opportunity to ask the Chairman and the Chairs of the Board committees questions. Shareholders are also invited to submit questions ahead of the AGM by email and responses are provided ahead of the proxy voting deadline where practicable.

As recommended by the Code, all resolutions proposed at the 2023 AGM will be voted on separately and the voting results will be announced to the LSE and made available on the Company's website as soon as practicable after the meeting. These will include all votes cast for and against and those withheld, and all proxies lodged prior to the meeting.

For further Shareholder Information on shareholder and stakeholder engagement see pages 149 to 153.

Directors' responsibilities

Statements explaining the responsibilities of the Directors for preparing the Annual Report and consolidated and separate financial statements can be found on page 223 of this Annual Report.

A further statement is provided confirming that the Board considers the Annual Report, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Indemnity

Subject to applicable legislation, every current and former Director or other officer of the Company (other than any person engaged by the Company as auditor) shall be indemnified by Bank of Georgia Group PLC against (broadly) any liability in relation to Bank of Georgia Group PLC, other than (broadly) any liability to the Company or a member of the Group, or any criminal or regulatory fine. In addition, the Company has put in place Directors' and Officers' indemnity insurance.

Significant agreements

Bank of Georgia Group PLC is not party to any significant agreements that take effect, alter or terminate upon a change of control of the Company. The Company

is not aware of any agreements between holders of its ordinary shares that may result in restrictions on the transfer of its ordinary shares or on voting rights.

Presence outside of Georgia

We have our registered office in London (see page 350), and additional offices in Budapest, Istanbul and Tel Aviv, as well as the BNB Bank in Belarus.

Political donations

The Group did not make any political donations or expenditure during 2022. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2023 AGM.

Code of Conduct and Ethics

The Board has adopted a Code of Conduct and Ethics relating to the lawful and ethical conduct of the Business, supported by the Group's core values. The Code of Conduct and Ethics has been communicated to all Directors and employees, all of whom are expected to observe high standards

of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Our Code of Conduct and Ethics is available on our website: <https://www.bankofgeorgiagroup.com/governance/documents>.

Independent auditors

The NBG granted an extension of two years in respect of the mandatory audit rotation to allow Ernst & Young LLP ('EY') to continue as auditor of Bank of Georgia Group PLC for the 2023 audit. A resolution to reappoint EY as auditor of Bank of Georgia Group PLC will be put to shareholders at the 2023 AGM.

Major interests in shares

As at 31 December 2022, the following interests in the ordinary share capital of the Company have been notified to the Directors under DTR 5:

Shareholder	Number of voting rights	% of voting rights
JSC Georgia Capital ¹	9,784,716	20.60%
M&G Investment Management Ltd	1,947,590	4.10%
Dimensional Fund Advisors (DFA) LP	1,741,806	3.67%
Vanguard Group Inc	1,518,347	3.20%
Fidelity Investments	1,498,734	3.16%

Source: Georgeson, Computershare

Notes:

- JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group Shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.

For the period 1 January 2023 up to and including 17 March 2023 (the latest practicable date for inclusion in this report), there have been no further notifications pursuant to DTR 5.

It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. The respective regulatory filings by shareholders are available on the Company's website: <https://bankofgeorgiagroup.com/news/regulatory> and the LSE website: <https://www.londonstockexchange.com>.

Post balance sheet events

The Board approved an increase of up to GEL 148 million in its share buyback and cancellation programme commencing on 16 February 2023. In accordance with the authority granted by shareholders

at the 2022 AGM, the maximum number of shares that may be repurchased is 4,916,943. As at 17 March, the company has bought back 276,449 ordinary shares pending cancellation.

Statement of disclosure of information to the auditor

We confirm that, so far as we are aware, there is no relevant audit information of which the Company's auditor is unaware, and we have taken all steps that we reasonably believe should be taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the Company's statutory auditor is aware of such information

The Directors' Report on pages 224 to 227 was approved by the Board of Directors on 23 March 2023 and signed on its behalf:

By order of the Board

Computershare Company Secretarial Services Limited
Company Secretary
23 March 2023

FINANCIAL STATEMENTS

Independent Auditor's report

To the Members of Bank of Georgia Group PLC

Opinion

In our opinion:

- Bank of Georgia Group Plc's (the 'Group') group financial statements and Bank of Georgia Group Plc (the 'Parent Company' or 'Company') financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bank of Georgia Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise:

Group

- Consolidated statement of financial position as at 31 December 2022
- Consolidated income statement for the year then ended
- Consolidated statement of comprehensive income for the year then ended
- Consolidated statement of changes in equity for the year then ended
- Consolidated statement of cash flows for the year then ended
- Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies
- Information marked as 'audited' within the Directors' Remuneration Report

Parent company

- Statement of financial position as at 31 December 2022
- Statement of changes in equity for the year then ended
- Statement of cash flows for the year then ended
- Related notes 1 to 34 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the 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 Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

Independent Auditor's report continued

To the Members of Bank of Georgia Group PLC

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of management's key assumptions made in the Group's forecasts. In assessing the reasonableness of management's assumptions, we have considered the principal risks and uncertainties facing the Group including the potential longer-term impacts of the ongoing conflict between Russia and Ukraine, as well as appropriate mitigating factors.
- Assessing the level of liquidity available to the Group to support its ongoing needs and projected compliance with capital requirements and external debt covenants for a period of 12 months from the date of authorisation of the financial statements.
- Evaluating the reasonableness of management's adverse forecast scenarios and associated stress testing, and their impact on the Group's liquidity and capital positions and compliance with external debt covenants.
- Obtaining the reverse stress test performed by management and assessing the plausibility of management actions available to mitigate the impact of the reverse stress test.
- Assessing the adequacy of the going concern disclosures provided within the financial statements by evaluating whether they were consistent with management's assessment and in compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none">• We performed an audit of the complete financial information of three components and audit procedures on specific balances for a further three components.• The components where we performed full or specific audit procedures accounted for 98% of adjusted profit before tax and non-recurring items, 97% of Revenue and 98% of Total assets.
Key audit matters	<ul style="list-style-type: none">• Allowance for Expected Credit Loss• Measurement of fair value of investment properties, assets held for sale and foreclosed assets
Materiality	<ul style="list-style-type: none">• Overall Group materiality of GEL 62m which represents 5% of adjusted profit before tax from continuing operations, calculated by adjusting for non-underlying items.

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment, and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the twenty-two reporting components of the Group, we selected six components covering entities within the United Kingdom, Georgia and Belarus, which represent the principal business units within the Group.

Of the six components selected, we performed an audit of the complete financial information of three components ('full scope components') which were selected based on their size or risk characteristics. For the remaining three components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The components for which we performed full or specific scope procedures are set out below:

Component	Scope	Location/team
Bank of Georgia Group Plc	Full	London/primary team
BGEO Group Limited	Full	London/primary team
JSC Bank of Georgia	Full	Georgia/primary team
JSC BGEO Group	Specific	Georgia/primary team
Georgian Leasing Company LLC	Specific	Georgia/component team
JSC Belaruskly Narodny Bank	Specific	Belarus/component team

The reporting components where we performed audit procedures accounted for 98% (2021: 98%) of the Group's adjusted profit before tax and non-recurring items, 97% (2021: 98%) of the Group's Revenue and 98% (2021: 99%) of the Group's Total assets. For the current year, the full scope components contributed 87% (2021: 91%) of the Group's adjusted profit before tax and non-recurring items, 93% (2021: 92%) of the Group's Revenue and 92% (2021: 93%) of the Group's Total assets. The specific scope component contributed 11% (2021: 7%) of the Group's adjusted profit before tax and non-recurring items, 4% (2021: 6%) of the Group's Revenue and 6% (2021: 6%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining sixteen components that together represent 2% of the Group's adjusted profit before tax and non-recurring items, none are individually greater than 0.07% of the Group's adjusted profit before tax and non-recurring items. For these components, we performed other procedures, including analytical review and testing of consolidation journal entries and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work we performed:

	2022				2021			
	No.	Revenue	Profit ³	Total assets	No.	Revenue	Profit ³	Total assets
Full scope ¹	3	93%	87%	92%	3	92%	91%	93%
Specific scope ²	3	4%	11%	6%	3	6%	7%	6%
Full and specific scope coverage	6	97%	98%	98%	6	98%	98%	99%
Remaining components ⁴	16	3%	2%	2%	16	2%	2%	1%
Total reporting components	22	100%	100%	100%	22	100%	100%	100%

1. We audited the complete financial information.

2. We audited specific account balances within these components. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.

3. Relative absolute adjusted Profit from continuing operations before non-recurring items and tax.

4. We performed other procedures, including analytical review, and testing of consolidation journal entries and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements on remaining component entities.

Independent Auditor's report continued

To the Members of Bank of Georgia Group PLC

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms and another firm operating under our instruction. Of the three full scope components, audit procedures were performed on all three of these directly by the primary audit team. For the three specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits component teams and holds a meeting with both the component team and client. During the current year's audit cycle, a visit was undertaken by the primary audit team to the component teams in Georgia. This visit involved oversight of work undertaken at this location, discussion of the audit approach and any issues arising from their work, meeting with local management, and reviewing relevant audit working papers on key risk areas. In addition to site visits, the primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process.

The programme of our visit to a component team located in Belarus was impacted by travel restrictions due to the war in Ukraine. For this location, oversight of the work was performed remotely through video conference calls and through detailed review of component team audit work.

This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has determined that climate-related risk is an emerging risk as described on page 61 of the Risk Management section of the Annual Report. This is explained on pages 103 to 117 in the required Task Force for Climate related Financial Disclosures and on page 81 in the Principal risks and uncertainties section. Management also explained their climate commitments on pages 110 to 117. All of these disclosures form part of the 'Other information', rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on 'Other information'.

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in the 'Risk management' note the journey they are on as regards climate change and that currently they perceive the risk as being low with no required changes to their methods of accounting.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, the effects of material climate risks disclosed on page 98 and the Risk management in Note 29; and whether these have been appropriately reflected in the asset values and liabilities recognised. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also evaluated the Directors' view of climate change risks on the assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Allowance for Expected Credit Loss ('ECL')</p> <p>Expected credit loss allowance of GEL 326m (2021: GEL 405m), Note 9</p> <p>The ECL provision is calculated using a combination of a collective provisioning model and specific loan provisions based on discounted cash flow analyses and regression-based forward-looking estimates.</p> <p>Inputs and assumptions used to estimate the impact of various economic scenarios are likely to have changed from the previous year end as a result of the heightened economic uncertainty caused by the ongoing conflict between Ukraine and Russia, and the impact it has had on the global economy. Consequently, the allowance for expected credit loss is highly judgemental and changes in assumptions could have a material impact on reported profits.</p> <p>Both collective and specific provisioning depend on a number of assumptions and judgements including:</p> <ul style="list-style-type: none"> • allocation of loans to stage 1, 2, 3 or Purchased and Originated Credit-Impaired ('POCI') using criteria set in accordance with IFRS 9 'Financial Instruments'; • accounting interpretations and modelling assumptions used to build and run the models for calculating the expected credit loss ('ECL'); • inputs and assumptions used to estimate the impact of multiple economic scenarios, including weightings applied; • appropriateness, completeness and valuation of post model adjustments, including the risk of double-counting the effects of various assumptions; • estimation of probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'), including the valuation of collateral; and • measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral. 	<ul style="list-style-type: none"> • We obtained an understanding, performed walkthroughs and evaluated the design and operating effectiveness of key controls across the processes relevant to the ECL. This includes controls over data accuracy and completeness, credit monitoring, allocation of borrowers into their respective impairment stages, individual provisioning and production of journal entries and disclosures. • Using our IFRS 9 specialists, we assessed and challenged the Group's IFRS 9 provisioning methodology to determine whether the accounting standard had been complied with consistently and any changes made to the methodology were appropriate. • Using our modelling specialists, we tested the assumptions, inputs and formulae used in the ECL model to confirm that the model was consistent with the stated methodology. This included assessing the appropriateness of the model design and formulae used, and recalculating the PD, LGD and EAD, on a sample basis. • We engaged specialists to perform a detailed review and testing of the changes made in the models. We performed a recalculation of the ECL on a sample basis, including procedures over staging and underlying risk parameters. • We assessed the appropriateness of the macroeconomic scenarios used by management and tested whether they had been properly applied in the ECL calculations. • We tested the completeness and accuracy of key data inputs used in the ECL model by reconciling loans and advances between the underlying source systems and the ECL model. • We challenged the criteria used to allocate assets to stage 1, 2, 3 or POCI in accordance with IFRS 9, including any management overlays applied specifically to determine SICR and staging. For a sample of loans, we independently assessed whether they had been allocated to the appropriate stage, considering potential indicators of significant increase in credit risk or default and challenged management as to the rationale for movements between stages. 	<p>Although the estimation of the expected credit loss is by nature highly judgemental, based on the results of our audit procedures, we concluded that the ECL provision is appropriate as at 31 December 2022. Specifically, we highlighted the following to the Audit Committee:</p> <ul style="list-style-type: none"> • We considered the overall valuation and treatment of collateral to be materially reasonable, but noted there is increased judgment regarding the timing of realisation in the current environment. • Staging, inputs and assumptions are appropriately applied to the ECL calculation. • Financial statements disclosures on loans and receivables and the ECL allowance are in compliance with the requirements of IFRS 9.

Independent Auditor's report continued

To the Members of Bank of Georgia Group PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>There are also risks related to:</p> <ul style="list-style-type: none"> the accuracy and completeness of underlying loan data used in the ECL model; and the accuracy and adequacy of financial statement disclosures. <p>As a consequence of the judgement involved in establishing the allowance, there is a greater risk of misstatement in ECL charges, either by fraud or error, including through the potential override of controls by management. As a result, this matter was one of the most significant assessed risks of material misstatement.</p> <p>The level of risk remains consistent with the prior year.</p>	<ul style="list-style-type: none"> We performed procedures to address the existence and valuation of collateral for loans where expected cash flows from collateral were impacting the estimation of loan losses. Using our valuation specialists, we assessed the reasonableness of the haircuts applied by management to collateral valuation including its valuation. We ensured that the Group has up to date valuations of collateral and, for real estate collateral for individually assessed borrowers. We reviewed the details of the valuation and validated the reasonableness of the new value by benchmarking major inputs to publicly available market data. We evaluated the adequacy and appropriateness of disclosures for compliance with the requirements of IFRS. 	
<p>Valuation of investment properties held at fair value, assets held for sale and foreclosed assets</p> <p>Investment property of GEL 167m (2021: GEL 227m) Note 14, Real estate classified as held for sale of GEL 30m (2021: GEL 47m), and Foreclosed Assets GEL120m (2021:GEL 3m)</p> <p>The Group applies the fair value model for its investment property and available for sale assets ('AFS'), while it measures foreclosed assets at the lower of cost and net realisable value. They are largely comprised of real estate assets that were previously held as collateral against loans that have now defaulted.</p> <p>Real estate valuations are inherently uncertain and subject to an estimation process. Due to the Russia-Ukraine war, Russian and Ukrainian people moved to Georgia in large numbers. This has resulted in an increase in demand for real estate and a corresponding rise in price. Whilst valuations are performed by a combination of internal and external appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued.</p> <p>Due to heightened volatility in market prices as a result of ongoing economic uncertainty in the region, the level of risk related to the valuation of properties increased.</p>	<ul style="list-style-type: none"> We obtained an understanding, performed walkthroughs and evaluated the design effectiveness of key controls across the processes relevant to the valuation of investment property, real estate assets held for sale, and foreclosed assets. We evaluated the competence, professional qualification and objectivity of the external experts engaged by the Group to perform valuation of the Group's investment properties. Through reading the valuation reports and discussion with management and the valuers, we obtained an understanding of the objectives and scope of the experts' work, the methods and assumptions that they had used and the conclusions that they had reached. We involved the EY Property Valuation specialist team to perform a revaluation of a sample of properties in order to test the reasonableness of management's expert valuation. We verified the input data, the application of the methods and logic as well as the reasoning applied by the appraisers. Subsequently, we compared the results reached by EY specialists to those of management's experts and investigated significant variances. We assessed the adjustments made by management to the valuation of properties for their reasonableness, more specifically, we verified that the properties subject to repurchase options had been capped at their repurchase price and that an appropriate period had been applied in order to discount the fair values of properties with restrictions. We performed testing over the addition and disposal of properties including the transfer of assets between investment properties, property and equipment, other assets and assets held for sale. We reviewed the presentation and disclosure of real estate in the financial statements are in accordance with relevant accounting standards. 	<p>Based on the results of our audit procedures, we concluded that:</p> <ul style="list-style-type: none"> Valuation of investment properties, assets held for sale and foreclosed assets as at 31 December 2022 is reasonable, including management's specialist valuations and relevant adjustments. The financial statements disclosures were appropriate and in compliance with relevant accounting standards.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be GEL 62 million (2021: GEL 40 million), which is 5% (2021: 5%) of adjusted profit before tax and non-recurring items. We believe that an adjusted PBT and non-recurring items provides us with the most appropriate measure for the users of the financial statements given the Group is profit making; it is consistent with the wider industry and is the standard for listed and regulated entities and we believe it reflects the most useful measure for users of the financial statements.

We determined materiality for the Parent Company to be GEL 62 million (2021: GEL 40 million), which is the lower of GEL 66 million (2% of equity) and the Group Materiality. We believe this reflects the most useful measure for users of the financial statements as the Parent Company's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant.

Starting basis	<ul style="list-style-type: none"> GEL 1,634m Actual Profit before tax and non-recurring items adjustments
Adjustments	<ul style="list-style-type: none"> GEL 391m Non-recurring item
Materiality	<ul style="list-style-type: none"> Totals GEL 1,243m Materiality of GEL 62m (5% of materiality basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely GEL 31m (2021: GEL 20m). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was GEL 4m to GEL 29m (2021: GEL 7.5 m to GEL 20m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 3m (2021: GEL 2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Independent Auditor's report continued

To the Members of Bank of Georgia Group PLC

Other information

The other information comprises the information included in the annual report set out on pages 4 to 227 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report which comprises:

- Strategic Report, including Overview, Strategy and Performance sections set out on pages 4 to 167.
- Governance section, including Directors' Governance Statement, Board of Directors, Management team, Nomination Committee Report, Audit Committee Report, Risk Committee Report, Directors' Remuneration Report, Statement of Directors' Responsibilities and Directors' Report, set out on pages 168 to 227.
- Additional information, including GRI content index, References, Glossary and Shareholder information, set out on pages 343 to 350.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 83;
- Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 83;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 83;

- Directors' statement on fair, balanced and understandable set out on page 223;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 63 to 81;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 178 and;
- The section describing the work of the audit committee set out on pages 192 to 197.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 223, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company'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 the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the relevant regulations of the UK Listing Authority ("UKLA"), as well as the various Georgian legal and regulatory requirements applying to the components of the Group, of which the most material are the regulations of the National Bank of Georgia.
- We understood how Bank of Georgia Group plc is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and its regulators; reviewed minutes of the Board and its committees; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework ('RMF') and internal control processes.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk which included management, internal audit and legal enquiries, testing of internal control, journal entry testing, analytical procedures, tests of detail and focused testing as referred to in the Key Audit Matters section above. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of Group legal counsel, money laundering reporting officer, internal audit, certain senior management executives and focused testing. We also performed inspection of key regulatory correspondence from the relevant regulatory authorities.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities which included the use of specialists where appropriate.

Independent Auditor's report continued

To the Members of Bank of Georgia Group PLC

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit Committee, we were appointed by the Group on 25 January 2018 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 31 December 2017 to 31 December 2022.

- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Wallace (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 March 2023

Consolidated Statement of Financial Position

As at 31 December 2022 (Thousands of Georgian Lari)

	Notes	2022	2021	2020
Assets				
Cash and cash equivalents	6	3,584,843	1,520,562	1,970,955
Amounts due from credit institutions	7	2,433,028	1,931,390	2,016,005
Investment securities	8	4,349,729	2,595,664	2,544,397
Loans to customers and finance lease receivables	9	16,861,706	16,168,973	14,192,078
Accounts receivable and other loans	10	397,990	3,680	2,420
Prepayments		43,612	40,878	27,593
Inventories		17,096	11,514	10,340
Right-of-use assets	11	117,387	80,186	83,208
Investment properties	14	166,546	226,849	231,241
Property and equipment	12	398,855	378,808	387,851
Goodwill	15	33,351	33,351	33,351
Intangible assets	13	149,441	144,251	125,806
Income tax assets	16	864	292	22,033
Other assets	17	317,886	246,947	325,994
Assets held for sale		29,566	46,731	62,648
Total assets		28,901,900	23,430,076	22,035,920
Liabilities				
Client deposits and notes	18	18,261,397	14,038,002	14,020,209
Amounts owed to credit institutions	19	5,266,653	4,318,445	3,335,966
Debt securities issued	20	645,968	1,518,685	1,585,545
Lease liability	11	114,470	87,662	95,635
Accruals and deferred income		106,366	80,157	53,894
Income tax liabilities	16	99,533	110,868	62,434
Other liabilities	17	158,691	183,349	332,322
Total liabilities		24,653,078	20,337,168	19,486,005
Equity				
	22			
Share capital		1,563	1,618	1,618
Additional paid-in capital		506,304	492,243	526,634
Treasury shares		(83)	(75)	(54)
Capital redemption reserve		55	–	–
Other reserves		14,564	(3,223)	71,227
Retained earnings		3,709,170	2,588,463	1,939,122
Total equity attributable to shareholders of the Group		4,231,573	3,079,026	2,538,547
Non-controlling interests		17,249	13,882	11,368
Total equity		4,248,822	3,092,908	2,549,915
Total liabilities and equity		28,901,900	23,430,076	22,035,920

The financial statements on pages 239 to 342 were approved by the Board of Directors on and signed on its behalf by:

Archil Gachechiladze
Chief Executive Officer
Bank of Georgia Group PLC
Registered No. 10917019

23 March 2023

The accompanying Notes on pages 247 to 342 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2022 (Thousands of Georgian Lari)

	Notes	2022	2021	2020
Interest income calculated using EIR method		2,236,307	1,822,307	1,563,362
Other interest income		20,574	28,737	32,065
Interest income		2,256,881	1,851,044	1,595,427
Interest expense		(1,056,829)	(882,474)	(806,370)
Deposit insurance fees		(17,717)	(14,629)	(11,415)
Net interest income	23	1,182,335	953,941	777,642
Fee and commission income		559,465	390,829	274,458
Fee and commission expense		(241,974)	(158,398)	(108,955)
Net fee and commission income	24	317,491	232,431	165,503
Net foreign currency gain		466,094	109,099	99,040
Net gains/(losses) on extinguishment of debt		(8,717)	(2,892)	(3,282)
One-off other income from settlement of legacy claim	10	391,100	–	–
Net other gains/(losses)		44,809	73,098	51,756
Operating income		2,393,112	1,365,677	1,090,659
Salaries and other employee benefits	25	(362,019)	(281,087)	(239,607)
Administrative expenses	25	(164,450)	(129,524)	(105,531)
Depreciation, amortisation and impairment	11, 12, 13	(111,089)	(93,618)	(82,937)
Other operating expenses		(3,628)	(3,723)	(4,560)
Operating expenses		(641,186)	(507,952)	(432,635)
Profit/(loss) from associates		754	(3,781)	782
Operating income before cost of risk		1,752,680	853,944	658,806
Expected credit loss on loans to customers	26	(128,678)	(1,452)	(236,983)
Expected credit loss on finance lease receivables	26	(3,208)	(4,950)	(8,025)
Other expected credit loss	26	(16,189)	9,899	(23,222)
Impairment charge on other assets and provisions	26	29,007	(54,909)	(32,767)
Cost of risk		(119,068)	(51,412)	(300,997)
Net operating income before non-recurring items		1,633,612	802,532	357,809
Net non-recurring items	27	1,038	(590)	(41,311)
Profit before income tax expense		1,634,650	801,942	316,498
Income tax expense	16	(190,651)	(74,824)	(21,555)
Profit for the year		1,443,999	727,118	294,943
Total profit attributable to:				
– shareholders of the Group		1,439,507	723,806	293,584
– non-controlling interests		4,492	3,312	1,359
		1,443,999	727,118	294,943
Basic earnings per share	22	30.9946	15.2240	6.1724
Diluted earnings per share	22	30.3328	14.8801	6.1707

The accompanying Notes on pages 247 to 342 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022 (Thousands of Georgian Lari)

	2022	2021	2020
Profit for the year	1,443,999	727,118	294,943
Other comprehensive income/(loss)			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent years, net of tax:</i>			
– Net change in fair value on investments in debt instruments measured at fair value through other comprehensive income (FVOCI)	29,232	(39,573)	77,728
– Realised gain on financial assets measured at FVOCI	(7,921)	(30,044)	(3,585)
– Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement	6,568	(1,643)	458
– Loss from currency translation differences	(18,278)	(7,184)	(2,480)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent years, net of tax	9,601	(78,444)	72,121
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent years:</i>			
– Net loss/(gain) on investments in equity instruments designated at FVOCI	(1,369)	884	(519)
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent years, net of tax	(1,369)	884	(519)
Other comprehensive income/(loss) for the year, net of tax	8,232	(77,560)	71,602
Total comprehensive income for the year	1,452,231	649,558	366,545
Total comprehensive income attributable to:			
– shareholders of the Group	1,447,816	646,749	364,727
– non-controlling interests	4,415	2,809	1,818
	1,452,231	649,558	366,545

The accompanying Notes on pages 247 to 342 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022 (Thousands of Georgian Lari)

	Attributable to shareholders of the Group							Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Capital redemption reserve	Retained earnings	Total		
31 December 2019	1,618	492,072	(64)	(7,481)	–	1,655,256	2,141,401	9,507	2,150,908
Profit for the year	–	–	–	–	–	293,584	293,584	1,359	294,943
Other comprehensive income for the year	–	–	–	78,725	–	(7,582)	71,143	459	71,602
Total comprehensive income for the year	–	–	–	78,725	–	286,002	364,727	1,818	366,545
Increase in equity arising from share-based payments	–	53,728	21	–	–	–	53,749	–	53,749
Purchase of treasury shares under share-based payments	–	(19,166)	(11)	–	–	–	(19,177)	–	(19,177)
Dividends to shareholders of the Group (Note 22)	–	–	–	–	–	(2,136)	(2,136)	–	(2,136)
Increase in share capital of subsidiaries	–	–	–	(7)	–	–	(7)	7	–
Non-controlling interests arising on acquisition	–	–	–	(10)	–	–	(10)	36	26
31 December 2020	1,618	526,634	(54)	71,227	–	1,939,122	2,538,547	11,368	2,549,915
Profit for the year	–	–	–	–	–	723,806	723,806	3,312	727,118
Other comprehensive income for the year	–	–	–	(74,430)	–	(2,627)	(77,057)	(503)	(77,560)
Total comprehensive income for the year	–	–	–	(74,430)	–	721,179	646,749	2,809	649,558
Increase in equity arising from share-based payments	–	45,289	18	–	–	–	45,307	–	45,307
Purchase of treasury shares under share-based payments	–	(79,680)	(39)	–	–	–	(79,719)	–	(79,719)
Dividends to shareholders of the Group (Note 22)	–	–	–	–	–	(71,838)	(71,838)	–	(71,838)
Increase in share capital of subsidiaries	–	–	–	(20)	–	–	(20)	20	–
Dividends of subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(315)	(315)
31 December 2021	1,618	492,243	(75)	(3,223)	–	2,588,463	3,079,026	13,882	3,092,908
Profit for the year	–	–	–	–	–	1,439,507	1,439,507	4,492	1,443,999
Other comprehensive income for the year	–	–	–	17,876	–	(9,567)	8,309	(77)	8,232
Total comprehensive income for the year	–	–	–	17,876	–	1,429,940	1,447,816	4,415	1,452,231
Increase in equity arising from share-based payments	–	82,288	27	–	–	–	82,315	–	82,315
Purchase of treasury shares under share-based payments	–	(68,227)	(35)	–	–	–	(68,262)	–	(68,262)
Dividends to shareholders of the Group (Note 22)	–	–	–	–	–	(196,514)	(196,514)	–	(196,514)
Increase in share capital of subsidiaries	–	–	–	(89)	–	–	(89)	19	(70)
Purchase of treasury shares	–	–	(112,719)	–	–	–	(112,719)	–	(112,719)
Cancellation of treasury shares	(55)	–	112,719	–	55	(112,719)	–	–	–
Dividends of subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(1,067)	(1,067)
31 December 2022	1,563	506,304	(83)	14,564	55	3,709,170	4,231,573	17,249	4,248,822

The accompanying Notes on pages 247 to 342 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022 (Thousands of Georgian Lari)

	Notes	2022	2021	2020
Cash flows from operating activities				
Interest received		2,299,639	1,866,371	1,440,328
Interest paid		(1,018,118)	(898,342)	(808,336)
Fees and commissions received		522,586	380,264	285,867
Fees and commissions paid		(241,974)	(158,398)	(108,955)
Net cash inflow from real estate		7,111	27,677	3,508
Net realised gain from foreign currencies		453,998	134,851	98,392
Recoveries of loans to customers previously written off	9	84,542	81,329	44,472
Cash received from/(paid for) derivatives		–	(235)	1,601
Other income received		11,799	8,651	5,412
Salaries and other employee benefits paid		(279,704)	(235,780)	(185,858)
General and administrative and operating expenses paid		(171,389)	(140,191)	(99,103)
Cash flows from operating activities before changes in operating assets and liabilities		1,668,490	1,066,197	677,328
<i>Net (increase)/decrease in operating assets</i>				
Amounts due from credit institutions		(902,255)	(25,839)	(146,940)
Loans to customers and finance lease receivables		(2,332,975)	(2,750,486)	(1,269,825)
Prepayments and other assets		(18,612)	(25,324)	6,018
<i>Net increase/(decrease) in operating liabilities</i>				
Amounts due to credit institutions		1,019,092	1,090,386	(837,711)
Debt securities issued		(73,772)	91,775	(167,144)
Client deposits and notes		5,509,461	520,034	2,863,289
Other liabilities		94,581	826	(46,587)
Net cash flows from/(used in) operating activities before income tax		4,964,010	(32,431)	1,078,428
Income tax paid		(202,558)	(4,649)	(18,790)
Net cash flows from/(used in) operating activities		4,761,452	(37,080)	1,059,638
Cash flows (used in)/from investing activities				
Net (purchases)/sales of investment securities		(1,807,355)	(86,798)	(673,284)
Proceeds from sale of investment properties and assets held for sale		92,690	124,805	75,388
Proceeds from sale of property and equipment and intangible assets		3,658	1,822	760
Purchase of property and equipment and intangible assets		(121,666)	(97,575)	(108,342)
Dividends received		–	401	3,299
Net cash flows used in investing activities		(1,832,673)	(57,345)	(702,179)
Cash flows (used in)/from financing activities				
Repurchase of debt securities issued		(617,194)	(28,825)	(120,549)
Repayment of the principal portion of the debt securities issued		(31,581)	(46,706)	(440,410)
Proceeds from Additional Tier 1		148,120	–	–
Cash payments for the principal portion of the lease liability		(25,980)	(29,518)	(11,695)
Dividends paid		(196,948)	(71,985)	(2,169)
Purchase of treasury shares under share-based payments		(68,262)	(79,719)	(19,177)
Purchase of treasury shares		(112,719)	–	–
Net cash used in financing activities		(904,564)	(256,753)	(594,000)
Effect of exchange rates changes on cash and cash equivalents		40,400	(99,263)	53,809
Effect of expected credit losses on cash and cash equivalents		(334)	48	63
Net increase/(decrease) in cash and cash equivalents		2,064,281	(450,393)	(182,669)
Cash and cash equivalents, beginning of the year	6	1,520,562	1,970,955	2,153,624
Cash and cash equivalents, end of the year	6	3,584,843	1,520,562	1,970,955

The accompanying Notes pages 247 to 342 are an integral part of these financial statements.

Separate Statement of Financial Position

As at 31 December 2022 (Thousands of Georgian Lari)

Bank of Georgia Group PLC has elected exemption not to present the separate income statement in accordance with section 408 of the Companies Act 2006. The Company's individual balance sheet shows the Company's profit and loss for the financial year determined in accordance with this Act.

	Notes	2022	2021	2020
Assets				
Cash and cash equivalents	6	10,850	384	199
Investments in subsidiaries	2	4,981,658	4,981,658	4,981,658
Other assets		177	104	151
Total assets		4,992,685	4,982,146	4,982,008
Liabilities				
Interest-bearing loans and borrowings		1,675,941	2,064,708	2,135,330
Other liabilities		802	46	86
Total liabilities		1,676,743	2,064,754	2,135,416
Equity				
Share capital	22	1,563	1,618	1,618
Additional paid-in capital		599,084	599,084	599,084
Capital redemption reserve		55		
Retained earnings		2,010,537	2,176,026	2,636,897
Net profit/(loss) for the period		704,703	140,664	(391,007)
Total equity		3,315,942	2,917,392	2,846,592
Total liabilities and equity		4,992,685	4,982,146	4,982,008

The financial statements on pages 239 to 342 were approved by the Board of Directors on and signed on its behalf by:

23 March 2023

Archil Gachechiladze

Chief Executive Officer

Bank of Georgia Group PLC

Registered No. 10917019

The accompanying Notes on pages 247 to 342 are an integral part of these financial statements.

Separate Statement of Changes in Equity

For the year ended 31 December 2022 (Thousands of Georgian Lari)

	Share capital	Additional paid-in capital	Treasury shares	Capital redemption reserve	Retained earnings	Total equity
31 December 2019	1,618	599,084	–	–	2,636,897	3,237,599
Total comprehensive loss	–	–	–	–	(391,007)	(391,007)
Dividends to shareholders of the Group (Note 22)	–	–	–	–	–	–
31 December 2020	1,618	599,084	–	–	2,245,890	2,846,592
Total comprehensive income	–	–	–	–	140,664	140,664
Dividends to shareholders of the Group (Note 22)	–	–	–	–	(69,864)	(69,864)
31 December 2021	1,618	599,084	–	–	2,316,690	2,917,392
Total comprehensive income	–	–	–	–	705,284	705,284
Dividends to shareholders of the Group (Note 22)	–	–	–	–	(194,015)	(194,015)
Purchase of treasury shares	–	–	(112,719)	–	–	(112,719)
Cancellation of treasury shares	(55)	–	112,719	55	(112,719)	–
31 December 2022	1,563	599,084	–	55	2,715,240	3,315,942

The accompanying Notes on pages 247 to 342 are an integral part of these financial statements.

Separate Statement of Cash Flows

For the year ended 31 December 2022 (Thousands of Georgian Lari)

	Notes	2022	2021	2020
Net cash flows used in operating activities				
Interest income received		1,499	156	19
Fees and commissions paid		(714)	(759)	(662)
Salaries and other employee benefits paid		(3,064)	(3,408)	(2,735)
General and administrative expenses paid		(2,269)	(3,134)	(3,047)
Cash flows used in operating activities before changes in operating assets and liabilities		(4,548)	(7,145)	(6,425)
Net cash flows used in operating activities		(4,548)	(7,145)	(6,425)
Net cash flows from investing activities				
Dividends received		322,717	70,185	–
Net cash flows from investing activities		322,717	70,185	–
Net cash (used in)/from financing activities				
Borrowings received		–	7,128	4,698
Dividends paid		(194,015)	(69,864)	–
Purchase of treasury shares		(112,719)	–	–
Net cash flows (used in)/from financing activities		(306,734)	(62,736)	4,698
Effect of exchange rates changes on cash and cash equivalents		(969)	(119)	81
Net increase/(decrease) in cash and cash equivalents		10,466	185	(1,646)
Cash and cash equivalents, beginning of the year		384	199	1,845
Cash and cash equivalents, end of the year		10,850	384	199

The accompanying Notes on pages 247 to 342 are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(Thousands of Georgian Lari)

1. Principal activities

Bank of Georgia Group PLC (BOGG) is a public limited liability company incorporated in England and Wales with registered number 10917019. BOGG holds 99.55% of the share capital of JSC Bank of Georgia ('the Bank') as at 31 December 2022, representing the Bank's ultimate parent company. Together with the Bank and other subsidiaries, the Group makes up a group of companies (the 'Group') and provides banking, leasing, brokerage and investment management services to corporate and individual customers. The shares of BOGG ('BOGG Shares') are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 21 May 2018. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally, and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2022, the Bank has 211 operating outlets in all major cities of Georgia (31 December 2021: 211, 31 December 2020: 211). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

BOGG's registered legal address is 42 Brook Street, London, W1K 5DB, England.

As at 31 December 2022, 31 December 2021 and 31 December 2020, the following shareholders owned more than 3% of the total outstanding shares of BOGG. Other shareholders individually owned less than 3% of the outstanding shares.

Shareholder	31 December 2022	31 December 2021	31 December 2020
JSC Georgia Capital**	20.60%	19.90%	19.90%
M&G Investment Management Ltd	4.10%	2.86%	1.69%
Dimensional Fund Advisors (DFA) LP	3.67%	3.13%	3.04%
Vanguard Group Inc	3.20%	2.42%	2.09%
Fidelity Investments	3.16%	4.00%	6.15%
Van Eck Associates Corporation	2.95%	3.46%	3.26%
Harding Loevner LP	2.87%	4.48%	4.50%
Others	59.45%	59.75%	59.37%
Total*	100.00%	100.00%	100.00%

* For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Group.

** JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.

As at 31 December 2022, the members of the Board of Directors of BOGG owned 665,980 shares or 1.4% (31 December 2021: 516,116 shares or 1.0%, 31 December 2020: 208,146 shares or 0.4%) of BOGG. Interests of the members of the Board of Directors of BOGG were as follows:

Shareholder	31 December 2022, shares held	31 December 2021, shares held	31 December 2020, shares held
Neil Janin*	N/A	32,880	32,880
Mel Carvill*	–	N/A	N/A
Archil Gachechiladze	623,978	442,234	140,266
Al Breach	30,000	30,000	30,000
Tamaz Georgadze	5,000	5,000	5,000
Hanna Loikkanen	–	–	–
Jonathan Muir	–	–	–
Cecil Quillen	2,900	2,900	–
Véronique McCarroll	–	–	–
Mariam Megvinetukhutsesi	4,102	3,102	N/A
Total	665,980	516,116	208,146

* Neil Janin stepped down from Board in 2022, and was replaced by Mel Carvill.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

2. Basis of preparation

General

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the separate income statement of BOGG is not presented as part of these financial statements. BOGG's income for the year is disclosed within the separate statement of financial position and the separate statement of changes in equity.

The financial statements of Bank of Georgia Group PLC are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with UK-adopted international accounting standards as at 31 December 2022.

These financial statements are prepared under the historical cost convention except for:

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

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

Going concern

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

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

As described in Note 29 to the financial statements, the Group has identified Climate Risk as an emerging risk. However, qualitative analysis of the impact of climate change and low-carbon transitions on traditional banking risk and on the sectors in which our clients are active lead us to believe that there is currently no material short-to-medium term impact of climate change expected. The Group will refine its assessment of such risks in 2023 and beyond and will re-assess whether the impact of climate-related risks on its financial position and performance need to be considered.

2. Basis of preparation continued

Subsidiaries and associates

The consolidated financial statements as at 31 December 2022, 31 December 2021 and 31 December 2020 include the following subsidiaries and associates:

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2022	31 December 2021	31 December 2020					
BGEO Group Limited	100.00%	100.00%	100.00%	United Kingdom	42 Brook Street, London, W1K 5DB	Holding Company	14/10/2011	–
JSC BGEO Group	100.00%	100.00%	100.00%	Georgia	29a Gagarini Street, Tbilisi, 0105	Investment	28/5/2015	–
JSC Idea	100.00%	100.00%	100.00%	Georgia	3 Pushkin Street, Tbilisi 0105	Insurance	26/12/2018	–
JSC Bank of Georgia	99.55%	99.55%	99.55%	Georgia	29a Gagarini Street, Tbilisi, 0105	Banking	21/10/1994	–
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	42 Brook Street, London, W1K 5DB	Information sharing and market research	17/8/2010	–
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	100.00%	Georgia	3 Pushkin Street, Tbilisi 0105	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	1054 Budapest, Szabadság tér 7; Bank Center	Representative office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	Turkey	Süleyman Seba Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 Istanbul	Representative office	25/12/2013	–
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	7 Menahem Begin, Ramat Gan 52681	Information sharing and market research	9/2/2009	–
Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009
JSC Belaruskly Narodny Bank	99.98%	99.98%	99.98%	Belarus	Nezavisimosty Avenue 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008
BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Nezavisimosty Avenue 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008
Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi Street, Tbilisi	Leasing	29/10/2001	31/12/2004
Prime Leasing	100.00%	100.00%	100.00%	Georgia	Didube-Chughureti district, No:114, Ak. Tsereteli Avenue, Tbilisi	Leasing	27/1/2012	21/1/2015
JSC BG Financial	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Avenue, 0102, Tbilisi	Investment	7/8/2015	–
JSC Galt & Taggart	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Avenue, 0102, Tbilisi	Brokerage and asset management	19/12/1995	28/12/2004
Branch Office of "BG Kapital" JSC in Azerbaijan	100.00%	100.00%	100.00%	Azerbaijan	1C Mikayil Mushvig, Kempinski Hotel Badamdar, 6th floor, Yasamal. AZ1006, Baku	Representative office	28/12/2013	–

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

2. Basis of preparation continued

Subsidiaries and associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2022	31 December 2021	31 December 2020					
Galt and Taggart Holdings Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	3/7/2006	–
BG Capital (Belarus), LLC	100.00%	100.00%	100.00%	Belarus	5A-3H, K.Chornogo lane, Minsk, 220012	Brokerage	19/2/2008	–
JSC Digital Area (former JSC Polymath Group)	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Avenue, 0102, Tbilisi	Digital	8/6/2018	–
JSC Extra area	99.34%	98.68%	97.82%	Georgia	79 David Agmashenebeli Avenue, 0102, Tbilisi	Digital	22/5/2019	–
Easy Box LLC	100.00%	100.00%	100.00%	Georgia	41, Pekini Street, Tbilisi	Transportation	22/12/2020	–
JSC Optimo Global*	100.00%	0.00%	0.00%	Georgia	41, Pekini Street Tbilisi	Digital	8/11/2022	–
Solo, LLC	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Avenue, 0102, Tbilisi	Trade	22/4/2015	–
JSC United Securities Registrar of Georgia	100.00%	100.00%	100.00%	Georgia	74a Chavchavadze Avenue, Tbilisi, 0162	Registrar	29/5/2006	–
JSC Express Technologies	100.00%	100.00%	100.00%	Georgia	1b, Budapest Street, Tbilisi, 0160	Investments	29/10/2007	–
JSC Georgian Card	99.41%	99.41%	99.46%	Georgia	221 Nutsubidze Street, Tbilisi, 0168	Card processing	17/1/1997	20/10/2004
Direct Debit Georgia, LLC	100.00%	100.00%	100.00%	Georgia	Luxemburg 25, Tbilisi, 0160	Electronic payment services	7/3/2006	–
LLC Didi Digomi Research Center	100.00%	100.00%	100.00%	Georgia	80-82, D.Agmashenebeli Street, Tbilisi, 0102	Communication services	23/4/2007	–
Metro Service +, LLC	100.00%	100.00%	100.00%	Georgia	74a Chavchavadze Avenue, Tbilisi, 0162	Business servicing	10/5/2006	–
Premium Compliance Advisory, LLC	100.00%	100.00%	100.00%	Georgia	Kazbegi Street 3-5, Tbilisi	Various	17/2/2012	–

Associates	Proportion of voting rights and ordinary share capital held			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2022	31 December 2021	31 December 2020					
JSC Credit info	21.08%	21.08%	21.08%	Georgia	2 Tarkhnishvili Street, Tbilisi	Financial intermediation	14/2/2005	14/2/2005
JSC Tbilisi Stock Exchange	24.04%	24.04%	24.04%	Georgia	72 Vazha-Pshavela Avenue, Tbilisi	Financial intermediation	8/5/2015	23/12/2016
LLC Delivery**	25.75%	0.00%	0.00%	Georgia	6 A. Andronikashvili Street, II Dead End, Tbilisi	Financial intermediation	14/12/2017	8/11/2022

* JSC Digital Area established a new company JSC Optimo Global on 8 November 2022. Total investment amount in JSC Optimo Global amounts to GEL 100.

** JSC Digital Area invested GEL 1,260 in 25.75% stake of LLC Delivery on 8 November 2022. For the period ended 31 December 2022, the Group's loss from associate comprised GEL 65.

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2022. The Group consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

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

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. Investment in an associate is assessed for impairment at each reporting date and recoverable value is determined if any indicators are identified. Any impairment losses are recorded under profit or loss from associates.

Investments in subsidiaries and associates in parent company financial statements

For the purposes of parent company financial statements, investments in subsidiaries and associates are accounted at cost less any impairment. Investments in subsidiaries and associates are accounted in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when they are classified as held for sale or distribution. Dividends from a subsidiary or an associate are recognised in the parent company financial statements when the parent's right to receive the dividend is established.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, certain loans to customers, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

Financial assets and liabilities

Classification and measurement for financial assets and liabilities

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

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

Classification and measurement

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

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

All derivative instruments are measured at FVTPL.

Measurement of financial instruments at initial recognition

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

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

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

3. Summary of significant accounting policies continued

Financial assets and liabilities continued

Subsequent measurement of financial instruments

Financial instruments measured at amortised cost

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

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

The details of these conditions are outlined below.

Business model

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

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

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

There are three business models available under IFRS 9:

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

Solely Payments of Principal and Interest (SPPI)

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

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

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

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

Debt instruments at FVOCI

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

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

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

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Financial assets and liabilities continued

Subsequent measurement of financial instruments continued

Equity instruments at FVOCI – option

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

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends received are recognised in profit or loss. Equity instruments at FVOCI are not subject to impairment assessment.

Financial assets at FVTPL

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

Derivatives recorded at FVTPL

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

Financial guarantees, letter of credits and other financial commitments

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

Non-financial guarantees

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within 90 days of the date of origination, and are free from contractual encumbrances and readily convertible to known amounts of cash.

Borrowings

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

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

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

3. Summary of significant accounting policies continued

Subordinated debt

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

Leases

The Group as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group considers the commencement date of the lease the date on which the lessor makes an underlying asset available for use to the Group.

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

Recognition of right-of-use asset and lease liability

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimated dismantling costs, if any. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

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

Recognition exemptions

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

Modifications of lease contracts

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

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

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

The Group as a lessor

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

Finance lease

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

Operating lease

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as net other income. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Impairment of financial assets

Overview of the ECL principles

The Group records an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial assets'. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

Staged approach to the determination of ECLs

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

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

Financial instruments within the scope of the impairment requirements of IFRS 9 are classified into one of the above three stages. Unless credit-impaired, newly originated assets are classified as Stage 1 and remain in that stage unless there is considered to have been a significant increase in credit risk since initial recognition, at which point the asset is reclassified to Stage 2.

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

Key judgements and estimates used under IFRS 9 are disclosed in note 4.

Derecognition of financial assets and liabilities

Derecognition of financial assets

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

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

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

3. Summary of significant accounting policies continued

Derecognition of financial assets and liabilities continued

Derecognition of financial assets continued

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

Derecognition and modification of financial assets

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

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

- Change in currency of the loan.
- Change in interest rate type.
- Introduction of an equity feature.
- Change in counterparty.
- If the modification is such that the instrument would no longer meet the SPPI criterion.

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

Forbearance and modified loans

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

Derecognition of financial liabilities

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

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

Foreclosed assets

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

Foreclosed assets are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The majority of the Group's foreclosed assets consists of the real estate assets repossessed during recovery of defaulted loans. Such assets are specific and not ordinarily interchangeable, respectively the Group applies specific identification of their individual costs.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell unless scoped out of IFRS 5 in which case the existing measurement provisions of IFRS apply.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured in accordance with applicable IFRSs.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

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

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which BOGG and its subsidiaries operate.

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

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

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

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

Uncertain tax positions

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

Investment properties

Investment property is land or a building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. With regards to certain investment properties with repurchase options granted to previous owners, fair value of the property at the reporting date is capped at repurchase price.

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

3. Summary of significant accounting policies continued

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

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

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

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

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

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

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

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

Goodwill impairment

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

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

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

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

Intangible assets

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over four to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset, and the ability to measure reliably the expenditure during the development. Other research and software development costs are recognised as an expense as incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Share-based payment transactions

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

Equity-settled transactions

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

The cost of equity-settled transactions is recognised together with the corresponding increase in equity as part of additional paid-in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

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

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

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

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Additional paid-in capital

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

Treasury shares

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

Dividends

Dividends are recognised as liabilities and deducted from equity at the reporting date only if they are declared before or on the reporting date and do not require further approval. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation where an outflow of the economic resources is either not expected to occur or can not be measured reliably.

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

3. Summary of significant accounting policies continued

Income and expense recognition

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest-bearing securities, interest income or expense is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income

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

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

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

Customer loyalty programme

Customer loyalty programme points accumulated in the business are treated as deferred revenue and recognised in revenues gradually as they are earned. The Group recognises gross revenue earned from customer loyalty programmes when the performance obligation is satisfied, i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. Conversely, the Group measures its revenue as the net amount retained on its account representing the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards as soon as the award credits are granted, where the Group acts as an agent. At each reporting date, the Group estimates the portion of accumulated points that is expected to be utilised by customers based on statistical data. These points are treated as a liability in the statement of financial position and are only recognised in revenue when points are earned or expired.

Performance obligations satisfied at a point in time

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

Dividend income

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

Non-recurring items

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

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. BOGG's and the Bank's functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the functional currency rate of exchange ruling at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in the income statement.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2022, 31 December 2021 and 31 December 2020 were:

	Lari to GBP	Lari to USD	Lari to EUR	Lari to BYN
31 December 2022	3.2581	2.7020	2.8844	1.0730
31 December 2021	4.1737	3.0976	3.5040	1.2101
31 December 2020	4.4529	3.2766	4.0233	1.2647

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

On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

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

Adoption of new or revised standards and interpretations

Amendments effective from 1 January 2022

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets to clarify what costs an entity considers in assessing whether a contract is onerous. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

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

IFRS 9 Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

Amendments to IFRS 3 Business Combinations

The amendment updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendment had no material impact on the Group's consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment

The amendment prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The amendment had no material impact on the Group's consolidated financial statements.

3. Summary of significant accounting policies continued

Adoption of new or revised standards and interpretations continued

Amendments effective from 1 January 2022 continued

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities continued

Amendments to IFRS 1, 'First-time Adoption of International Financial Reporting Standards' – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the 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. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1. The amendment had no material impact on the Group's consolidated financial statements.

Reclassifications

To improve the quality and understandability of its consolidated income statement, the Group has revisited the presentation of gains/losses resulting from its debt extinguishment. The Group considered it more appropriate to present such gains/losses separately from other gains/losses. Comparative amounts were reclassified in line with the updated presentation.

The following reclassifications were made to year ended 31 December 2021 and 31 December 2020 consolidated income statement to conform to the year ended 31 December 2022 presentation requirements:

Consolidated income statement for the year ended 31 December 2021	As previously reported	Reclassification	As reclassified
Net gains/(losses) on extinguishment of debt	–	(2,892)	(2,892)
Net other gains/(losses)	70,206	2,892	73,098

Consolidated income statement for the year ended 31 December 2020	As previously reported	Reclassification	As reclassified
Net gains/(losses) on extinguishment of debt	–	(3,282)	(3,282)
Net other gains/(losses)	48,474	3,282	51,756

Standards issued but not yet effective

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

IAS 1 Presentation of Financial Statements

In January 2020 and July 2020, the IASB issued amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current". They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The amendments also clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments will be effective for annual periods beginning on or after January 1, 2023 with early adoption permitted. The Group is assessing the potential effect of the amendment on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17, Insurance Contracts, which sets out the accounting requirements for contractual rights and obligations that arise from insurance contracts issued and reinsurance contracts held. IFRS 17 is effective from 1 January 2023. The Group is assessing the standard, but does not expect it to have a material effect on its consolidated financial statements.

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

In May 2021 the Board issued Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments to IAS 12 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. The Group does not expect it to have a material effect on its consolidated financial statements.

Narrow-scope amendments

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Standards issued but not yet effective continued

Narrow-scope amendments continued

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

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement: 2 In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted.

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

4. Significant accounting judgements and estimates

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

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

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

The last valuation was performed in 2022. Results of this valuation are presented in Note 14, while valuation inputs and techniques are presented in Note 30. The Group's properties are spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Allowance for financial assets

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

Definition of default, credit-impaired and cure (Note 29)

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

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

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

For other credit-impaired financial instruments, exit criteria is determined as repayment of the entire overdue amount other than through refinancing or foreclosure.

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

4. Significant accounting judgements and estimates continued

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

Significant increase in credit risk (SICR)

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

- A significant increase in credit risk, expressed in the relative and/or absolute increase in the risk of default since initial recognition. SICR is determined based on comparison between credit risk ratings (internal or external) as of the origination date and credit risk ratings as of the reporting date for each financial asset individually. Thresholds are determined separately for corporate, retail, SME and other financial instrument portfolios, depending on initial grade assigned at origination.
- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- Modification of the contractual terms due to financial problems of the borrower other than default.
- The days past due on individual contract level breached the threshold of 30 days.
- Other qualitative indicators, such as external market indicators of credit risk or general economic conditions, which indicate that the level of risk has increased significantly since origination.

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

Measurement of ECLs

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

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

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

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

Assets considered in the ECL calculations

IFRS 9 requires cash flows expected from collateral and other credit enhancements to be reflected in the ECL calculation. The treatment and reflection of collateral for IFRS 9 purposes is in line with general risk management principles, policies and processes of the Group. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. The fair value of collateral affects the calculation of ECLs. It is generally assessed at inception and reassessed on an annual basis for all material exposures. During the period where real estate prices are subject to significant fluctuation, those collaterals not revalued during the last three months before the end of the reporting date were further adjusted with respective real estate price index movement. The effect of the noted adjustment amounted to a GEL 26 million decrease of ECL in the 2022 consolidated financial statements (2021: Nil, 2020: Nil).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates continued

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

Management Overlays and improvements to the ECL methodology

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

Forward-looking information

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

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

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

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

Forward-looking variable assumptions

The most significant period end assumptions used for ECL estimate as at 31 December 2022 per geographical segments are set out below. The scenarios 'base', 'upside' and 'downside' were used for all portfolios.

Georgia

Key drivers	ECL scenario	Assigned weight	As at 31 December 2022			Assigned weight	As at 31 December 2021			Assigned weight	As at 31 December 2020		
			2023	2024	2025		2022	2023	2024		2021	2022	2023
GDP growth in %													
	Upside	25%	6.00%	5.00%	5.00%	25%	6.00%	5.00%	4.50%	25%	-3.00%	6.00%	5.00%
	Base case	50%	4.00%	5.50%	5.00%	50%	5.00%	4.00%	4.50%	50%	-4.00%	4.50%	5.00%
	Downside	25%	2.00%	4.00%	5.00%	25%	2.00%	4.00%	5.00%	25%	-9.00%	2.50%	4.00%
GEL/USD exchange rate %													
	Upside	25%	2.00%	0.00%	0.00%	25%	4.00%	2.00%	2.00%	25%	5.00%	5.00%	0.00%
	Base case	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%
	Downside	25%	-15.00%	5.00%	5.00%	25%	-10.00%	2.00%	3.00%	25%	-10.00%	-5.00%	5.00%
CPI inflation rate in %													
	Upside	25%	5.00%	3.00%	3.00%	25%	5.50%	3.00%	3.00%	25%	5.50%	4.00%	3.00%
	Base case	50%	5.30%	3.10%	3.00%	50%	7.00%	2.50%	3.00%	50%	4.50%	1.50%	2.50%
	Downside	25%	9.00%	6.00%	3.00%	25%	8.00%	4.00%	3.00%	25%	7.00%	2.00%	2.50%

4. Significant accounting judgements and estimates continued

Forward-looking variable assumptions continued

Belarus

Key drivers	ECL scenario	Assigned weight	As at 31 December 2022		Assigned weight	As at 31 December 2021		Assigned weight	As at 31 December 2020	
			2023	2024		2022	2023		2021	2022
GDP growth in %										
	Upside	10%	2.66%	4.26%	25%	2.92%	5.01%	10%	2.28%	4.74%
	Base case	50%	0.31%	0.50%	50%	0.56%	1.24%	50%	-0.06%	0.98%
	Downside	40%	-2.05%	-3.26%	25%	-1.80%	-2.52%	40%	-2.44%	-2.81%
BYN/USD exchange rate %										
	Upside	10%	0.71%	0.65%	25%	0.56%	0.52%	10%	-0.48%	-1.17%
	Base case	50%	2.53%	1.65%	50%	2.44%	1.37%	50%	1.45%	0.06%
	Downside	40%	4.09%	2.41%	25%	4.05%	1.98%	40%	3.29%	1.08%
CPI inflation rate in %										
	Upside	10%	0.38%	-0.58%	25%	-0.07%	-0.85%	10%	0.72%	0.69%
	Base case	50%	2.20%	1.66%	50%	1.83%	1.38%	50%	1.36%	1.42%
	Downside	40%	3.93%	3.76%	25%	3.63%	3.46%	40%	1.99%	2.14%

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

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

Sensitivity of ECL to forward looking assumptions

Key drivers	As at 31 December 2022				
	Reported ECL	Reported ECL coverage	ECL coverage by scenarios		
			Upside	Base case	Downside
Commercial loans	91,557	1.72%	1.58%	1.70%	1.81%
Residential mortgage loans	30,055	0.72%	0.71%	0.71%	0.73%
Micro and SME loans	63,502	1.66%	1.61%	1.65%	1.70%
Consumer loans	135,450	3.76%	3.70%	3.74%	3.84%
Gold – pawn loans	5,441	3.31%	3.30%	3.30%	3.31%

Key drivers	As at 31 December 2021				
	Reported ECL	Reported ECL coverage	ECL coverage by scenarios		
			Upside	Base case	Downside
Commercial loans	159,215	2.87%	2.82%	2.84%	2.86%
Residential mortgage loans	33,038	0.82%	0.80%	0.81%	0.85%
Micro and SME loans	74,441	1.99%	1.93%	1.96%	2.13%
Consumer loans	136,035	4.56%	4.46%	4.54%	4.70%
Gold – pawn loans	2,075	1.25%	1.25%	1.25%	1.26%

Key drivers	As at 31 December 2020				
	Reported ECL	Reported ECL coverage	ECL coverage by scenarios		
			Upside	Base case	Downside
Commercial loans	178,556	3.49%	3.46%	3.48%	3.53%
Residential mortgage loans	48,609	1.28%	1.05%	1.06%	1.95%
Micro and SME loans	102,352	3.13%	2.79%	2.83%	4.06%
Consumer loans	113,801	5.15%	4.78%	4.82%	6.18%
Gold – pawn loans	228	0.22%	0.21%	0.21%	0.23%

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates continued

Forward-looking variable assumptions continued

Aggregation of financial instruments for collective assessment

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

Determination of expected life for revolving facilities

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

Write-offs

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

Backtesting of ECL calculation model

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

Impact of climate-related risks on accounting judgements and estimates

While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical and transition risks in the short-to-medium term. For further information, see Note 29 on emerging risks.

5. Segment information

The Group disaggregated revenue from contracts with customers by products and services for each of the segments, as the Group believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

- RB – Retail Banking (excluding Retail Banking of BNB) – principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling of customers' deposits for both individuals and legal entities. The Retail Banking business targets the mass retail, mass affluent and high-net-worth client segments, together with small and medium-sized enterprises, and micro businesses.
- CIB – Corporate Investment Banking – comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides brokerage services through Galt & Taggart.
- BNB – Comprising JSC Belarusky Narodny Bank mainly, principally providing retail and corporate banking services in Belarus.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated income statement.

Transactions between operating segments are on an arm's length basis in a similar manner to transactions with third parties.

The Group's operations are primarily concentrated in Georgia, except for BNB, which operates in Belarus.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's operating income in 2022, 2021 or 2020.

5. Segment information continued

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2022:

	Retail Banking	Corporate Investment Banking	BNB	Eliminations	Group Total
Net interest income	767,968	376,771	37,511	85	1,182,335
Net fee and commission income	256,287	49,543	11,500	161	317,491
Net foreign currency gain	277,608	123,993	64,493	–	466,094
Net (losses)/gains on extinguishment of debt	(2,673)	(5,740)	(304)	–	(8,717)
Other income from settlement of legacy claim	–	391,100	–	–	391,100
Net other gains/(losses)	24,074	20,039	1,474	(778)	44,809
Operating income	1,323,264	955,706	114,674	(532)	2,393,112
Operating expenses	(480,654)	(105,632)	(55,432)	532	(641,186)
Profit from associates	754	–	–	–	754
Operating income before cost of risk	843,364	850,074	59,242	–	1,752,680
Cost of risk	(172,702)	79,461	(25,827)	–	(119,068)
Net operating income before non-recurring items	670,662	929,535	33,415	–	1,633,612
Net non-recurring items	1,241	–	(203)	–	1,038
Profit before income tax	671,903	929,535	33,212	–	1,634,650
Income tax expense	(105,274)	(77,693)	(7,684)	–	(190,651)
Profit for the year	566,629	851,842	25,528	–	1,443,999
Assets and liabilities					
Total assets	18,663,720	9,006,313	1,381,366	(149,499)	28,901,900
Total liabilities	16,345,880	7,226,769	1,229,928	(149,499)	24,653,078
Other segment information					
Property and equipment	73,452	2,304	2,241	–	77,997
Intangible assets	33,819	1,965	4,886	–	40,670
Capital expenditure	107,271	4,269	7,127	–	118,667
Depreciation, amortisation and impairment	(99,739)	(5,292)	(6,058)	–	(111,089)

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2021:

	Retail Banking	Corporate Investment Banking	BNB	Eliminations	Group Total
Net interest income	582,531	331,706	39,676	28	953,941
Net fee and commission income	178,928	47,869	5,476	158	232,431
Net foreign currency gain	58,139	37,619	13,341	–	109,099
Net gains/(losses) on extinguishment of debt	(456)	(1,333)	(1,103)	–	(2,892)
Net other gains/(losses)	26,325	45,312	2,345	(884)	73,098
Operating income	845,467	461,173	59,735	(698)	1,365,677
Operating expenses	(389,915)	(79,060)	(39,675)	698	(507,952)
Loss from associates	(3,781)	–	–	–	(3,781)
Operating income before cost of risk	451,771	382,113	20,060	–	853,944
Cost of risk	(72,351)	22,662	(1,723)	–	(51,412)
Net operating income before non-recurring items	379,420	404,775	18,337	–	802,532
Net non-recurring items	20	(78)	(532)	–	(590)
Profit before income tax	379,440	404,697	17,805	–	801,942
Income tax expense	(32,956)	(38,473)	(3,395)	–	(74,824)
Profit for the year	346,484	366,224	14,410	–	727,118
Assets and liabilities					
Total assets	14,865,640	7,683,923	980,920	(100,407)	23,430,076
Total liabilities	13,017,394	6,573,918	846,263	(100,407)	20,337,168
Other segment information					
Property and equipment	48,095	3,103	2,031	–	53,229
Intangible assets	37,144	2,921	4,992	–	45,057
Capital expenditure	85,239	6,024	7,023	–	98,286
Depreciation, amortisation and impairment	(80,127)	(8,551)	(4,940)	–	(93,618)

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

5. Segment information continued

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2020:

	Retail Banking	Corporate Investment Banking	BNB	Eliminations	Group Total
Net interest income	497,155	244,224	36,249	14	777,642
Net fee and commission income	121,973	37,597	5,678	255	165,503
Net foreign currency gain	59,677	33,161	6,202	–	99,040
Net gains/(losses) on extinguishment of debt	(1,182)	(1,260)	(840)	–	(3,282)
Net other gains/(losses)	25,937	23,827	2,652	(660)	51,756
Operating income	703,560	337,549	49,941	(391)	1,090,659
Operating expenses	(331,029)	(69,047)	(32,950)	391	(432,635)
Profit from associates	782	–	–	–	782
Operating income before cost of risk	373,313	268,502	16,991	–	658,806
Cost of risk	(183,160)	(113,856)	(3,981)	–	(300,997)
Net operating income before non-recurring items	190,153	154,646	13,010	–	357,809
Net non-recurring items	(39,898)	(1,288)	(125)	–	(41,311)
Profit before income tax	150,255	153,358	12,885	–	316,498
Income tax expense	(6,137)	(12,684)	(2,734)	–	(21,555)
Profit for the year	144,118	140,674	10,151	–	294,943
Assets and liabilities					
Total assets	13,447,451	7,635,107	1,018,652	(65,290)	22,035,920
Total liabilities	12,002,660	6,662,538	886,097	(65,290)	19,486,005
Other segment information					
Property and equipment	66,707	4,300	616	–	71,623
Intangible assets	36,453	2,681	2,291	–	41,425
Capital expenditure	103,160	6,981	2,907	–	113,048
Depreciation, amortisation and impairment	(70,151)	(8,539)	(4,247)	–	(82,937)

6. Cash and cash equivalents

	2022	2021	2020
Cash on hand	1,052,055	751,063	703,459
Current accounts with central banks, excluding obligatory reserves	805,503	126,627	158,588
Current accounts with credit institutions	965,046	414,214	590,331
Time deposits with credit institutions with maturities of up to 90 days	762,590	228,683	518,648
Cash and cash equivalents, gross	3,585,194	1,520,587	1,971,026
Less – Allowance for expected credit loss	(351)	(25)	(71)
Cash and cash equivalents, net	3,584,843	1,520,562	1,970,955

As at 31 December 2022, GEL 1,453,844 (2021: GEL 419,324, 2020: GEL 985,848) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned between 0.00-11.10% interest per annum on these deposits (2021: up to 0.07%, 2020: up to 0.21%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

As at 31 December 2022, cash and cash equivalents held by BOGG of GEL 10,850 (2021: GEL 384, 2020: GEL 199) is represented by placements on current accounts with Georgian and OECD banks.

7. Amounts due from credit institutions

	2022	2021	2020
Obligatory reserves with central banks	2,354,470	1,898,052	1,994,662
Time deposits with maturities of more than 90 days	15,721	28,939	8,424
Restricted cash	68,155	4,730	1,856
Inter-bank loan receivables	–	–	11,463
Amounts due from credit institutions, gross	2,438,346	1,931,721	2,016,405
Less – Allowance for expected credit loss	(5,318)	(331)	(400)
Amounts due from credit institutions, net	2,433,028	1,931,390	2,016,005

Obligatory reserves with central banks represent amounts deposited with the NBG and the National Bank of the Republic of Belarus (the 'NBRB'). Credit institutions are required to maintain cash deposits (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by regulation. The Group earned up to 0.00% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2022 (2021: 0.00%, 2020: 1.25%).

As at 31 December 2022, inter-bank loan receivables does not include any deposits placed with non-OECD banks (2021: Nil, 2020: GEL 11,464).

8. Investment securities

	2022	2021	2020
Investment securities measured at FVOCI – debt instruments	3,960,299	2,586,083	2,539,019
Investment securities designated as at FVOCI – equity investments	10,893	9,581	5,378
Investment securities	3,971,192	2,595,664	2,544,397

	2022	2021	2020
Investment securities measured at amortised cost, gross	381,735	–	–
Less – Allowance for expected credit loss	(3,198)	–	–
Investment securities measured at amortised cost, net	378,537	–	–

	2022	2021	2020
Ministry of Finance of Georgia treasury bonds	1,470,473	1,312,001	1,344,404
Ministry of Finance of Georgia treasury bills	176,483	82,196	36,879
Foreign treasury bills	1,062,095	–	–
Foreign treasury bonds	92,817	79,156	159,537
Certificates of deposit of central banks	17,675	39,410	–
Other debt instruments	1,140,756	1,073,320	998,199
Investment securities measured at FVOCI – debt instruments	3,960,299	2,586,083	2,539,019

	2022	2021	2020
Ministry of Finance of Georgia treasury bonds	119,918	–	–
Foreign treasury bonds	12,230	–	–
Other debt instruments	249,587	–	–
Investment securities measured at amortised cost – debt instruments, gross	381,735	–	–
Less – Allowance for expected credit loss	(3,198)	–	–
Investment securities measured at amortised cost – debt instruments, net	378,537	–	–

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(Thousands of Georgian Lari)

8. Investment securities continued

Pledged treasury bonds	2022	2021	2020
For short-term loans from the NBG	709,597	490,592	1,044,066
For repo-operations with commercial banks	380,065	–	–
For deposits of Ministry of Finance of Georgia	97,109	220,480	–
For cash kept by the NBG at the Group's premises under cash custodian services	–	14,720	8,188
Total	1,186,771	725,792	1,052,254
Pledged treasury bills	2022	2021	2020
For cash kept by the NBG at the Group's premises under cash custodian services	24,180	–	–
Total	24,180	–	–
Pledged corporate bonds	2022	2021	2020
For short-term loans from the NBG	121,592	–	685,901
For deposits of Ministry of Finance of Georgia	205,079	109,109	–
Total	326,671	109,109	685,901

Other debt instruments as at 31 December 2022 mainly comprises bonds issued by the European Bank for Reconstruction and Development of GEL 531,351 (2021: GEL 521,394, 2020: GEL 312,144), GEL-denominated bonds issued by the International Finance Corporation of GEL 56,523 (2021: GEL 203,351, 2020: GEL 211,250), GEL-denominated bonds issued by the Netherlands Development Finance Company of GEL 131,126 (2021: GEL 163,593, 2020: GEL 162,949), GEL-denominated bonds issued by the Black Sea Trade and Development Bank of GEL 200,913 (2021: GEL 65,407, 2020: GEL 151,592), USD-denominated bonds issued by the National Bank Of Uzbekistan of GEL 12,230 (2021: Nil, 2020: Nil) and GEL-denominated bonds issued by the Asian Development Bank of GEL 107,835 (2021: GEL 61,609, 2020: GEL 61,350).

Foreign treasury bonds and bills comprise of US Treasury Notes in the amount of GEL 1,062,095 (2021: Nil, 2020: GEL 52,992), Ministry of Finance of the Republic of Lithuania treasury bonds in the amount of GEL Nil (2021: GEL 15,992, 2020: GEL 26,982), United Kingdom treasury bonds in the amount of GEL 32,516 (2021: GEL Nil, 2020: Nil) and Ministry of Finance of the Republic of Belarus treasury bonds in the amount of GEL 60,301 (2021: GEL 63,164, 2020: GEL 79,563).

For the period ended 31 December 2022 net gains on derecognition of investment securities comprised GEL 7,921 (2021: GEL 30,044, 2020: GEL 3,585) which is included in net other income.

As at 31 December 2022, allowance for ECL on investment securities comprised GEL 2,236 (2021: GEL 3,145, 2020: GEL 4,875).

9. Loans to customers and finance lease receivables

	2022	2021	2020
Commercial loans	5,315,666	5,554,184	5,123,393
Residential mortgage loans	4,193,204	4,022,058	3,796,384
Micro and SME loans	3,825,663	3,731,756	3,269,454
Consumer loans	3,602,054	2,981,305	2,208,013
Gold – pawn loans	164,554	165,417	103,384
Loans to customers at amortised cost, gross	17,101,141	16,454,720	14,500,628
Less – Allowance for expected credit loss	(326,005)	(404,804)	(443,546)
Loans to customers at amortised cost, net	16,775,136	16,049,916	14,057,082
Finance lease receivables, gross	95,348	124,952	139,372
Less – Allowance for expected credit loss	(8,778)	(5,895)	(4,376)
Finance lease receivables, net	86,570	119,057	134,996
Total loans to customers and finance lease receivables	16,861,706	16,168,973	14,192,078

As at 31 December 2022, loans to customers carried at GEL 1,092,475 (2021: GEL 1,125,955, 2020: GEL 692,052) were pledged for short-term loans from the NBG.

9. Loans to customers and finance lease receivables continued

Expected credit loss

Movements of the gross loans and respective allowance for expected credit loss/impairment of loans to customers by class are provided in the table below, within which the new financial asset originated or purchased and the assets repaid during the year include the effects from revolving loans and increase of exposure to clients, where existing loans have been repaid with new contracts issued during the year. All new financial assets are originated either in Stage 1 or POCI category. Utilisation of additional tranches on existing financial assets are reflected in Stage 2 or Stage 3 if the credit risk of the borrower has deteriorated since initiation. Currency translation differences relate to loans issued by the subsidiaries of the Group whose functional currency is different from the presentation currency of the Group, while foreign exchange movement relates to foreign currency denominated loans issued by the Group. Net other changes in gross loan balances includes the effects of changes in accrued interest. Net other measurement of ECL includes the effect of changes in ECL due to post-model adjustments, changes in PDs and other inputs, as well as the effect from ECL attributable to changes in accrued interest.

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	4,934,312	374,933	226,925	18,014	5,554,184
New financial asset originated or purchased	4,574,787	34,779	693	6,969	4,617,228
Transfer to Stage 1	202,422	(202,422)	–	–	–
Transfer to Stage 2	(773,437)	803,734	(30,297)	–	–
Transfer to Stage 3	(5,553)	(98,586)	104,139	–	–
Assets derecognised due to pass-through arrangement	(23,721)	(20)	(83)	–	(23,824)
Assets repaid	(4,092,938)	(217,064)	(83,154)	(9,763)	(4,402,919)
Resegmentation	194,578	2,622	(6,567)	–	190,633
Impact of modifications	1,330	1,983	184	2	3,499
Write-offs	–	–	(55,962)	–	(55,962)
Recoveries of amounts previously written off	–	–	42,501	2,865	45,366
Unwind of discount	–	–	(1,921)	359	(1,562)
Currency translation differences	(33,751)	(1,051)	(1,888)	–	(36,690)
Foreign exchange movement	(512,131)	(89,055)	(24,259)	(1,843)	(627,288)
Net other changes	45,923	1,454	6,277	(653)	53,001
Balance at 31 December 2022	4,511,821	611,307	176,588	15,950	5,315,666
Individually assessed	–	–	159,486	13,603	173,089
Collectively assessed	4,511,821	611,307	17,102	2,347	5,142,577
Balance at 31 December 2022	4,511,821	611,307	176,588	15,950	5,315,666
Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	14,338	6,893	135,061	2,923	159,215
New financial asset originated or purchased	23,237	166	230	2,997	26,630
Transfer to Stage 1	4,323	(4,323)	–	–	–
Transfer to Stage 2	(6,172)	12,308	(6,136)	–	–
Transfer to Stage 3	(485)	(1,503)	1,988	–	–
Impact on ECL of exposures transferred between stages during the year	(2,382)	(3,448)	28,233	–	22,403
Assets derecognised due to pass-through arrangement	(62)	–	(34)	–	(96)
Assets repaid	(10,492)	(4,325)	(59,872)	(3,151)	(77,840)
Resegmentation	5,404	(27)	(997)	–	4,380
Impact of modifications	30	104	1	2	137
Write-offs	–	–	(55,962)	–	(55,962)
Recoveries of amounts previously written off	–	–	42,501	2,865	45,366
Unwind of discount	–	–	(1,921)	359	(1,562)
Currency translation differences	(793)	(1,079)	(2,941)	–	(4,813)
Foreign exchange movement	(921)	(1,696)	(10,613)	(883)	(14,113)
Net other measurement of ECL	(6,810)	20,460	(25,291)	(547)	(12,188)
Balance at 31 December 2022	19,215	23,530	44,247	4,565	91,557
Individually assessed	–	–	37,492	4,493	41,985
Collectively assessed	19,215	23,530	6,755	72	49,572
Balance at 31 December 2022	19,215	23,530	44,247	4,565	91,557

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(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	3,629,369	259,970	104,514	28,205	4,022,058
New financial asset originated or purchased	1,466,957	14	–	13,524	1,480,495
Transfer to Stage 1	403,540	(403,398)	(142)	–	–
Transfer to Stage 2	(375,932)	443,567	(67,635)	–	–
Transfer to Stage 3	(45,171)	(49,817)	94,988	–	–
Assets repaid	(901,792)	(57,945)	(49,096)	(10,849)	(1,019,682)
Resegmentation	(603)	–	–	–	(603)
Impact of modifications	179	37	(2,949)	(169)	(2,902)
Write-offs	–	–	(4,445)	(730)	(5,175)
Recoveries of amounts previously written off	–	–	3,937	357	4,294
Unwind of discount	–	–	182	109	291
Currency translation differences	(4,670)	(98)	(23)	–	(4,791)
Foreign exchange movement	(254,899)	(20,553)	(10,022)	(2,527)	(288,001)
Net other changes	8,928	(2,211)	348	155	7,220
Balance at 31 December 2022	3,925,906	169,566	69,657	28,075	4,193,204
Individually assessed	–	–	2,940	–	2,940
Collectively assessed	3,925,906	169,566	66,717	28,075	4,190,264
Balance at 31 December 2022	3,925,906	169,566	69,657	28,075	4,193,204
Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	9,703	3,803	17,039	2,493	33,038
New financial asset originated or purchased	14,452	–	–	2,403	16,855
Transfer to Stage 1	5,673	(5,608)	(65)	–	–
Transfer to Stage 2	(3,236)	15,977	(12,741)	–	–
Transfer to Stage 3	(7,463)	(1,484)	8,947	–	–
Impact on ECL of exposures transferred between stages during the year	(1,807)	(10,903)	6,767	–	(5,943)
Assets repaid	(1,731)	(961)	(11,220)	(2,103)	(16,015)
Resegmentation	–	–	–	–	–
Impact of modifications	4	1	937	64	1,006
Write-offs	–	–	(4,445)	(730)	(5,175)
Recoveries of amounts previously written off	–	–	3,937	357	4,294
Unwind of discount	–	–	182	109	291
Foreign exchange movement	(244)	(122)	(1,652)	(498)	(2,516)
Net other measurement of ECL	(6,487)	1,898	6,399	2,412	4,222
Balance at 31 December 2022	8,862	2,601	14,085	4,507	30,055
Individually assessed	–	–	576	–	576
Collectively assessed	8,862	2,601	13,509	4,507	29,479
Balance at 31 December 2022	8,862	2,601	14,085	4,507	30,055

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	3,280,149	293,473	151,499	6,635	3,731,756
New financial asset originated or purchased	2,953,940	7,854	1,859	2,435	2,966,088
Transfer to Stage 1	337,049	(337,049)	–	–	–
Transfer to Stage 2	(442,020)	501,877	(59,857)	–	–
Transfer to Stage 3	(50,683)	(106,474)	157,157	–	–
Assets repaid	(2,142,937)	(125,830)	(71,105)	(5,917)	(2,345,789)
Resegmentation	(224,709)	(4,680)	5,034	–	(224,355)
Impact of modifications	194	139	(2,627)	(36)	(2,330)
Write-offs	–	–	(37,629)	(98)	(37,727)
Recoveries of amounts previously written off	–	–	11,875	79	11,954
Unwind of discount	–	–	1,262	58	1,320
Currency translation differences	(11,551)	(1,097)	(1,147)	–	(13,795)
Foreign exchange movement	(275,010)	(27,918)	(17,669)	(350)	(320,947)
Net other changes	51,417	168	7,865	38	59,488
Balance at 31 December 2022	3,475,839	200,463	146,517	2,844	3,825,663
Individually assessed	–	–	39,448	–	39,448
Collectively assessed	3,475,839	200,463	107,069	2,844	3,786,215
Balance at 31 December 2022	3,475,839	200,463	146,517	2,844	3,825,663
Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	28,177	6,556	39,584	124	74,441
New financial asset originated or purchased	38,841	81	97	281	39,300
Transfer to Stage 1	7,921	(7,921)	–	–	–
Transfer to Stage 2	(8,873)	20,802	(11,929)	–	–
Transfer to Stage 3	(8,295)	(7,503)	15,798	–	–
Impact on ECL of exposures transferred between stages during the year	(962)	(9,903)	29,077	–	18,212
Assets repaid	(13,663)	(3,065)	(24,514)	(496)	(41,738)
Resegmentation	(5,935)	(129)	541	–	(5,523)
Impact of modifications	10	(24)	(1,147)	16	(1,145)
Write-offs	–	–	(37,629)	(98)	(37,727)
Recoveries of amounts previously written off	–	–	11,875	79	11,954
Unwind of discount	–	–	1,262	58	1,320
Currency translation differences	(143)	(96)	(764)	–	(1,003)
Foreign exchange movement	(1,071)	(114)	(3,448)	(67)	(4,700)
Net other measurement of ECL	(15,929)	6,764	18,514	762	10,111
Balance at 31 December 2022	20,078	5,448	37,317	659	63,502
Individually assessed	–	–	10,552	–	10,552
Collectively assessed	20,078	5,448	26,765	659	52,950
Balance at 31 December 2022	20,078	5,448	37,317	659	63,502

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(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	2,635,438	215,026	107,642	23,199	2,981,305
New financial asset originated or purchased	3,313,393	7,566	969	15,493	3,337,421
Transfer to Stage 1	344,640	(344,445)	(195)	–	–
Transfer to Stage 2	(534,425)	608,146	(73,721)	–	–
Transfer to Stage 3	(121,557)	(167,897)	289,454	–	–
Assets repaid	(2,357,992)	(102,236)	(64,593)	(12,241)	(2,537,062)
Resegmentation	30,506	2,058	1,578	–	34,142
Impact of modifications	1,152	(84)	(24,515)	(1,236)	(24,683)
Write-offs	–	–	(171,142)	(4,431)	(175,573)
Recoveries of amounts previously written off	–	–	22,074	879	22,953
Unwind of discount	–	–	4,252	922	5,174
Currency translation differences	(14,540)	(80)	(163)	–	(14,783)
Foreign exchange movement	(86,830)	(4,100)	(1,319)	(610)	(92,859)
Net other changes	33,406	(79)	31,671	1,021	66,019
Balance at 31 December 2022	3,243,191	213,875	121,992	22,996	3,602,054
Individually assessed	–	–	2,650	–	2,650
Collectively assessed	3,243,191	213,875	119,342	22,996	3,599,404
Balance at 31 December 2022	3,243,191	213,875	121,992	22,996	3,602,054
Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	57,083	19,410	58,731	811	136,035
New financial asset originated or purchased	131,916	1,199	478	4,325	137,918
Transfer to Stage 1	26,886	(26,872)	(14)	–	–
Transfer to Stage 2	(36,429)	72,075	(35,646)	–	–
Transfer to Stage 3	(61,445)	(37,845)	99,290	–	–
Impact on ECL of exposures transferred between stages during the year	(3,821)	(29,191)	48,501	–	15,489
Assets repaid	(41,829)	(8,884)	(38,047)	(3,763)	(92,523)
Resegmentation	531	156	456	–	1,143
Impact of modifications	121	(12)	(10,792)	122	(10,561)
Write-offs	–	–	(171,142)	(4,431)	(175,573)
Recoveries of amounts previously written off	–	–	22,074	879	22,953
Unwind of discount	–	–	4,252	922	5,174
Currency translation differences	(36)	(11)	(201)	–	(248)
Foreign exchange movement	(191)	(60)	(763)	(63)	(1,077)
Net other measurement of ECL	(32,188)	29,344	90,779	8,785	96,720
Balance at 31 December 2022	40,598	19,309	67,956	7,587	135,450
Individually assessed	–	–	1,054	–	1,054
Collectively assessed	40,598	19,309	66,902	7,587	134,396
Balance at 31 December 2022	40,598	19,309	67,956	7,587	135,450

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	152,787	10,116	2,514	–	165,417
New financial asset originated or purchased	122,438	1	54	–	122,493
Transfer to Stage 1	17,460	(17,460)	–	–	–
Transfer to Stage 2	(24,040)	25,642	(1,602)	–	–
Transfer to Stage 3	(7,251)	(2,757)	10,008	–	–
Assets repaid	(112,603)	(6,938)	(4,054)	–	(123,595)
Resegmentation	228	–	(45)	–	183
Write-offs	–	–	(635)	–	(635)
Recoveries of amounts previously written off	–	–	(25)	–	(25)
Unwind of discount	–	–	1	–	1
Foreign exchange movement	(33)	(4)	4	–	(33)
Net other changes	(1,461)	13	2,196	–	748
Balance at 31 December 2022	147,525	8,613	8,416	–	164,554
Individually assessed	–	–	4,337	–	4,337
Collectively assessed	147,525	8,613	4,079	–	160,217
Balance at 31 December 2022	147,525	8,613	8,416	–	164,554
Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	1,823	11	241	–	2,075
New financial asset originated or purchased	–	–	–	–	–
Transfer to Stage 1	27	(27)	–	–	–
Transfer to Stage 2	(16)	149	(133)	–	–
Transfer to Stage 3	(2,502)	(6)	2,508	–	–
Assets repaid	(18)	(6)	(30)	–	(54)
Write-offs	–	–	(635)	–	(635)
Recoveries of amounts previously written off	–	–	(25)	–	(25)
Unwind of discount	–	–	1	–	1
Net other measurement of ECL	756	(89)	3,412	–	4,079
Balance at 31 December 2022	70	32	5,339	–	5,441
Individually assessed	–	–	4,337	–	4,337
Collectively assessed	70	32	1,002	–	1,104
Balance at 31 December 2022	70	32	5,339	–	5,441

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	4,491,078	382,118	241,821	8,376	5,123,393
New financial asset originated or purchased	4,357,093	34,815	3,202	10,032	4,405,142
Transfer to Stage 1	231,287	(229,399)	(1,888)	–	–
Transfer to Stage 2	(373,532)	394,553	(21,021)	–	–
Transfer to Stage 3	(13,813)	(52,529)	66,342	–	–
Assets derecognised due to pass-through arrangement	(28,338)	(2,048)	(124)	–	(30,510)
Assets repaid	(3,479,338)	(159,200)	(102,689)	(144)	(3,741,371)
Resegmentation	109,367	35,325	2,164	–	146,856
Impact of modifications	686	258	152	(22)	1,074
Write-offs	–	–	(4,574)	–	(4,574)
Recoveries of amounts previously written off	–	–	47,192	69	47,261
Unwind of discount	–	–	2,959	4	2,963
Currency translation differences	(12,742)	(358)	(866)	–	(13,966)
Foreign exchange movement	(361,065)	(27,796)	(9,555)	(380)	(398,796)
Net other changes	13,629	(806)	3,810	79	16,712
Balance at 31 December 2021	4,934,312	374,933	226,925	18,014	5,554,184
Individually assessed	–	–	203,431	9,566	212,997
Collectively assessed	4,934,312	374,933	23,494	8,448	5,341,187
Balance at 31 December 2021	4,934,312	374,933	226,925	18,014	5,554,184
Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	33,823	8,157	136,572	4	178,556
New financial asset originated or purchased	20,591	1,973	312	3,481	26,357
Transfer to Stage 1	2,934	(2,932)	(2)	–	–
Transfer to Stage 2	(2,904)	11,116	(8,212)	–	–
Transfer to Stage 3	(1,769)	(374)	2,143	–	–
Impact on ECL of exposures transferred between stages during the year	(1,373)	(6,710)	10,153	–	2,070
Assets derecognised due to pass-through arrangement	(138)	(74)	(70)	–	(282)
Assets repaid	(9,412)	(3,694)	(67,366)	(80)	(80,552)
Resegmentation	192	298	–	–	490
Impact of modifications	11	(2)	12	(14)	7
Write-offs	–	–	(4,574)	–	(4,574)
Recoveries of amounts previously written off	–	–	47,192	69	47,261
Unwind of discount	–	–	2,959	4	2,963
Currency translation differences	(132)	(76)	(382)	–	(590)
Foreign exchange movement	(942)	(141)	(5,254)	10	(6,327)
Net other measurement of ECL	(26,543)	(648)	21,578	(551)	(6,164)
Balance at 31 December 2021	14,338	6,893	135,061	2,923	159,215
Individually assessed	–	–	126,724	2,837	129,561
Collectively assessed	14,338	6,893	8,337	86	29,654
Balance at 31 December 2021	14,338	6,893	135,061	2,923	159,215

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	3,287,844	314,215	168,476	25,849	3,796,384
New financial asset originated or purchased	1,549,472	238	103	13,615	1,563,428
Transfer to Stage 1	428,840	(407,795)	(21,045)	–	–
Transfer to Stage 2	(344,981)	588,640	(243,659)	–	–
Transfer to Stage 3	(158,425)	(129,954)	288,379	–	–
Assets repaid	(975,730)	(94,131)	(73,544)	(9,287)	(1,152,692)
Resegmentation	5,514	970	–	–	6,484
Impact of modifications	988	670	143	(283)	1,518
Write-offs	–	–	(5,750)	(561)	(6,311)
Recoveries of amounts previously written off	–	–	993	205	1,198
Unwind of discount	–	–	244	17	261
Currency translation differences	(1,910)	(45)	2	(2)	(1,955)
Foreign exchange movement	(155,793)	(11,366)	(9,238)	(1,648)	(178,045)
Net other changes	(6,450)	(1,472)	(590)	300	(8,212)
Balance at 31 December 2021	3,629,369	259,970	104,514	28,205	4,022,058
Individually assessed	–	–	277	–	277
Collectively assessed	3,629,369	259,970	104,237	28,205	4,021,781
Balance at 31 December 2021	3,629,369	259,970	104,514	28,205	4,022,058
Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	8,652	11,410	25,236	3,311	48,609
New financial asset originated or purchased	29,065	3	4	887	29,959
Transfer to Stage 1	15,750	(12,962)	(2,788)	–	–
Transfer to Stage 2	(5,679)	46,641	(40,962)	–	–
Transfer to Stage 3	(18,908)	(5,725)	24,633	–	–
Impact on ECL of exposures transferred between stages during the year	(5,562)	(37,935)	22,414	–	(21,083)
Assets repaid	(2,621)	(2,674)	(12,902)	(1,763)	(19,960)
Resegmentation	21	1	–	–	22
Impact of modifications	–	–	438	(198)	240
Write-offs	–	–	(5,750)	(561)	(6,311)
Recoveries of amounts previously written off	–	–	993	205	1,198
Unwind of discount	–	–	244	17	261
Currency translation differences	–	–	–	–	–
Foreign exchange movement	(470)	101	(1,732)	(409)	(2,510)
Net other measurement of ECL	(10,545)	4,943	7,211	1,004	2,613
Balance at 31 December 2021	9,703	3,803	17,039	2,493	33,038
Individually assessed	–	–	7	–	7
Collectively assessed	9,703	3,803	17,032	2,493	33,031
Balance at 31 December 2021	9,703	3,803	17,039	2,493	33,038

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	2,649,107	439,405	177,471	3,471	3,269,454
New financial asset originated or purchased	3,303,744	17,798	1,152	7,599	3,330,293
Transfer to Stage 1	384,411	(377,752)	(6,659)	–	–
Transfer to Stage 2	(571,845)	678,669	(106,824)	–	–
Transfer to Stage 3	(108,524)	(112,029)	220,553	–	–
Assets repaid	(1,987,068)	(282,948)	(96,106)	(4,718)	(2,370,840)
Resegmentation	(247,911)	(40,492)	(2,790)	(5)	(291,198)
Impact of modifications	319	210	(4,384)	(11)	(3,866)
Write-offs	–	–	(40,195)	(214)	(40,409)
Recoveries of amounts previously written off	–	–	12,628	686	13,314
Unwind of discount	–	–	265	23	288
Currency translation differences	(5,494)	(473)	(386)	2	(6,351)
Foreign exchange movement	(180,781)	(27,138)	(9,910)	(271)	(218,100)
Net other changes	44,191	(1,777)	6,684	73	49,171
Balance at 31 December 2021	3,280,149	293,473	151,499	6,635	3,731,756
Individually assessed	–	–	23,466	–	23,466
Collectively assessed	3,280,149	293,473	128,033	6,635	3,708,290
Balance at 31 December 2021	3,280,149	293,473	151,499	6,635	3,731,756
Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	26,157	20,571	55,560	64	102,352
New financial asset originated or purchased	58,476	804	92	81	59,453
Transfer to Stage 1	20,352	(18,841)	(1,511)	–	–
Transfer to Stage 2	(14,284)	35,909	(21,625)	–	–
Transfer to Stage 3	(13,914)	(7,459)	21,373	–	–
Impact on ECL of exposures transferred between stages during the year	(4,218)	(18,652)	27,259	–	4,389
Assets repaid	(16,879)	(7,632)	(26,573)	(968)	(52,052)
Resegmentation	(1,280)	(476)	(182)	–	(1,938)
Impact of modifications	2	(7)	(2,180)	1	(2,184)
Write-offs	–	–	(40,195)	(214)	(40,409)
Recoveries of amounts previously written off	–	–	12,628	686	13,314
Unwind of discount	–	–	265	23	288
Currency translation differences	(62)	(34)	(268)	–	(364)
Foreign exchange movement	(1,020)	(184)	(2,826)	(79)	(4,109)
Net other measurement of ECL	(25,153)	2,557	17,767	530	(4,299)
Balance at 31 December 2021	28,177	6,556	39,584	124	74,441
Individually assessed	–	–	10,613	–	10,613
Collectively assessed	28,177	6,556	28,971	124	63,828
Balance at 31 December 2021	28,177	6,556	39,584	124	74,441

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	1,904,182	194,366	100,950	8,515	2,208,013
New financial asset originated or purchased	2,747,021	7,001	1,718	19,540	2,775,280
Transfer to Stage 1	270,620	(253,910)	(16,710)	–	–
Transfer to Stage 2	(367,600)	489,718	(122,118)	–	–
Transfer to Stage 3	(134,641)	(123,558)	258,199	–	–
Assets repaid	(1,849,334)	(100,322)	(65,394)	(4,297)	(2,019,347)
Resegmentation	110,449	3,487	706	5	114,647
Impact of modifications	246	82	(9,482)	(46)	(9,200)
Write-offs	–	–	(72,832)	(415)	(73,247)
Recoveries of amounts previously written off	–	–	19,405	148	19,553
Unwind of discount	–	–	397	345	742
Currency translation differences	(6,094)	(33)	(68)	–	(6,195)
Foreign exchange movement	(51,792)	(1,590)	(688)	(223)	(54,293)
Net other changes	12,381	(215)	13,559	(373)	25,352
Balance at 31 December 2021	2,635,438	215,026	107,642	23,199	2,981,305
Individually assessed	–	–	1,481	–	1,481
Collectively assessed	2,635,438	215,026	106,161	23,199	2,979,824
Balance at 31 December 2021	2,635,438	215,026	107,642	23,199	2,981,305
Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	40,597	25,533	46,641	1,030	113,801
New financial asset originated or purchased	153,477	1,570	546	251	155,844
Transfer to Stage 1	33,951	(26,256)	(7,695)	–	–
Transfer to Stage 2	(26,684)	75,148	(48,464)	–	–
Transfer to Stage 3	(57,627)	(20,176)	77,803	–	–
Impact on ECL of exposures transferred between stages during the year	(12,239)	(40,279)	53,664	–	1,146
Assets repaid	(47,437)	(11,239)	(36,001)	(1,449)	(96,126)
Resegmentation	548	83	182	–	813
Impact of modifications	(2)	(1)	(5,036)	5	(5,034)
Write-offs	–	–	(72,832)	(415)	(73,247)
Recoveries of amounts previously written off	–	–	19,405	148	19,553
Unwind of discount	–	–	397	345	742
Currency translation differences	(10)	(3)	(15)	–	(28)
Foreign exchange movement	(153)	(37)	(643)	(29)	(862)
Net other measurement of ECL	(27,338)	15,067	30,779	925	19,433
Balance at 31 December 2021	57,083	19,410	58,731	811	136,035
Individually assessed	–	–	585	–	585
Collectively assessed	57,083	19,410	58,146	811	135,450
Balance at 31 December 2021	57,083	19,410	58,731	811	136,035

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	97,775	3,879	1,730	–	103,384
New financial asset originated or purchased	170,198	1,117	219	–	171,534
Transfer to Stage 1	10,556	(10,148)	(408)	–	–
Transfer to Stage 2	(21,129)	23,266	(2,137)	–	–
Transfer to Stage 3	(3,856)	(2,531)	6,387	–	–
Assets repaid	(123,964)	(6,222)	(3,071)	–	(133,257)
Resegmentation	22,581	710	(80)	–	23,211
Write-offs	–	–	(253)	–	(253)
Recoveries of amounts previously written off	–	–	3	–	3
Unwind of discount	–	–	(1)	–	(1)
Foreign exchange movement	(18)	(6)	(3)	–	(27)
Net other changes	644	51	128	–	823
Balance at 31 December 2021	152,787	10,116	2,514	–	165,417
Collectively assessed	152,787	10,116	2,514	–	165,417
Balance at 31 December 2021	152,787	10,116	2,514	–	165,417
Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	40	16	172	–	228
Transfer to Stage 1	34	(10)	(24)	–	–
Transfer to Stage 2	–	85	(85)	–	–
Transfer to Stage 3	(2)	(4)	6	–	–
Impact on ECL of exposures transferred between stages during the year	(24)	–	–	–	(24)
Assets repaid	(177)	(27)	(24)	–	(228)
Write-offs	–	–	(253)	–	(253)
Recoveries of amounts previously written off	–	–	3	–	3
Unwind of discount	–	–	(1)	–	(1)
Foreign exchange movement	–	–	–	–	–
Net other measurement of ECL	936	(281)	447	–	1,102
Balance at 31 December 2021	1,823	11	241	–	2,075
Collectively assessed	1,823	11	241	–	2,075
Balance at 31 December 2021	1,823	11	241	–	2,075

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	3,583,051	349,494	161,744	7,661	4,101,950
New financial asset originated or purchased	3,223,279	45,618	2,156	–	3,271,053
Transfer to Stage 1	370,266	(370,266)	–	–	–
Transfer to Stage 2	(578,928)	626,550	(47,622)	–	–
Transfer to Stage 3	(58,408)	(79,014)	137,422	–	–
Assets derecognised due to pass-through arrangement	(30,363)	(10,340)	(52)	–	(40,755)
Assets repaid	(2,637,752)	(218,169)	(61,392)	(575)	(2,917,888)
Resegmentation	21,133	–	–	–	21,133
Impact of modifications	(809)	94	(4)	(7)	(726)
Write-offs	–	–	(6,595)	–	(6,595)
Recoveries of amounts previously written off	–	–	13,531	127	13,658
Unwind of discount	–	–	9,691	6	9,697
Currency translation differences	(19,819)	(471)	(1,455)	–	(21,745)
Foreign exchange movement	634,072	37,831	31,097	928	703,928
Net other changes	(14,644)	791	3,300	236	(10,317)
Balance at 31 December 2020	4,491,078	382,118	241,821	8,376	5,123,393
Individually assessed	–	–	237,593	–	237,593
Collectively assessed	4,491,078	382,118	4,228	8,376	4,885,800
Balance at 31 December 2020	4,491,078	382,118	241,821	8,376	5,123,393
Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	16,903	3,414	77,995	298	98,610
New financial asset originated or purchased	4,099	1,253	572	–	5,924
Transfer to Stage 1	3,906	(3,906)	–	–	–
Transfer to Stage 2	(2,773)	8,026	(5,253)	–	–
Transfer to Stage 3	(541)	(12,002)	12,543	–	–
Impact on ECL of exposures transferred between stages during the year	(27,165)	(2,523)	24,295	–	(5,393)
Assets derecognised due to pass-through arrangement	(9)	(294)	(12)	–	(315)
Assets repaid	(9,935)	(10,052)	(29,340)	(304)	(49,631)
Resegmentation	140	–	–	–	140
Impact of modifications	1	8	(6)	–	3
Write-offs	–	–	(6,595)	–	(6,595)
Recoveries of amounts previously written off	–	–	13,531	127	13,658
Unwind of discount	–	–	9,691	6	9,697
Currency translation differences	791	335	2,281	–	3,407
Foreign exchange movement	4,407	(782)	12,544	20	16,189
Net other measurement of ECL	43,999	24,680	24,326	(143)	92,862
Balance at 31 December 2020	33,823	8,157	136,572	4	178,556
Individually assessed	–	–	134,424	–	134,424
Collectively assessed	33,823	8,157	2,148	4	44,132
Balance at 31 December 2020	33,823	8,157	136,572	4	178,556

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	2,764,959	160,038	109,413	32,273	3,066,683
New financial asset originated or purchased	1,239,637	430	259	3,101	1,243,427
Transfer to Stage 1	460,728	(419,122)	(41,606)	–	–
Transfer to Stage 2	(541,668)	600,415	(58,747)	–	–
Transfer to Stage 3	(155,514)	(40,638)	196,152	–	–
Assets repaid	(788,737)	(37,503)	(51,790)	(13,696)	(891,726)
Resegmentation	(945)	–	–	–	(945)
Impact of modifications	(8,730)	954	(134)	(854)	(8,764)
Write-offs	–	–	(5,368)	(215)	(5,583)
Recoveries of amounts previously written off	–	–	734	767	1,501
Unwind of discount	2	–	292	91	385
Currency translation differences	(1,837)	(1)	(3)	–	(1,841)
Foreign exchange movement	287,057	23,746	12,847	3,604	327,254
Net other changes	32,892	25,896	6,427	778	65,993
Balance at 31 December 2020	3,287,844	314,215	168,476	25,849	3,796,384
Individually assessed	–	–	3,517	–	3,517
Collectively assessed	3,287,844	314,215	164,959	25,849	3,792,867
Balance at 31 December 2020	3,287,844	314,215	168,476	25,849	3,796,384
Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	461	160	6,588	1,808	9,017
New financial asset originated or purchased	848	2	9	162	1,021
Transfer to Stage 1	14,030	(7,452)	(6,578)	–	–
Transfer to Stage 2	(2,420)	10,027	(7,607)	–	–
Transfer to Stage 3	(75)	(856)	931	–	–
Impact on ECL of exposures transferred between stages during the year	(19,497)	(6,049)	2,719	–	(22,827)
Assets repaid	(3,281)	(965)	(8,598)	(3,399)	(16,243)
Impact of modifications	(15)	468	499	(213)	739
Write-offs	–	–	(5,368)	(215)	(5,583)
Recoveries of amounts previously written off	–	–	734	767	1,501
Unwind of discount	2	–	292	91	385
Currency translation differences	(11)	–	–	–	(11)
Foreign exchange movement	136	(63)	1,029	474	1,576
Net other measurement of ECL	18,491	16,138	40,586	3,836	79,051
Balance at 31 December 2020	8,652	11,410	25,236	3,311	48,609
Collectively assessed	8,652	11,410	24,833	3,311	48,206
Balance at 31 December 2020	8,652	11,410	25,236	3,311	48,609

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	2,426,866	113,130	118,475	1,749	2,660,220
New financial asset originated or purchased	2,089,047	6,772	887	2,928	2,099,634
Transfer to Stage 1	453,063	(439,267)	(13,796)	–	–
Transfer to Stage 2	(891,350)	925,785	(34,435)	–	–
Transfer to Stage 3	(58,496)	(104,533)	163,029	–	–
Assets repaid	(1,593,656)	(154,459)	(70,067)	(1,224)	(1,819,406)
Resegmentation	(19,958)	–	–	–	(19,958)
Impact of modifications	(6,109)	(786)	(2,560)	(1)	(9,456)
Write-offs	–	–	(30,561)	(976)	(31,537)
Recoveries of amounts previously written off	–	–	7,831	102	7,933
Unwind of discount	–	–	1,319	25	1,344
Currency translation differences	(8,429)	(1,001)	(569)	–	(9,999)
Foreign exchange movement	254,683	35,131	13,036	293	303,143
Net other changes	3,446	58,633	24,882	575	87,536
Balance at 31 December 2020	2,649,107	439,405	177,471	3,471	3,269,454
Individually assessed	–	–	25,900	–	25,900
Collectively assessed	2,649,107	439,405	151,571	3,471	3,243,554
Balance at 31 December 2020	2,649,107	439,405	177,471	3,471	3,269,454
Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	12,890	5,803	24,976	876	44,545
New financial asset originated or purchased	1,636	739	24	50	2,449
Transfer to Stage 1	24,865	(21,624)	(3,241)	–	–
Transfer to Stage 2	(10,906)	17,875	(6,969)	–	–
Transfer to Stage 3	(562)	(9,162)	9,724	–	–
Impact on ECL of exposures transferred between stages during the year	(25,202)	(2,771)	8,310	–	(19,663)
Assets repaid	(13,883)	(9,024)	(21,668)	(270)	(44,845)
Resegmentation	(123)	–	–	–	(123)
Impact of modifications	(158)	(173)	(1,148)	–	(1,479)
Write-offs	–	–	(30,561)	(976)	(31,537)
Recoveries of amounts previously written off	–	–	7,831	102	7,933
Unwind of discount	–	–	1,319	25	1,344
Currency translation differences	368	134	142	–	644
Foreign exchange movement	661	37	2,140	76	2,914
Net other measurement of ECL	36,571	38,737	64,681	181	140,170
Balance at 31 December 2020	26,157	20,571	55,560	64	102,352
Individually assessed	–	–	12,976	–	12,976
Collectively assessed	26,157	20,571	42,584	64	89,376
Balance at 31 December 2020	26,157	20,571	55,560	64	102,352

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	1,856,795	110,158	108,414	9,741	2,085,108
New financial asset originated or purchased	1,613,372	7,125	2,925	1,016	1,624,438
Transfer to Stage 1	291,916	(245,014)	(46,902)	–	–
Transfer to Stage 2	(394,422)	435,335	(40,913)	–	–
Transfer to Stage 3	(100,329)	(49,583)	149,912	–	–
Assets repaid	(1,412,334)	(80,602)	(70,082)	(3,242)	(1,566,260)
Resegmentation	(230)	–	263	–	33
Impact of modifications	(12,300)	(1,149)	(3,328)	(148)	(16,925)
Write-offs	–	–	(34,940)	(8)	(34,948)
Recoveries of amounts previously written off	–	–	21,309	65	21,374
Unwind of discount	–	–	431	18	449
Currency translation differences	(10,713)	(32)	(57)	–	(10,802)
Foreign exchange movement	16,413	3,656	3,549	419	24,037
Net other changes	56,014	14,472	10,369	654	81,509
Balance at 31 December 2020	1,904,182	194,366	100,950	8,515	2,208,013
Individually assessed	–	–	1,346	–	1,346
Collectively assessed	1,904,182	194,366	99,604	8,515	2,206,667
Balance at 31 December 2020	1,904,182	194,366	100,950	8,515	2,208,013
Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	16,823	6,345	49,325	214	72,707
New financial asset originated or purchased	15,299	1,736	907	374	18,316
Transfer to Stage 1	45,315	(23,886)	(21,429)	–	–
Transfer to Stage 2	(17,770)	38,726	(20,956)	–	–
Transfer to Stage 3	(577)	(8,973)	9,550	–	–
Impact on ECL of exposures transferred between stages during the year	(39,380)	(13,541)	(5,993)	–	(58,914)
Assets repaid	(29,641)	(10,116)	(44,922)	(439)	(85,118)
Impact of modifications	(519)	(171)	(1,704)	(7)	(2,401)
Write-offs	–	–	(34,940)	(8)	(34,948)
Recoveries of amounts previously written off	–	–	21,309	65	21,374
Unwind of discount	–	–	431	18	449
Currency translation differences	(186)	(7)	(49)	–	(242)
Foreign exchange movement	138	46	744	21	949
Net other measurement of ECL	51,095	35,374	94,368	792	181,629
Balance at 31 December 2020	40,597	25,533	46,641	1,030	113,801
Individually assessed	–	–	354	–	354
Collectively assessed	40,597	25,533	46,287	1,030	113,447
Balance at 31 December 2020	40,597	25,533	46,641	1,030	113,801

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	80,794	1,114	3,632	–	85,540
New financial asset originated or purchased	139,676	–	475	–	140,151
Transfer to Stage 1	6,565	(4,313)	(2,252)	–	–
Transfer to Stage 2	(10,625)	11,552	(927)	–	–
Transfer to Stage 3	(5,331)	(877)	6,208	–	–
Assets repaid	(113,508)	(3,726)	(5,053)	–	(122,287)
Resegmentation	–	–	(263)	–	(263)
Write-offs	–	–	(58)	–	(58)
Recoveries of amounts previously written off	–	–	6	–	6
Unwind of discount	–	–	6	–	6
Foreign exchange movement	148	8	(167)	–	(11)
Net other changes	56	121	123	–	300
Balance at 31 December 2020	97,775	3,879	1,730	–	103,384
Collectively assessed	97,775	3,879	1,730	–	103,384
Balance at 31 December 2020	97,775	3,879	1,730	–	103,384
Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	9	1	244	–	254
New financial asset originated or purchased	–	–	–	–	–
Transfer to Stage 1	79	(6)	(73)	–	–
Transfer to Stage 2	(10)	45	(35)	–	–
Transfer to Stage 3	(1)	(1)	2	–	–
Impact on ECL of exposures transferred between stages during the year	(82)	(1)	–	–	(83)
Assets repaid	(17)	(4)	(227)	–	(248)
Write-offs	–	–	(58)	–	(58)
Recoveries of amounts previously written off	–	–	6	–	6
Unwind of discount	–	–	6	–	6
Foreign exchange movement	(1)	–	1	–	–
Net other measurement of ECL	63	(18)	306	–	351
Balance at 31 December 2020	40	16	172	–	228
Collectively assessed	40	16	172	–	228
Balance at 31 December 2020	40	16	172	–	228

The contractual amounts outstanding on loans to customers that have been written off during the reporting period but are still subject to enforcement activity was GEL 188,545 (2021: GEL 95,469, 2020: GEL 50,718).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables, third-party corporate guarantees and personal guarantees of shareholders.
- For retail lending, mortgages over residential properties, cars, gold and jewellery, third-party corporate guarantees and personal guarantees of shareholders.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss/impairment of loans.

It is the Group's policy to dispose of repossessed properties in an orderly fashion or to hold them for capital appreciation or earning rentals, as appropriate in each case. In general, the Group does not occupy repossessed properties for business use.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Without taking into account the discounted value of collateral, the ECL for credit-impaired loans would be as follows:

	ECL for credit-impaired loans	ECL without taking into account the discounted value of collateral
2022		
Commercial loans	48,812	187,653
Residential mortgage loans	18,592	67,534
Micro and SME loans	37,976	131,404
Consumer loans	75,543	103,597
Gold – pawn loans	5,339	6,947
Total	186,262	497,135
2021		
Commercial loans	137,984	231,968
Residential mortgage loans	19,532	93,804
Micro and SME loans	39,708	140,929
Consumer loans	59,542	87,891
Gold – pawn loans	241	1,802
Total	257,007	556,394
2020		
Commercial loans	136,576	243,178
Residential mortgage loans	28,547	146,945
Micro and SME loans	55,624	160,862
Consumer loans	47,671	85,569
Gold – pawn loans	172	1,430
Total	268,590	637,984

9. Loans to customers and finance lease receivables continued

Concentration of loans to customers

As at 31 December 2022, the concentration of loans granted by the Group to the ten largest third-party borrowers comprised GEL 1,017,629 accounting for 6% of the gross loan portfolio of the Group (2021: GEL 1,375,536 and 8% respectively, 2020: GEL 1,415,618 and 10% respectively). An allowance of expected credit loss of GEL 8,209 (2021: GEL 2,770, 2020: GEL 13,612) was established against these loans.

As at 31 December 2022, the concentration of loans granted by the Group to the ten largest third-party group of borrowers (borrower and its related parties) comprised GEL 1,736,614 accounting for 10% of the gross loan portfolio of the Group (2021: GEL 2,136,228 and 13% respectively, 2020: GEL 2,051,055 and 14% respectively). An allowance of expected credit loss of GEL 17,392 (2021: GEL 7,386, 2020: GEL 16,927) was established against these loans.

As at 31 December 2022, 31 December 2021 and 31 December 2020, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2022	2021	2020
Individuals	10,011,378	9,184,255	7,900,831
Trade	1,135,693	1,189,036	1,112,910
Manufacturing	1,065,693	1,377,023	1,338,778
Real estate	1,024,364	1,025,298	1,050,823
Hospitality	828,577	946,224	829,635
Electricity, gas and water supply	458,415	384,554	251,829
Construction	512,345	379,813	269,250
Service	302,442	307,602	306,520
Financial intermediation	291,778	244,215	197,409
Transport and communication	190,175	234,512	171,406
Mining and quarrying	148,489	183,270	199,484
Other	1,131,792	998,918	871,753
Loans to customers, gross	17,101,141	16,454,720	14,500,628
Less – Allowance for expected credit loss	(326,005)	(404,804)	(443,546)
Loans to customers, net	16,775,136	16,049,916	14,057,082

Loans have been extended to the following types of customers:

	2022	2021	2020
Individuals	10,011,378	9,184,255	7,900,831
Private companies	7,086,069	7,257,993	6,579,663
State-owned entities	3,694	12,472	20,134
Loans to customers, gross	17,101,141	16,454,720	14,500,628
Less – Allowance for expected credit loss	(326,005)	(404,804)	(443,546)
Loans to customers, net	16,775,136	16,049,916	14,057,082

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Finance lease receivables

	2022	2021	2020
Minimum lease payments receivable	120,740	168,508	189,959
Less – Unearned finance lease income	(25,392)	(43,556)	(50,587)
Finance lease receivables, gross	95,348	124,952	139,372
Less – Allowance for expected credit loss/impairment loss	(8,778)	(5,895)	(4,376)
Finance lease receivables, net	86,570	119,057	134,996

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2022, finance lease receivables carried at GEL 16,965 were pledged for inter-bank loans received from several credit institutions (2021: GEL 67,556, 2020: 75,134).

As at 31 December 2022, the concentration of investment in the five largest lease receivables comprised GEL 20,515 or 22% of total finance lease receivables (2021: GEL 22,417 or 18%, 2020: GEL 20,486 or 15%). An allowance of GEL 973 (2021: GEL 956, 2020: GEL 1,176) was established against these lease receivables.

Future minimum lease payments to be received after 31 December 2022, 31 December 2021 and 31 December 2020 are as follows:

	2022	2021	2020
Within 1 year	51,944	76,407	92,391
From 1 to 2 years	22,480	35,929	45,482
From 2 to 3 years	18,109	24,390	28,145
From 3 to 4 years	7,613	14,996	15,936
From 4 to 5 years	3,036	3,159	5,189
More than 5 years	17,559	13,627	2,815
Minimum lease payment receivables	120,740	168,508	189,959

Movements of the gross finance lease receivables and respective allowance for expected credit loss/impairment of finance lease receivables are as follows:

Finance lease receivables, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	81,174	17,584	16,612	9,582	124,952
New financial asset originated or purchased	47,812	–	–	12,081	59,893
Transfer to Stage 1	25,182	(19,801)	(5,381)	–	–
Transfer to Stage 2	(26,267)	33,605	(7,338)	–	–
Transfer to Stage 3	(3,139)	(15,782)	18,921	–	–
Assets repaid	(60,440)	(8,077)	(5,299)	(6,537)	(80,353)
Impact of modifications	278	–	–	–	278
Write-offs	–	–	(2,724)	–	(2,724)
Unwind of discount	–	–	105	–	105
Currency translation differences	(6,273)	(1,022)	(1,040)	–	(8,335)
Foreign exchange movement	865	(66)	86	–	885
Net other changes	339	10	213	85	647
Balance at 31 December 2022	59,531	6,451	14,155	15,211	95,348
Individually assessed	–	–	1,245	–	1,245
Collectively assessed	59,531	6,451	12,910	15,211	94,103
Balance at 31 December 2022	59,531	6,451	14,155	15,211	95,348

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	1,126	763	2,810	1,196	5,895
New financial asset originated or purchased	1,537	–	–	–	1,537
Transfer to Stage 1	1,686	(1,044)	(642)	–	–
Transfer to Stage 2	(1,241)	2,013	(772)	–	–
Transfer to Stage 3	(188)	(1,253)	1,441	–	–
Impact on ECL of exposures transferred between stages during the year	(1,513)	586	2,104	–	1,177
Assets repaid	(664)	(299)	(1,645)	(1,856)	(4,464)
Write-offs	–	–	(480)	–	(480)
Unwind of discount	–	–	105	–	105
Currency translation differences	18	(18)	51	(1)	50
Net other measurement of ECL	27	(487)	611	4,741	4,892
Balance at 31 December 2022	852	258	3,588	4,080	8,778
Individually assessed	–	–	352	–	352
Collectively assessed	852	258	3,236	4,080	8,426
Balance at 31 December 2022	852	258	3,588	4,080	8,778
Finance lease receivables, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	67,346	53,276	18,750	–	139,372
New financial asset originated or purchased	90,739	–	465	3,107	94,311
Transfer to Stage 1	34,761	(34,715)	(46)	–	–
Transfer to Stage 2	(43,879)	57,480	(13,601)	–	–
Transfer to Stage 3	(3,925)	(33,434)	37,359	–	–
Assets repaid	(60,625)	(23,912)	(4,116)	(122)	(88,775)
Impact of modifications	20	–	–	–	20
Write-offs	–	–	(21,232)	–	(21,232)
Unwind of discount	–	–	10	13	23
Currency translation differences	(2,087)	(1,057)	(931)	–	(4,075)
Foreign exchange movement	(641)	(47)	(66)	(249)	(1,003)
Net other changes	(535)	(7)	20	6,833	6,311
Balance at 31 December 2021	81,174	17,584	16,612	9,582	124,952
Individually assessed	–	–	2,746	–	2,746
Collectively assessed	81,174	17,584	13,866	9,582	122,206
Balance at 31 December 2021	81,174	17,584	16,612	9,582	124,952
Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	649	1,109	2,618	–	4,376
New financial asset originated or purchased	1,570	–	256	–	1,826
Transfer to Stage 1	684	(683)	(1)	–	–
Transfer to Stage 2	(976)	2,371	(1,395)	–	–
Transfer to Stage 3	(85)	(1,975)	2,060	–	–
Impact on ECL of exposures transferred between stages during the year	(12)	1,036	2,151	–	3,175
Assets repaid	(461)	(467)	(361)	–	(1,289)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(2,704)	–	(2,704)
Unwind of discount	–	–	10	13	23
Currency translation differences	(36)	(550)	(152)	(12)	(750)
Foreign exchange movement	–	–	–	–	–
Net other measurement of ECL	(207)	(78)	328	1,195	1,238
Balance at 31 December 2021	1,126	763	2,810	1,196	5,895
Individually assessed	–	–	1,236	–	1,236
Collectively assessed	1,126	763	1,574	1,196	4,659
Balance at 31 December 2021	1,126	763	2,810	1,196	5,895

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

Finance lease receivables, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	130,232	12,498	16,461	–	159,191
New financial asset originated or purchased	77,711	–	2,254	–	79,965
Transfer to Stage 1	53,417	(49,918)	(3,499)	–	–
Transfer to Stage 2	(130,587)	148,126	(17,539)	–	–
Transfer to Stage 3	(12,089)	(55,528)	67,617	–	–
Assets repaid	(57,227)	(6,157)	(13,094)	–	(76,478)
Write-offs	–	–	(34,933)	–	(34,933)
Currency translation differences	(1,402)	(90)	(107)	–	(1,599)
Foreign exchange movement	5,801	5,312	1,891	–	13,004
Net other changes	1,490	6	(86)	–	1,410
Balance at 31 December 2020	67,346	53,276	18,750	–	139,372
Collectively assessed	67,346	53,276	15,611	–	136,233
Balance at 31 December 2020	67,346	53,276	18,750	–	139,372
Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	759	95	1,443	–	2,297
New financial asset originated or purchased	869	–	945	–	1,814
Transfer to Stage 1	305	(292)	(13)	–	–
Transfer to Stage 2	(1,162)	1,513	(351)	–	–
Transfer to Stage 3	(812)	(4,588)	5,400	–	–
Impact on ECL of exposures transferred between stages during the year	1,396	4,449	1,416	–	7,261
Assets repaid	(528)	(70)	(347)	–	(945)
Write-offs	–	–	(6,161)	–	(6,161)
Currency translation differences	200	(4)	35	–	231
Foreign exchange movement	5	27	191	–	223
Net other measurement of ECL	(383)	(20)	94	–	(309)
Balance at 31 December 2020	649	1,109	2,618	–	4,376
Collectively assessed	649	1,109	1,596	–	3,354
Balance at 31 December 2020	649	1,109	2,618	–	4,376

10. Accounts receivable and other loans

In 2016 the Group disbursed a loan to the client with the purpose to finance the purchase of an industrial asset from one of the Bank's defaulted borrowers. As part of the overall financing package, the Group entered into the dual option agreement with the shareholders of the new borrower over the shares in the new borrower. A dispute has arisen over the terms of the concluded option agreement. The outstanding legacy claim was settled at the end of 2022 and the Group recognised GEL 391,100 one-off income with respective receivable estimated at fair value in its consolidated financial statements. On 9 January 2023 the Group received part of the settlement in amount of GEL 371,922. The Group does not expect any material tax consequences from this settlement in the foreseeable future.

11. Right-of-use assets and lease liabilities

	2022	2021	2020
Right-of-use assets	117,387	80,186	83,208
Lease liability	114,470	87,662	95,635

Administrative expenses include occupancy and rent expenses on lease contracts where the recognition exemptions have been applied:

	2022	2021	2020
Short-term leases	(4,672)	(3,982)	(4,142)
Leases of low-value assets	(1,585)	(1,908)	(1,835)
	(6,257)	(5,890)	(5,977)

Movement in liabilities arising from financing activities

	Movement in liabilities arising from financing activities
Carrying amount at 1 January 2020	115,220
Cash payments for the principal portion of the lease liability	(11,695)
Change in accrued interest	737
Additions	12,027
Other movements*	(20,654)
Carrying amount at 31 December 2020	95,635
Cash payments for the principal portion of the lease liability	(29,518)
Change in accrued interest	342
Additions	42,242
Other movements*	(21,039)
Carrying amount at 31 December 2021	87,662
Cash payments for the principal portion of the lease liability	(25,980)
Change in accrued interest	1,151
Additions	70,553
Other movements*	(18,916)
Carrying amount at 31 December 2022	114,470

* Other movement mainly includes translation effect of foreign currency contracts and cancelled lease contracts.

The movements in right-of-use assets were as follows:

	Office buildings and service centres	Computers and equipment	Total
Cost			
31 December 2021	127,080	2,631	129,711
Additions	74,231	–	74,231
Disposals	(19,135)	–	(19,135)
Currency translation differences	(949)	(298)	(1,247)
31 December 2022	181,227	2,333	183,560
Accumulated depreciation			
31 December 2021	48,661	864	49,525
Depreciation charge	25,406	345	25,751
Disposals	(8,838)	–	(8,838)
Currency translation differences	(156)	(109)	(265)
31 December 2022	65,073	1,100	66,173
Net book value			
31 December 2021	78,419	1,767	80,186
31 December 2022	116,154	1,233	117,387

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(Thousands of Georgian Lari)

11. Right-of-use assets and lease liabilities continued

	Office buildings and service centres	Computers and equipment	Total
Cost			
31 December 2020	115,970	2,749	118,719
Additions	42,728	–	42,728
Disposals	(31,478)	–	(31,478)
Transfers	–	–	–
Currency translation differences	(140)	(118)	(258)
31 December 2021	127,080	2,631	129,711
Accumulated depreciation			
31 December 2020	34,995	516	35,511
Depreciation charge	21,628	388	22,016
Disposals	(7,906)	–	(7,906)
Transfers	–	–	–
Currency translation differences	(56)	(40)	(96)
31 December 2021	48,661	864	49,525
Net book value			
31 December 2020	80,975	2,233	83,208
31 December 2021	78,419	1,767	80,186

	Office buildings and service centres	Computers and equipment	Total
Cost			
1 January 2020	115,220	–	115,220
Additions	11,988	–	11,988
Disposals	(7,794)	–	(7,794)
Transfers	(2,965)	2,965	–
Currency translation differences	(479)	(216)	(695)
31 December 2020	115,970	2,749	118,719
Accumulated depreciation			
1 January 2020	19,125	–	19,125
Depreciation charge	18,466	391	18,857
Disposals	(2,061)	–	(2,061)
Transfers	(139)	139	–
Currency translation differences	(396)	(14)	(410)
31 December 2020	34,995	516	35,511
Net book value			
1 January 2020	96,095	–	96,095
31 December 2020	80,975	2,233	83,208

12. Property and equipment

The movements in property and equipment were as follows:

	Office buildings and service centres	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2021	216,897	188,890	252,861	6,911	29,328	1,680	696,567
Additions	171	10,853	32,951	2,860	119	31,043	77,997
Transfers	23,333	32	414	–	3,804	(27,583)	–
Transfers to investment properties	769	–	–	–	–	–	769
Transfers to other assets	–	(1,571)	(2,135)	(265)	–	(231)	(4,202)
Disposals	(3,011)	(135)	(1,507)	(489)	(27)	(1)	(5,170)
Write-offs	(29)	(4,750)	(2,513)	(241)	(4,053)	(146)	(11,732)
Currency translation differences	(2,881)	(216)	(812)	(47)	(87)	(7)	(4,050)
31 December 2022	235,249	193,103	279,259	8,729	29,084	4,755	750,179
Accumulated impairment							
31 December 2021	2,557	36	98	8	–	–	2,699
31 December 2022	2,557	36	98	8	–	–	2,699
Accumulated depreciation							
31 December 2021	28,859	113,399	154,941	4,095	13,766	–	315,060
Depreciation charge	4,278	13,814	28,737	1,076	4,369	146	52,420
Transfers to investment properties	(155)	–	–	–	–	–	(155)
Transfers to other assets	–	(916)	(2,479)	(230)	–	–	(3,625)
Disposals	(795)	(183)	(998)	(176)	(25)	–	(2,177)
Write-offs	2	(4,598)	(2,473)	(130)	(4,029)	(146)	(11,374)
Currency translation differences	(851)	(114)	(468)	(20)	(71)	–	(1,524)
31 December 2022	31,325	121,415	177,260	4,615	14,010	–	348,625
Net book value							
31 December 2021	185,481	75,455	97,822	2,808	15,562	1,680	378,808
31 December 2022	201,367	71,652	101,901	4,106	15,074	4,755	398,855

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(Thousands of Georgian Lari)

12. Property and equipment continued

	Office buildings and service centres	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2020	216,795	178,481	231,436	6,768	34,275	4,732	672,487
Additions	2,056	11,958	31,048	986	10	7,171	53,229
Transfers	6,408	3	976	–	2,493	(9,880)	–
Transfers to investment properties	(9,175)	–	–	–	–	–	(9,175)
Transfers to assets held for sale	2,245	–	–	–	–	–	2,245
Transfers to other assets	–	(998)	(8,647)	–	–	(183)	(9,828)
Disposals	(764)	(433)	(1,719)	(224)	–	(46)	(3,186)
Write-offs	–	(71)	(1)	(602)	(7,416)	–	(8,090)
Currency translation differences	(668)	(50)	(232)	(17)	(34)	(114)	(1,115)
31 December 2021	216,897	188,890	252,861	6,911	29,328	1,680	696,567
Accumulated impairment							
31 December 2020	2,557	36	98	8	–	–	2,699
31 December 2021	2,557	36	98	8	–	–	2,699
Accumulated depreciation							
31 December 2020	25,216	102,137	133,958	3,833	16,793	–	281,937
Depreciation charge	4,201	12,916	24,699	931	4,416	–	47,163
Transfers to investment properties	(238)	–	–	–	–	–	(238)
Transfers to other assets	–	(1,224)	(2,643)	–	–	–	(3,867)
Disposals	(51)	(318)	(910)	(85)	–	–	(1,364)
Write-offs	5	(51)	3	(576)	(7,416)	–	(8,035)
Currency translation differences	(274)	(61)	(166)	(8)	(27)	–	(536)
31 December 2021	28,859	113,399	154,941	4,095	13,766	–	315,060
Net book value							
31 December 2020	189,022	76,308	97,380	2,927	17,482	4,732	387,851
31 December 2021	185,481	75,455	97,822	2,808	15,562	1,680	378,808

12. Property and equipment continued

	Office buildings and service centres	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2019	204,753	178,391	207,329	5,624	30,589	10,046	636,732
Additions	274	8,908	33,186	1,602	110	27,543	71,623
Transfers	21,600	(439)	4,158	41	6,625	(31,985)	–
Transfers to investment properties	(11,068)	–	–	(22)	–	–	(11,090)
Transfers to assets held for sale	1,333	–	–	(46)	–	–	1,287
Transfers to other assets	(101)	(4,930)	(8,895)	–	–	(867)	(14,793)
Disposals	–	(257)	(476)	(220)	–	–	(953)
Write-offs	(293)	(3,029)	(3,452)	(174)	(2,990)	–	(9,938)
Currency translation differences	297	(163)	(414)	(37)	(59)	(5)	(381)
31 December 2020	216,795	178,481	231,436	6,768	34,275	4,732	672,487
Accumulated impairment							
31 December 2019	2,557	36	98	8	–	–	2,699
31 December 2020	2,557	36	98	8	–	–	2,699
Accumulated depreciation							
31 December 2019	23,731	93,751	119,081	3,051	14,631	–	254,245
Depreciation charge	4,085	12,497	22,008	1,072	4,927	–	44,589
Transfers	–	(138)	–	4	134	–	–
Transfers to investment properties	(2,160)	–	–	(20)	–	–	(2,180)
Transfers to assets held for sale	–	–	–	(30)	–	–	(30)
Transfers to other assets	–	(1,111)	(3,077)	–	–	–	(4,188)
Disposals	–	(105)	(274)	(103)	–	–	(482)
Write-offs	(263)	(2,635)	(3,418)	(121)	(2,857)	–	(9,294)
Currency translation differences	(177)	(122)	(362)	(20)	(42)	–	(723)
31 December 2020	25,216	102,137	133,958	3,833	16,793	–	281,937
Net book value							
31 December 2019	178,465	84,604	88,150	2,565	15,958	10,046	379,788
31 December 2020	189,022	76,308	97,380	2,927	17,482	4,732	387,851

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(Thousands of Georgian Lari)

13. Intangible assets

The movements in intangible assets were as follows:

	Software and licence	Other	Total
Cost			
31 December 2021	219,073	27,286	246,359
Additions	40,506	164	40,670
Disposals	(7,331)	–	(7,331)
Write-offs	(2,889)	(1)	(2,890)
Currency translation differences	(1,416)	–	(1,416)
31 December 2022	247,943	27,449	275,392
Accumulated impairment			
31 December 2021	–	–	–
Impairment charge	2,358	–	2,358
31 December 2022	2,358	–	2,358
Accumulated amortisation			
31 December 2021	96,311	5,797	102,108
Amortisation charge	30,392	168	30,560
Disposals	(5,683)	–	(5,683)
Write-offs	(2,889)	(1)	(2,890)
Currency translation differences	(502)	–	(502)
31 December 2022	117,629	5,964	123,593
Net book value			
31 December 2021	122,762	21,489	144,251
31 December 2022	127,956	21,485	149,441

	Software and licence	Other	Total
Cost			
31 December 2020	177,012	26,944	203,956
Additions	44,715	342	45,057
Disposals	(741)	–	(741)
Write-offs	(1,385)	–	(1,385)
Currency translation differences	(528)	–	(528)
31 December 2021	219,073	27,286	246,359
Accumulated amortisation			
31 December 2020	72,532	5,618	78,150
Amortisation charge	26,090	179	26,269
Disposals	(747)	–	(747)
Write-offs	(1,385)	–	(1,385)
Currency translation differences	(179)	–	(179)
31 December 2021	96,311	5,797	102,108
Net book value			
31 December 2020	104,480	21,326	125,806
31 December 2021	122,762	21,489	144,251

13. Intangible assets continued

	Software and licence	Other	Total
Cost			
31 December 2019	139,750	26,797	166,547
Additions	41,262	163	41,425
Disposals	(235)	–	(235)
Write-offs	(3,329)	(16)	(3,345)
Currency translation differences	(436)	–	(436)
31 December 2020	177,012	26,944	203,956
Accumulated amortisation			
31 December 2019	56,789	3,468	60,257
Amortisation charge	18,985	2,165	21,150
Disposals	(235)	–	(235)
Write-offs	(2,884)	(15)	(2,899)
Currency translation differences	(123)	–	(123)
31 December 2020	72,532	5,618	78,150
Net book value			
31 December 2019	82,961	23,329	106,290
31 December 2020	104,480	21,326	125,806

14. Investment properties

	2022	2021	2020
At 1 January	226,849	231,241	225,073
Additions	5,871	83,912	79,761
Disposals	(54,713)	(68,713)	(44,908)
Net gains from revaluation of investment property	7,421	437	20,346
Transfers from (to) assets held for sale	(16,955)	(28,390)	(56,810)
Transfers from (to) property and equipment	(924)	8,937	8,910
Transfers from (to) finance lease receivables	–	–	532
Transfers from (to) other assets – inventories	–	–	(277)
Currency translation differences	(1,003)	(575)	(1,386)
At 31 December	166,546	226,849	231,241

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2022, the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 30 for details on fair value measurements of investment properties.

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(Thousands of Georgian Lari)

15. Goodwill

Movements in goodwill were as follows:

	2022	2021	2020
Cost			
1 January	57,745	57,745	57,745
At 31 December	57,745	57,745	57,745
Accumulated impairment			
1 January	24,394	24,394	24,394
At 31 December	24,394	24,394	24,394
Net book value:			
1 January	33,351	33,351	33,351
At 31 December	33,351	33,351	33,351

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units (CGUs), for impairment testing: Corporate Banking and Retail Banking.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	2022	2021	2020
Retail Banking	23,386	23,386	23,386
Corporate Banking	9,965	9,965	9,965
Total	33,351	33,351	33,351

Key assumptions used in value-in-use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU beyond the three-year period covered in financial budgets.

The following discount rates were used by the Group for Corporate Banking and Retail Banking:

	Corporate Banking			Retail Banking		
	2022	2021	2020	2022	2021	2020
Discount rate	4.3%	3.9%	4.4%	8.4%	8.1%	7.7%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital (WACC).

For the Retail Banking and Corporate Banking CGUs, the following additional assumptions were made:

- stable, business as usual growth of loans and deposits;
- no material changes in cost/income structure or ratio; and
- stable, business as usual growth of trade finance and other documentary businesses.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value-in-use over carrying value is determined by reference to the net book value as at 31 December 2022. Possible change was taken as +/-3% in discount rate and growth rate.

16. Taxation

The corporate income tax expense in the income statement comprises:

	2022	2021	2020
Current income benefit/(expense)	(137,430)	(111,652)	4,539
Deferred income tax benefit/(expense)	(53,221)	36,828	(26,094)
Income tax expense	(190,651)	(74,824)	(21,555)

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income, which ranges from 15% to 25% (2021: from 15% to 25%, 2020: from 15% to 25%).

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses, became effective. The change implied a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023. On 16 December 2022, an amendment to the corporate tax code was passed into law abolishing the expected transition to taxation on distributed earnings from 1 January 2023. According to the amendment, effective from 1 January 2023, existing taxation rules for financial institutions, including banks, will be maintained. At the same time, the existing corporate tax rate for banks will be increased from 15% to 20% from 2023 going forward. In addition, with effect from 2023, taxable interest income and deductible ECLs on loans to customers will be defined as per IFRS, instead of local NBS regulations. Transition differences in ECLs will be taxed one-off at 15%. The amended law lacks clarification in treatment of transition differences in interest income. Management considers it reasonable that an approach similar to ECL on transition is applicable on interest income and calculates deferred tax respectively.

The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 31 December 2022, deferred tax assets and liabilities balances have been re-measured, in line with the updated legislation. The change resulted in a material one-off deferred tax charge as previously the Bank recognised deferred taxes only to the extent they were expected to realise before 1 January 2023.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2022, 31 December 2021 and 31 December 2020, a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2022	2021	2020
Profit before income tax expense	1,634,650	801,942	316,498
Statutory tax rate in Georgia	15%	15%	15%
Theoretical income tax expense at average tax rate	(245,198)	(120,291)	(47,475)
Non-taxable income	115,636	50,671	35,910
Non-deductible expenses	(3,229)	(2,931)	(6,425)
Correction of prior year declarations	(2,846)	(15)	(3,343)
Tax at the domestic rates applicable to profits in each country	(1,991)	(2,401)	(525)
Effects from changes in tax legislation	(53,074)	–	–
Other	51	143	303
Income tax expense	(190,651)	(74,824)	(21,555)

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2022, 31 December 2021 and 31 December 2020, income tax assets and liabilities consist of the following:

	2022	2021	2020
Current income tax assets	224	109	21,841
Deferred income tax assets	640	183	192
Income tax assets	864	292	22,033
Current income tax liabilities	20,258	85,270	–
Deferred income tax liabilities	79,275	25,598	62,434
Income tax liabilities	99,533	110,868	62,434

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(Thousands of Georgian Lari)

16. Taxation continued

Deferred tax assets and liabilities as at 31 December 2022, 31 December 2021 and 31 December 2020, and their movements for the respective years, are as follows:

	Origination and reversal of temporary differences					
	2019	In the income statement	2020	In the income statement	2021	In the income statement
Tax effect of deductible temporary differences:						
Amounts due to credit						
institutions	63	(63)	–	–	–	193
Investment securities	66	(66)	–	–	–	294
Investment properties	228	(169)	59	108	167	1,954
Property and equipment	2,127	258	2,385	29	2,414	(182)
Intangible assets	199	(199)	–	–	–	–
Assets held for sale	–	–	–	–	–	465
Lease liability	8,306	(2,300)	6,006	(2,236)	3,770	19,389
Accruals and deferred income	1,691	5,514	7,205	12,539	19,744	18,388
Other assets and liabilities	2,759	(2,692)	67	368	435	3,845
Deferred tax assets	15,439	283	15,722	10,808	26,530	44,346
Tax effect of taxable temporary differences:						
Amounts due to credit						
institutions	1,950	278	2,228	59	2,287	1,660
Debt securities issued	2,311	(687)	1,624	(932)	692	1,259
Cash and cash equivalents	2,070	(2,070)	–	–	–	–
Investment securities	208	(208)	–	–	–	–
Loans to customers and						
finance lease receivables	25,696	28,370	54,066	(24,192)	29,874	30,697
Client deposits and notes	35	141	176	(176)	–	–
Property and equipment	9,151	(130)	9,021	(3,121)	5,900	37,342
Right-of-use assets	8,465	(2,955)	5,510	(2,294)	3,216	20,606
Investment properties	228	112	340	625	965	7,822
Intangible assets	21	(21)	–	–	–	–
Assets held for sale	1,227	313	1,540	(1,055)	485	(485)
Accruals and deferred income	225	68	293	(180)	113	(113)
Other assets and liabilities	–	3,166	3,166	5,246	8,412	(1,221)
Deferred tax liabilities	51,587	26,377	77,964	(26,020)	51,944	97,567
Net deferred tax liabilities	(36,148)	(26,094)	(62,242)	36,828	(25,414)	(53,221)
						(78,635)

For more details on temporary differences associated with investments in subsidiaries for which no deferred tax has been recognised refer to Note 10.

17. Other assets and other liabilities

Other assets comprise:

	2022	2021	2020
Foreclosed assets	119,924	3,216	5,989
Receivables from remittance operations	86,742	35,041	26,045
Derivative financial assets	39,270	135,079	9,154
Derivatives margin	21,053	18,586	210,816
Other receivables	17,365	17,534	14,174
Investments in associates	11,606	10,079	14,261
Operating tax assets	4,809	8,169	8,398
Investment securities at FVTPL	2,660	2,146	5,731
Assets purchased for finance lease purposes	2,140	13,093	39,742
Other	29,542	18,487	6,663
Other assets, gross	335,111	261,430	340,973
Less – Allowance for impairment of other assets	(17,225)	(14,483)	(14,979)
Other assets, net	317,886	246,947	325,994

Other liabilities comprise:

	2022	2021	2020
Derivative financial liabilities	59,020	7,865	247,520
Creditors	29,562	25,814	30,678
Payables for remittance operations	24,671	8,457	8,597
Other taxes payable	6,504	12,498	10,045
Accounts payable	5,605	7,708	11,651
Provisions	5,127	6,993	15,325
Dividends payable to non-controlling shareholders	2,379	1,746	1,578
Advances received	838	268	731
Derivatives margin	–	98,844	–
Other	24,985	13,156	6,197
Other liabilities	158,691	183,349	332,322

The amount of write down of foreclosed assets recognised as an expense in the period amounts to GEL 2,440. The amount of foreclosed assets recognized as an expense amounted to GEL 5,423.

In 2020, the Bank's derivative financial liabilities comprised mainly of USD-EUR contracts, the balance on which has significantly increased as a result of a devaluation of USD as compared to EUR. The Bank was also required to provide respective collateral for the exposure in the form of a derivatives margin.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the credit risk.

	2022	Fair value	
		Asset	Liability
Foreign exchange contracts			
Forwards and swaps – domestic	1,392,118	5,688	2,873
Forwards and swaps – foreign	4,615,758	33,234	56,147
Interest rate contracts			
Forwards and swaps – foreign (IR)	1,209	348	–
Total derivative assets/liabilities	6,009,085	39,270	59,020

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17. Other assets and other liabilities continued

	2021			2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – domestic	1,065,639	931	3,141	574,563	6,881	2,908
Forwards and swaps – foreign	5,678,727	131,321	3,339	7,057,736	724	243,510
Interest rate contracts						
Forwards and swaps – foreign (IR)	1,129	296	–	–	–	–
Options – foreign (IR)	7,434	2,531	1,385	7,864	1,549	1,102
Total derivative assets/liabilities	6,752,929	135,079	7,865	7,640,163	9,154	247,520

18. Client deposits and notes

The amounts due to customers include the following:

	2022	2021	2020
Current accounts	11,002,863	6,997,946	5,995,109
Time deposits	7,258,534	7,040,056	8,025,100
Client deposits and notes	18,261,397	14,038,002	14,020,209

At 31 December 2022, amounts due to customers of GEL 2,107,058 (12%) were due to the ten largest customers (2021: GEL 1,953,107 (14%), 2020: GEL 2,951,893 (21%)).

Amounts due to customers include accounts with the following types of customers:

	2022	2021	2020
Individuals	11,188,080	8,501,021	7,836,351
Private enterprises	6,382,083	4,914,845	4,268,313
State and state-owned entities	691,234	622,136	1,915,545
Client deposits and notes	18,261,397	14,038,002	14,020,209

The breakdown of customer accounts by industry sector is as follows:

	2022	2021	2020
Individuals	11,188,080	8,501,021	7,836,351
Financial intermediation	1,261,530	1,280,955	777,786
Trade	1,158,977	853,307	842,355
Construction	796,019	664,695	587,632
Manufacturing	759,005	444,095	315,192
Service	709,442	345,130	387,108
Government services	682,809	613,710	1,866,342
Transport and communication	513,099	418,243	538,950
Real estate	232,508	214,082	159,038
Electricity, gas and water supply	186,517	112,244	75,197
Hospitality	173,639	70,375	65,042
Other	599,772	520,145	569,216
Client deposits and notes	18,261,397	14,038,002	14,020,209

19. Amounts owed to credit institutions

Amounts due to credit institutions comprise:

	2022	2021	2020
Short-term loans from the NBG	1,715,257	1,413,333	590,293
Borrowings from international credit institutions	1,439,136	1,839,921	1,583,056
Time deposits and inter-bank loans	777,638	226,015	258,920
Correspondent accounts	660,767	170,410	196,049
	4,592,798	3,649,679	2,628,318
Non-convertible subordinated debt	537,794	668,766	707,648
Additional Tier 1	136,061	–	–
Amounts due to credit institutions	5,266,653	4,318,445	3,335,966

During the year ended 31 December 2022, the Group paid up to 7.52% on USD borrowings from international credit institutions (2021: up to 4.18%, 2020: up to 5.49%). During the year ended 31 December 2022, the Group paid up to 10.73% on USD subordinated debt (2021: up to 7.75%, 2020: up to 9.39%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the 'Lender Covenants') that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2022, 31 December 2021 and 31 December 2020, the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

On 31 May 2022, the Bank signed a US\$ 50 million Additional Tier 1 Capital Perpetual Subordinated Syndicated Facility with the European Bank for Reconstruction and Development and Swedfund International AB as lenders. The amount was fully utilised as at 31 December 2022.

In June 2022, the Bank repaid the outstanding US\$ 70 million of its initial US\$ 90 million subordinated loan facility from the International Finance Corporation, out of which US\$ 42 million qualified as Tier II capital.

20. Debt securities issued

Debt securities issued comprise:

	2022	2021	2020
Additional Tier 1 capital notes issued	267,702	306,239	323,320
Eurobonds and notes issued	226,725	932,260	1,019,120
Local bonds	44,520	151,703	102,187
Certificates of deposit	107,021	128,483	140,918
Debt securities issued	645,968	1,518,685	1,585,545

Changes in liabilities arising from financing activities

	Eurobonds and notes issued	Additional Tier 1 capital notes issued
Carrying amount at 31 December 2019	1,406,200	282,407
Repurchase of debt securities issued	(120,549)	–
Repayment of the principal portion of the debt securities issued	(440,410)	–
Other movements	173,879	40,913
Carrying amount at 31 December 2020	1,019,120	323,320
Repurchase of debt securities issued	(28,825)	–
Repayment of the principal portion of the debt securities issued	(46,706)	–
Other movements	(11,329)	(17,081)
Carrying amount at 31 December 2021	932,260	306,239
Repurchase of debt securities issued	(617,194)	–
Repayment of the principal portion of the debt securities issued	(31,581)	–
Other movements	(56,760)	(38,537)
Carrying amount at 31 December 2022	226,725	267,702

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(Thousands of Georgian Lari)

21. Commitments and contingencies

Legal

Sai-invest

As at 31 December 2022, the Bank was engaged in litigation with Sai-Invest LLC (Sai-Invest) in relation to a deposit pledge in the amount of EUR 7 million for the benefit LTD Sport Invest's loans owing to JSC Bank of Georgia. Sai-Invest LLC has challenged the validity of the deposit pledge in the Georgian courts, and its challenge has been substantially sustained in the Court of Appeal, a determination which the Bank believes to be erroneous and without merit, and which the Bank has appealed to the Supreme Court. The matter is currently under review by the Supreme Court, and a decision is expected during 2023. The Bank's management is of the opinion that the probability of incurring material losses on this claim is low, and, accordingly, no provision has been made in these consolidated financial statements.

Financial commitments and contingencies

As at 31 December 2022, 31 December 2021 and 31 December 2020, the Group's financial commitments and contingencies comprised the following:

	2022	2021	2020
Credit-related commitments			
Financial and performance guarantees issued*	1,717,308	1,686,913	1,490,028
Letters of credit	116,309	71,676	125,031
Undrawn loan facilities	869,061	809,481	685,533
	2,702,678	2,568,070	2,300,592
Less – Cash held as security against letters of credit and guarantees (Note 18)	(121,753)	(117,379)	(131,946)
Less – Provisions	(5,127)	(6,993)	(15,325)
Operating lease commitments			
Not later than 1 year	1,975	1,875	2,356
Later than 1 year but not later than 5 years	2,592	2,486	2,774
Later than 5 years	451	986	1,657
	5,018	5,347	6,787
Capital expenditure commitments	6,790	4,539	2,863

* Out of total guarantees issued as at 31 December 2022 financial and performance guarantees of the Group comprised GEL 988,094 (31 December 2021: GEL 1,030,122, 31 December 2020: GEL 888,905) and GEL 729,214 (31 December 2021: GEL 656,791, 31 December 2020: GEL 601,123), respectively.

The Group discloses its undrawn loan facility balances based on the contractual terms and existing practice in regards to disbursement of these amounts. The balances are disclosed as commitments if the Group has an established practice of disbursing undrawn amounts without any subsequent approval.

22. Equity

Share capital

As at 31 December 2022, 31 December 2021 and 31 December 2020, issued share capital comprised 47,498,982 common shares of BOGG, all of which were fully paid. Each share has a nominal value of one (1) British penny. Shares issued and outstanding as at 31 December 2022 are described below:

	Number of ordinary shares	Share Capital
31 December 2019	49,169,428	1,618
31 December 2020	49,169,428	1,618
31 December 2021	49,169,428	1,618
Buyback and cancellation of own shares	(1,670,446)	(55)
31 December 2022	47,498,982	1,563

In the second half of 2022, the Group commenced a share buyback and cancellation programme in amount of GEL 112,700 with the purpose to reduce its share capital and consistent with its capital and distribution policy to target a dividend/share buyback payout ratio in the range of 30-50% of annual profits. The Group appointed Numis Securities Limited to manage the programme and purchase shares in the open market. The share buyback and cancellation programme was completed by the end of 2022 with purchased and cancelled ordinary shares of 1,670,446.

22. Equity continued

Treasury shares

Treasury shares are held by the Group solely for the purpose of future employee share-based compensation.

The number of treasury shares held by the Group as at 31 December 2022, comprised 2,516,151 (31 December 2021: 2,268,446, 31 December 2020: 1,638,844), with a nominal amount of GEL 83 (31 December 2021: GEL 75, 31 December 2020: GEL 54).

Dividends

Shareholders are entitled to dividends in pounds sterling.

In 2022, 2021 and 2020 the Group distributed dividends on the shares vested and exercised during 2022, 2021 and 2020, respectively.

On 16 August 2022, the shareholders of Bank of Georgia Group PLC declared an interim dividend for 2022 of Georgian Lari 1.85 per share. The currency conversion period was set to be for the period 3 October to 7 October 2022, with the official GEL:GBP exchange rate of 3.1671, resulting in a GBP-denominated final dividend of 0.5841 per share. Payment of the total GEL 84,418 interim dividends was received by shareholders on 20 October 2022.

On 20 June 2022, the shareholders of Bank of Georgia Group PLC declared a final dividend for 2021 of Georgian Lari 2.33 per share. The currency conversion period was set to be for the period 27 June to 1 July 2022, with the official GEL:GBP exchange rate of 3.5858, resulting in a GBP-denominated final dividend of 0.6498 per share. Payment of the total GEL 112,096 final dividends was received by shareholders on 11 July 2022.

On 17 August 2021, the Board of Bank of Georgia Group PLC declared an interim dividend for 2021 of Georgian Lari 1.48 per share. The currency conversion period was set to be 18 to 22 October 2021, with the official GEL:GBP exchange rate of 4.3219, resulting in a GBP-denominated final dividend of 0.3424 per share. Payment of the total GEL 71,838 interim dividends was received by shareholders on 5 November 2021.

No other dividends have been declared by Bank of Georgia Group PLC in 2020.

Nature and purpose of other reserves

Unrealised gains and losses on investment securities

This reserve records fair value changes on investment securities.

Unrealised gains and losses from dilution or sale/acquisition of shares in existing subsidiaries

This reserve records unrealised gains and losses from dilution or sale/acquisition of shares in existing subsidiaries.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries with functional currency other than GEL.

Movements on this account during the years ended 31 December 2022, 31 December 2021 and 31 December 2020, are presented in the statements of other comprehensive income.

Earnings per share

	2022	2021	2020
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	1,439,507	723,806	293,584
Weighted average number of ordinary shares outstanding during the year	46,443,820	47,543,881	47,563,734
Basic earnings per share	30.9946	15.2240	6.1724
	2022	2021	2020
Diluted earnings per share			
Effect of dilution on weighted average number of ordinary shares:			
Dilutive unvested share options	1,013,330	1,098,682	13,690
Weighted average number of ordinary shares adjusted for the effect of dilution	47,457,150	48,642,563	47,577,424
Diluted earnings per share	30.3328	14.8801	6.1707

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(Thousands of Georgian Lari)

23. Net interest income

	2022	2021	2020
Interest income calculated using EIR method	2,236,307	1,822,307	1,563,362
From loans to customers	1,917,053	1,614,647	1,371,392
From investment securities	297,528	199,802	170,281
From amounts due from credit institutions	47,864	18,312	19,002
Net (losses)/gains on modification of financial assets	(26,138)	(10,454)	2,687
Other interest income	20,574	28,737	32,065
From finance lease receivable	20,574	28,727	31,999
From other assets	–	10	66
Interest income	2,256,881	1,851,044	1,595,427
On client deposits and notes	(569,436)	(497,742)	(443,616)
On amounts owed to credit institutions	(426,950)	(297,953)	(267,306)
On debt securities issued	(84,990)	(112,431)	(142,373)
Interest element of cross-currency swaps	29,402	30,632	52,312
On lease liability	(4,855)	(4,980)	(5,387)
Interest expense	(1,056,829)	(882,474)	(806,370)
Deposit insurance fees	(17,717)	(14,629)	(11,415)
Net interest income	1,182,335	953,941	777,642

In 2020, a GEL 39,730 (Note 27) net one-off loss on modification of financial assets was recorded in relation to the three-month payment holidays on principal and interest offered to our Retail Banking clients, as an immediate response to the COVID-19 pandemic outbreak, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of the virus spreading. The net loss incurred as a result of these modifications has been classified as a non-recurring item in the income statement.

24. Net fee and commission income

	2022	2021	2020
Settlements operations	446,092	307,471	213,865
Guarantees and letters of credit	35,283	34,402	28,373
Currency conversion operations	34,546	15,783	8,438
Cash operations	26,896	14,439	11,883
Brokerage service fees	7,676	6,912	6,501
Advisory	4,241	5,981	1,463
Other	4,731	5,841	3,935
Fee and commission income	559,465	390,829	274,458
Settlements operations	(197,089)	(134,390)	(90,357)
Cash operations	(27,211)	(9,626)	(8,903)
Currency conversion operations	(6,403)	(2,571)	(2,256)
Brokerage service fees	(5,079)	(4,894)	(3,847)
Guarantees and letters of credit	(323)	(724)	(505)
Advisory	(316)	(653)	(63)
Other	(5,553)	(5,540)	(3,024)
Fee and commission expense	(241,974)	(158,398)	(108,955)
Net fee and commission income	317,491	232,431	165,503

Revenue from customers

In 2022, the Group recognised GEL 481,375 revenue from contracts with customers in the income statement, including fee and commission as well as net other income (2021: GEL 341,873, 2020: GEL 242,238).

24. Net fee and commission income continued

Contract assets and liabilities

As at 31 December 2022, the Group has recognised GEL 50,451 revenue-related contract liabilities (2021: GEL 40,878, 2020: GEL 36,653). Accounts receivable are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

In 2022, the Group recognised GEL 38,495 revenue (2021: GEL 10,619, 2020: GEL 11,802) that relates to carried-forward contract liabilities and was previously included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In 1 year	In 2 years	In 3 years	In 3 to 5 years	In 5 to 10 years	Total
As at 31 December 2022	47,793	2,466	128	46	18	50,451
As at 31 December 2021	39,292	1,119	388	76	3	40,878
As at 31 December 2020	12,905	1,544	1,303	2,198	18,703	36,653

25. Salaries and other employee benefits, and general and administrative expenses

Salaries and other employee benefits

	2022	2021	2020
Salaries and bonuses	(350,758)	(272,148)	(232,097)
Social security costs	(6,818)	(5,107)	(4,410)
Pension costs	(4,443)	(3,832)	(3,100)
Salaries and other employee benefits	(362,019)	(281,087)	(239,607)

In 2022, salaries and bonuses include GEL 82,025 of the Equity Compensation Plan costs (2021: GEL 45,307, 2020: GEL 53,741), associated with the existing share-based compensation scheme approved by the Group (Note 28).

The average number of staff employed by the Group for the years ended 31 December 2022, 31 December 2021 and 31 December 2020, comprised:

	2022	2021	2020
The Bank	6,324	6,012	5,758
BNB	654	540	545
Other	1,041	1,035	960
Average total number of staff employed	8,019	7,587	7,263

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

25. Salaries and other employee benefits, and general and administrative expenses continued

General and administrative expenses

	2022	2021	2020
Repairs and maintenance	(47,943)	(40,257)	(24,320)
Marketing and advertising	(35,316)	(23,264)	(17,394)
Legal and other professional services	(17,396)	(14,682)	(14,508)
Operating taxes	(13,539)	(13,393)	(14,183)
Office supplies	(8,571)	(6,562)	(6,275)
Communication	(7,959)	(6,440)	(5,830)
Occupancy and rent	(6,257)	(5,890)	(5,977)
Travel expenses	(5,387)	(3,808)	(3,231)
Insurance	(3,945)	(3,685)	(3,420)
Security	(3,219)	(3,461)	(2,782)
Corporate hospitality and entertainment	(6,181)	(2,022)	(1,380)
Personnel training and recruitment	(4,304)	(1,895)	(1,726)
Other	(4,433)	(4,165)	(4,505)
General and administrative expenses	(164,450)	(129,524)	(105,531)

Auditor remuneration

Auditor remuneration comprises:

	2022	2021	2020
Fees payable for the audit of the Company's current year Annual Report	770	635	587
Fees payable for other services:			
Audit of the Company's subsidiaries	905	968	973
Total audit fees	1,675	1,603	1,560
Audit-related assurance services:			
Review of the Company's and subsidiaries' interim accounts	397	366	339
Other assurance services	32	31	307
Total audit-related fees	429	397	646
Non-audit services:			
Other assurance services	12	12	–
Total other services fees	12	12	–
Total fees	2,116	2,012	2,206

The figures shown in the above table relate to fees of Ernst & Young LLP (EY) and its associates. In 2022, fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were GEL 247 (2021: GEL 273, 2020: GEL 257), and in respect of other services of the Group were GEL 579 (2021: GEL 823, 2020: GEL 377).

26. Cost of risk

The table below shows ECL charges on financial instruments and provision for guarantees for the year recorded in the income statement:

	Stage 1		Stage 2	Stage 3		POCI	Total
	Individual	Collective	Collective	Individual	Collective		
Cash and cash equivalents	–	(334)	–	–	–	–	(334)
Amounts due from credit institutions	–	(5,179)	–	–	–	–	(5,179)
Investment securities measured at FVOCI – debt instruments	–	(3,896)	–	–	–	–	(3,896)
Loans to customers at amortised cost	–	21,327	(15,433)	53,195	(177,169)	(10,598)	(128,678)
Finance lease receivables	–	292	487	784	(1,886)	(2,885)	(3,208)
Accounts receivable and other loans	–	–	–	(255)	–	–	(255)
Other financial assets	–	(4,205)	–	–	–	–	(4,205)
Financial and performance guarantees	–	(437)	6	32	2	–	(397)
Letter of credit to customers	–	(33)	–	65	–	–	32
Other financial commitments	–	140	292	–	–	–	432
For the year ended 31 December 2022	–	5,288	(14,648)	53,821	(179,053)	(13,483)	(148,075)

	Stage 1		Stage 2	Stage 3		POCI	Total
	Individual	Collective	Collective	Individual	Collective		
Cash and cash equivalents	–	48	–	–	–	–	48
Amounts due from credit institutions	–	66	–	–	–	–	66
Investment securities measured at FVOCI – debt instruments	–	1,090	–	–	–	–	1,090
Loans to customers at amortised cost	–	(2,059)	28,901	4,632	(31,291)	(1,635)	(1,452)
Finance lease receivables	–	(513)	(204)	(264)	(2,774)	(1,195)	(4,950)
Accounts receivable and other loans	(117)	–	–	–	–	–	(117)
Other financial assets	–	(2,621)	–	–	–	–	(2,621)
Financial and performance guarantees	–	6,599	53	3,733	(7)	–	10,378
Letter of credit to customers	–	1,543	–	328	–	–	1,871
Other financial commitments	–	(1,136)	(443)	–	–	–	(1,579)
For the year ended 31 December 2021	(117)	3,780	28,307	8,429	(34,072)	(2,830)	3,497

	Stage 1		Stage 2	Stage 3		POCI	Total
	Individual	Collective	Collective	Individual	Collective		
Cash and cash equivalents	–	63	–	–	–	–	63
Amounts due from credit institutions	–	(56)	–	–	–	–	(56)
Investment securities measured at FVOCI – debt instruments	–	(458)	–	–	–	–	(458)
Loans to customers at amortised cost	–	(61,219)	(49,502)	(62,612)	(62,439)	(1,211)	(236,983)
Finance lease receivables	–	310	(1,018)	(967)	(6,350)	–	(8,025)
Accounts receivable and other loans	–	–	–	–	–	–	–
Financial and performance guarantees	–	(4,091)	(33)	(3,091)	–	–	(7,215)
Letter of credit to customers	–	(1,317)	–	(380)	–	–	(1,697)
Other financial commitments	–	158	(69)	–	–	–	89
For the year ended 31 December 2020	–	(80,558)	(50,622)	(67,050)	(68,789)	(1,211)	(268,230)

In addition, in 2022 ECL charge includes GEL 16,105 cost incurred by the Group through synthetic agreement to accelerate the recovery process related to one of its defaulted borrowers. Such cost is not reflected in the ECL movement, but recorded directly through the consolidated income statement.

Impairment charge on other assets and provisions comprise:

	2022	2021	2020
Litigation provision reversal/(charge)	46,645	(35,584)	(19,538)
Impairment (charge)/reversal on assets held for sale	(4,296)	(3,805)	(6,640)
Other impairment charge	(13,342)	(15,520)	(6,589)
Impairment charge on other assets and provisions	29,007	(54,909)	(32,767)

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

27. Net non-recurring items

	2022	2021	2020
Modification loss of financial assets*	–	–	(39,730)
Corporate social responsibility expense**	–	–	(1,454)
Other	1,038	(590)	(127)
Net non-recurring gains/(losses)	1,038	(590)	(41,311)

* Modification loss of financial assets: in response to the COVID-19 outbreak, the Group implemented an initiative to grant a three-month grace period to its borrowers with the interest accrued for grace period being deferred and either allocated over the original repayment schedule till maturity on a straight-line basis (i.e. no compounding applied) or in some cases beyond maturity (i.e. maturity extended by three months). The payment holiday was intended to reduce customer traffic to branches and thus reduce chances of a rapid spread of the virus in the country. The noted immediate social response to the COVID-19 pandemic resulted in modification loss in amount of GEL 39,730. Given the initiative was driven by high social responsibility motives and was similar to a CSR cost with high degree of abnormality and extraordinary nature, such modification losses were presented as a non-recurring item in the Group's consolidated financial statements.

** In 2020, corporate social responsibility expense: in order to assist in the fight against the COVID-19 pandemic the Group purchased and donated laboratory tests, respiratory equipment, etc. to the Government of Georgia on a one-off basis.

28. Share-based payments

Executives' Equity Compensation Plan (EECP) and Employees' Equity Compensation Plan

In 2015, the Group set up the Executive Equity Compensation Trustee – Apex Group Fiduciary Services Limited (previously known as Sanne Fiduciary Services Limited) Limited (the 'Trustee') which acts as the trustee of the Group's EECP. In 2022, the Trustee has repurchased 695,750 shares (2021: 699,998 shares, 2020: 0 shares).

In 2019, the Group set up the Group's Employee Equity Compensation Trustee – Apex Group Fiduciary Services Limited (previously known as Sanne Fiduciary Services Limited) Limited (the 'Trustee') which acts as the trustee of Employees' Equity Compensation Plan. In 2022, the Trustee has repurchased 319,231 shares (2021: 485,820 shares, 2020: 234,563 shares).

Share-based payment transactions fixed in monetary terms

In 2022, the Group introduced the new remuneration policy for the Management Board and Key Material Risk Taker (MRT) employees. Under the new policy, part of the fixed component of the remuneration is fixed in monetary terms at the date of the contract and shall be paid by award of the number of shares equivalent to the fixed monetary value as at the date of the award. Such awards vest immediately following the award year and are subject to up to four-year holding period. For the CEO, annual remuneration paid in shares are fixed every three years, whereas for other members of the Management Board and MRTs the remuneration is set on annual basis. As for the variable share remuneration, it is awarded annually in the form of nil-cost options over the shares of BOGG PLC and is also fixed in monetary terms at the date of the contract. Such awards are subject to vesting and holding periods.

The awards of shares in monetary terms are accounted as equity-settled transactions and are measured by reference to the monetary value (as awarded) adjusted for the time value of money where necessary. The cost of equity-settled transactions is recognised together with the corresponding increase in equity as part of additional paid-in capital, over the period in which the service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award (the 'vesting date').

In January 2022, BOGG's Remuneration Committee resolved to award 350,017 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 54,851 ordinary shares of Bank of Georgia Group PLC to the Group's 13 executives. Shares awarded to the Management Board are subject to two-year vesting and two-year holding periods, while those awarded to the other 13 executives are subject to three-year vesting periods with continuous employment being the only vesting condition for both awards. The Group considers 31 January 2022 as the grant date. The Group estimates that the fair value of the shares awarded on 31 January 2022 was Georgian Lari 59.98 per share.

In March 2021, BOGG's Remuneration Committee resolved to award 20,100 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 176,218 ordinary shares of Bank of Georgia Group PLC to the Group's 46 executives. Shares awarded to the Management Board and to the other 46 executives are subject to three-year vesting periods with continuous employment being the only vesting condition for both awards. The Group considers 11 March 2021 as the grant date. The Group estimates that the fair value of the shares awarded on 11 March 2021 was Georgian Lari 50.12 per share.

In January 2020, BOGG's Remuneration Committee resolved to award 271,460 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 315,869 ordinary shares of Bank of Georgia Group PLC to the Group's 49 executives. Shares awarded to the Management Board are subject to two-year vesting and two-year holding periods, while those awarded to the other 49 executives are subject to three-year vesting periods with continuous employment being the only vesting condition for both awards. The Group considers 31 January 2020 as the grant date. The Group estimates that the fair value of the shares awarded on 31 January 2020 was Georgian Lari 56.98 per share.

28. Share-based payments continued

Executives' Equity Compensation Plan (EECP) and Employees' Equity Compensation Plan continued

Share-based payment transactions fixed in monetary terms continued

In 2022, Management Board members signed fixed contingent share-based compensation agreements, with fixed contract values of GEL 46,168. The Group considers 1 January 2022 and 30 June 2022 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 64.10 and 60.77 per share respectively, based on the five working day average share price before the 25 December 2021, respectively. The awards will be subject to one-year vesting and three-year holding periods.

In 2022, the Group's other executive members signed fixed contingent share-based compensation agreements, with fixed contract values of GEL 4,493. The Group considers 1 January 2022 and 1 July 2022 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 64.10 and 60.76 per share respectively, based on the five working day average share price before the 25 December 2021, respectively. The awards will be subject to one-year vesting and three-year holding periods.

In 2021, key executive members signed fixed contingent share-based compensation agreements with the total of 10,000 ordinary shares of BOGG. The awards will be subject to three-year vesting periods. The Group considers 1 March 2021 as the grant dates for the awards. The Group estimated that the fair value of the shares awarded on 1 March 2021 were Georgian Lari 45.89 per share.

In 2021, the Group's other executive members signed fixed contingent share-based compensation agreements, with fixed contract values of GEL 2,065. The Group considers 1 May 2021 and 1 October 2021 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 51.57 and 66.12 per share, respectively, based on the five working day average share price before the grant dates of 1 May 2021 and 1 October 2021, respectively. The awards will be subject to one-year vesting and three-year holding periods.

In 2020, new Management Board members and one key executive signed new three-year fixed contingent share-based compensation agreements with the total of 120,000 and 30,000 ordinary shares of BOGG, respectively. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years, of which each award will be subject to a three-year vesting period. The Group considers 3 June 2020 and 29 December 2020 as the grant dates for the awards. The Group estimated that the fair value of the shares awarded on 3 June 2020 and 29 December 2020 were Georgian Lari 39.91 and 54.61 per share, respectively.

In 2020, existing Management Board members' share-based compensation agreements were amended with the total effect of 33,333 ordinary shares of BOGG. The Group considers 23 December 2020 as the grant date for the awards. The Group estimated that the fair value of the shares awarded on 23 December 2020 were Georgian Lari 53.48 per share.

The Bank grants share compensation to its non-executive employees. In January 2022, March 2021 and January 2020, the Supervisory Board of the Bank resolved to award 212,327, 188,694 and 252,614 ordinary shares, respectively, to its certain non-executive employees. All these awards are subject to three-year vesting periods, with continuous employment being the only vesting condition for all awards. The Group considers 31 January 2022, 11 March 2021 and 31 January 2020 as the grant dates of these awards, respectively. The Group estimated that the fair values of the shares awarded on 31 January 2022, 11 March 2021 and 31 January 2020 were Georgian Lari 59.98, 50.12 and 56.98 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date was Georgian Lari 62.25 per share in year ended 31 December 2022 (31 December 2021: Georgian Lari 50.93 per share, 31 December 2020: Georgian Lari 55.91).

The Group's total share-based payment expenses for the year ended 31 December 2022 amounted to GEL 82,025 (31 December 2021: GEL 45,307, 31 December 2020: GEL 53,741) and are included in 'salaries and other employee benefits', as 'salaries and bonuses'. Below is the summary of the share-based payments-related data:

	2022	2021	2020
Total number of equity instruments awarded	1,405,389	434,770	1,023,276
– Among them, to the Management Board	1,071,053	30,100	424,793
Weighted average value at grant date, per share (GEL in full amount)	62.25	50.93	55.91
Value at grant date, total (GEL)	87,481	22,143	57,211
Total expense recognised during the year (GEL)	(82,025)	(45,307)	(53,741)

During 2022 BOGG Directors exercised 70,646 (2021: 16,965) share options with fair value of GEL 3,602 (2021: 966). Weighted average share price was GEL 19.61 per share. During 2020 BOGG Directors did not exercise any share options.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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

Risk management structure

The Bank's risk management framework and risk appetite framework policies are based on the three lines of defence model and reflect the requirements of the Corporate Governance Code adopted by the NBG. The three lines of defence model enhances the understanding of risk management and control by clarifying roles and responsibilities within the Bank's different risk management bodies and business units in order to increase the effective management of risk and control.

Audit Committee

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

Risk Committee

The Risk Committee assists the Board in relation to the oversight of risk. It reviews the Group's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework.

Management Board

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

Credit Committees

The Bank has five Credit Committees, each responsible for supervising and managing the Bank's credit risks in respect of loans and counterparty credit exposures. Each Credit Committee comprises tiers of subcommittees and approves individual loan transactions. Lower tier subcommittees meet on a daily basis, whereas higher tier ones meet as needed, typically one or two times a week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its members.

Bank Asset and Liability Management Committee

The Bank's Asset and Liability Management Committee (ALCO) is the core asset liability management (ALM) and risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits. ALCO designs and implements respective risk management and stress testing models, regularly monitors compliance with the pre-set risk limits, and approves treasury deals with non-standard terms.

Internal Audit

The Internal Audit function is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy and the Group's compliance with those procedures. The Group's Internal Audit department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank applies a variety of risk metrics to measure its exposures, ranging from operational indicators to forward looking/statistical model-based approaches and stress scenarios.

The Bank has established risk appetite limits for its principal risks, which are approved by the Supervisory Board. Monitoring and controlling of these risks are performed with reference to these limits. They reflect the business strategy and market environment in which the Bank operates and they set the boundaries for the level of risk the Bank is willing to take in pursuit of its strategic objectives. The Bank continuously monitors the landscape to ensure that any significant changes in the underlying assumptions and/or conditions are identified and adapted in a timely manner.

29. Risk management continued

Introduction continued

Risk measurement and reporting systems continued

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures, liquidity ratios and changes to the risk profile. Senior management assesses the appropriateness of the ECL on a monthly basis. The Management Board receives a comprehensive credit risk report and ALCO report. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, they do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared with the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on, maintaining a diversified portfolio of financial assets. Identified concentrations of credit risks or liquidity/repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to the carrying value of respective instruments and notional amounts of guarantees and commitments provided.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitment risks

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

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal and external credit ratings used in ECL calculations.

For corporate loan portfolios, the Group runs an internal rating model in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to each borrower, utilising supplemental external information that could affect the borrower's behaviour. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

For Retail, Micro and SME loans, the Group uses external ratings provided by Credit Bureau.

The Group's treasury, trading and inter-bank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available, the Group Credit Risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

The table below shows internal and external grades used in ECL calculating.

Internal rating description*	Internal rating grades		External rating grades	
			Credit Bureau	Standard & Poor's
High grade				
	Aaa	1	A	AAA
	Aa1	2+	B	AA+
	Aa2	2	C1	AA
	Aa3	2-	C2	AA-
	A1	3+	C3	A+
	A2	3		A
	A3	3-		A-
	Baa1	4+		BBB+
	Baa2	4		BBB
	Baa3	4-		BBB-
Standard grade				
	Ba1	5+	D1	BB+
	Ba2	5	D2	BB
	Ba3	5-	D3	BB-
	B1	6+		B+
	B2	6		B
Low grade				
	B3	6-	E1	B-
	Caa1	7+	E2	CCC+
	Caa2	7	E3	CCC
	Caa3	7-		CCC-
	Ca			CC
				C

* Grades are not supposed to be linked to each other across the rating categories above.

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

The table below shows the credit quality by class of asset in the statement of financial position, presented in gross amounts, based on the Group's credit rating system.

A defaulted financial asset that is past due more than 90 days is assessed as a non-performing loan or as determined on individual basis based on other available information regarding financial difficulties of the borrower.

Cash and cash equivalents, excluding cash on hand	Stage 1	Total	
High grade	1,372,649	1,372,649	
Standard grade	610,846	610,846	
Low grade	18,466	18,466	
Not rated	531,178	531,178	
Balance at 31 December 2022	2,533,139	2,533,139	
Amounts due from credit institutions	Stage 1	Total	
High grade	2,396,898	2,396,898	
Standard grade	11,871	11,871	
Low grade	–	–	
Not rated	29,577	29,577	
Balance at 31 December 2022	2,438,346	2,438,346	
Investment securities measured at amortised cost – debt instruments	Stage 1	Total	
High grade	129,670	129,670	
Standard grade	197,658	197,658	
Not rated	54,407	54,407	
Balance at 31 December 2022	381,735	381,735	
Investment securities measured at FVOCI – debt instruments	Stage 1	Stage 3	Total
High grade	2,337,628	–	2,337,628
Standard grade	1,546,907	–	1,546,907
Low grade	–	–	–
Not rated	76,381	1,619	78,000
Balance at 31 December 2022	3,960,916	1,619	3,962,535

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,484,436	78,817	–	–	2,563,253
Standard grade	1,466,457	123,274	–	310	1,590,041
Low grade	238,808	391,875	–	1,187	631,870
Not rated	322,120	17,341	3,605	–	343,066
Defaulted					
Non-performing	–	–	169,661	14,453	184,114
Other	–	–	3,322	–	3,322
Balance at 31 December 2022	4,511,821	611,307	176,588	15,950	5,315,666
Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	3,020,624	22,479	–	4,103	3,047,206
Standard grade	657,117	37,241	–	4,446	698,804
Low grade	107,484	108,764	–	3,402	219,650
Not rated	140,681	1,082	–	–	141,763
Defaulted					
Non-performing	–	–	53,073	13,650	66,723
Other	–	–	16,584	2,474	19,058
Balance at 31 December 2022	3,925,906	169,566	69,657	28,075	4,193,204
Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,026,620	43,580	–	347	2,070,547
Standard grade	1,022,762	67,959	–	361	1,091,082
Low grade	145,066	75,782	–	45	220,893
Not rated	281,391	13,142	10	207	294,750
Defaulted					
Non-performing	–	–	135,965	1,658	137,623
Other	–	–	10,542	226	10,768
Balance at 31 December 2022	3,475,839	200,463	146,517	2,844	3,825,663
Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,003,630	13,253	–	2,412	2,019,295
Standard grade	872,122	39,737	–	1,763	913,622
Low grade	202,919	159,751	–	2,021	364,691
Not rated	164,520	1,134	103	–	165,757
Defaulted					
Non-performing	–	–	70,885	11,279	82,164
Other	–	–	51,004	5,521	56,525
Balance at 31 December 2022	3,243,191	213,875	121,992	22,996	3,602,054
Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	61,635	195	–	–	61,830
Standard grade	43,456	1,077	–	–	44,533
Low grade	39,509	7,339	–	–	46,848
Not rated	2,925	2	493	–	3,420
Defaulted					
Non-performing	–	–	1,318	–	1,318
Other	–	–	6,605	–	6,605
Balance at 31 December 2022	147,525	8,613	8,416	–	164,554

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	17,702	4,495	–	–	22,197
Standard grade	–	694	–	–	694
Low grade	–	–	–	–	–
Not rated	41,829	1,262	5,101	–	48,192
Defaulted					
Non-performing	–	–	3,814	11,909	15,723
Other	–	–	5,240	3,302	8,542
Balance at 31 December 2022	59,531	6,451	14,155	15,211	95,348
Accounts receivable				Stage 1	Total
Not rated				400,111	400,111
Balance at 31 December 2022				400,111	400,111
Other financial assets				Stage 1	Total
Not rated				104,107	104,107
Balance at 31 December 2022				104,107	104,107
Financial and performance guarantees issued	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,049,817	103	–	–	1,049,920
Standard grade	241,914	4,357	–	–	246,271
Low grade	223,983	20,097	–	–	244,080
Not rated	163,278	111	–	–	163,389
Other	–	–	13,648	–	13,648
Balance at 31 December 2022	1,678,992	24,668	13,648	–	1,717,308
Letters of credit	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	76,091	–	–	–	76,091
Standard grade	39,671	–	–	–	39,671
Not rated	547	–	–	–	547
Balance at 31 December 2022	116,309	–	–	–	116,309
Undrawn loan facilities	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	498,164	306	–	–	498,470
Standard grade	259,919	6,168	–	–	266,087
Low grade	7,719	7,829	–	–	15,548
Not rated	87,136	82	–	1	87,219
Defaulted					
Non-performing	–	–	1,537	1	1,538
Other	–	–	199	–	199
Balance at 31 December 2022	852,938	14,385	1,736	2	869,061
Cash and cash equivalents, excluding cash on hand				Stage 1	Total
High grade				480,889	480,889
Standard grade				78,953	78,953
Low grade				134	134
Not rated				209,548	209,548
Balance at 31 December 2021				769,524	769,524
Amounts due from credit institutions				Stage 1	Total
Standard grade				1,903,301	1,903,301
Not rated				28,420	28,420
Balance at 31 December 2021				1,931,721	1,931,721

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

Investment securities measured at FVOCI – debt instruments					Stage 1	Total
High grade					1,031,369	1,031,369
Standard grade					1,464,107	1,464,107
Low grade					13,804	13,804
Not rated					79,948	79,948
Balance at 31 December 2021					2,589,228	2,589,228
Commercial loans at amortised cost						Total
	Stage 1	Stage 2	Stage 3	POCI		
High grade	2,815,718	11,769	–	–		2,827,487
Standard grade	1,318,613	166,392	–	–		1,485,005
Low grade	369,056	176,236	–	7,131		552,423
Not rated	430,925	20,536	3,524	–		454,985
Defaulted						
Non-performing	–	–	212,134	10,883		223,017
Other	–	–	11,267	–		11,267
Balance at 31 December 2021	4,934,312	374,933	226,925	18,014		5,554,184
Residential mortgage loans at amortised cost						Total
	Stage 1	Stage 2	Stage 3	POCI		
High grade	2,751,165	67,134	–	2,163		2,820,462
Standard grade	616,665	84,564	–	4,284		705,513
Low grade	112,440	106,454	–	5,083		223,977
Not rated	149,099	1,818	–	–		150,917
Defaulted						
Non-performing	–	–	31,140	3,767		34,907
Other	–	–	73,374	12,908		86,282
Balance at 31 December 2021	3,629,369	259,970	104,514	28,205		4,022,058
Micro and SME loans at amortised cost						Total
	Stage 1	Stage 2	Stage 3	POCI		
High grade	1,733,636	103,160	–	308		1,837,104
Standard grade	932,109	90,631	–	1,588		1,024,328
Low grade	108,045	69,942	–	561		178,548
Not rated	506,359	29,740	11	–		536,110
Defaulted						
Non-performing	–	–	115,794	2,125		117,919
Other	–	–	35,694	2,053		37,747
Balance at 31 December 2021	3,280,149	293,473	151,499	6,635		3,731,756
Consumer loans at amortised cost						Total
	Stage 1	Stage 2	Stage 3	POCI		
High grade	1,415,629	23,339	–	858		1,439,826
Standard grade	758,684	54,826	–	1,640		815,150
Low grade	272,104	135,897	–	2,259		410,260
Not rated	189,021	964	267	–		190,252
Defaulted						
Non-performing	–	–	41,757	1,141		42,898
Other	–	–	65,618	17,301		82,919
Balance at 31 December 2021	2,635,438	215,026	107,642	23,199		2,981,305

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	58,481	295	–	–	58,776
Standard grade	41,990	2,606	–	–	44,596
Low grade	19,639	7,215	–	–	26,854
Not rated	32,677	–	–	–	32,677
Defaulted					
Non-performing	–	–	1,003	–	1,003
Other	–	–	1,511	–	1,511
Balance at 31 December 2021	152,787	10,116	2,514	–	165,417
Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	8,585	3,221	–	–	11,806
Standard grade	8,337	2,733	–	–	11,070
Low grade	8,515	5,850	–	–	14,365
Not rated	55,737	5,780	–	–	61,517
Defaulted					
Non-performing	–	–	605	–	605
Other	–	–	16,007	9,582	25,589
Balance at 31 December 2021	81,174	17,584	16,612	9,582	124,952
Accounts receivable				Stage 1	Total
Not rated				6,097	6,097
Balance at 31 December 2021				6,097	6,097
Other financial assets				Stage 1	Total
Not rated				52,575	52,575
Balance at 31 December 2021				52,575	52,575
Financial and performance guarantees issued	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	307,607	24,337	–	–	331,944
Standard grade	91,528	7,799	–	–	99,327
Low grade	58,376	3,334	–	–	61,710
Not rated	1,193,179	9	–	–	1,193,188
Defaulted					
Other	–	–	744	–	744
Balance at 31 December 2021	1,650,690	35,479	744	–	1,686,913
Letters of credit	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	67,925	–	–	–	67,925
Standard grade	1,743	–	–	–	1,743
Low grade	410	–	–	–	410
Not rated	1,598	–	–	–	1,598
Balance at 31 December 2021	71,676	–	–	–	71,676
Undrawn loan facilities	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	581,310	1,415	–	–	582,725
Standard grade	121,376	3,011	–	–	124,387
Low grade	12,986	4,561	–	–	17,547
Not rated	83,653	240	9	–	83,902
Defaulted					
Non-performing	–	–	5	–	5
Other	–	–	909	6	915
Balance at 31 December 2021	799,325	9,227	923	6	809,481

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

Cash and cash equivalents, excluding cash on hand	Stage 1	Total			
High grade	1,077,536	1,077,536			
Standard grade	98,062	98,062			
Low grade	87,355	87,355			
Not rated	4,614	4,614			
Balance at 31 December 2020	1,267,567	1,267,567			
Amounts due from credit institutions	Stage 1	Total			
Standard grade	1,986,932	1,986,932			
Not rated	29,473	29,473			
Balance at 31 December 2020	2,016,405	2,016,405			
Investment securities measured at FVOCI – debt instruments	Stage 1	Total			
High grade	1,010,177	1,010,177			
Standard grade	1,414,785	1,414,785			
Low grade	11,003	11,003			
Not rated	107,929	107,929			
Balance at 31 December 2020	2,543,894	2,543,894			
Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,801,003	41,693	–	–	1,842,696
Standard grade	1,343,887	110,608	–	–	1,454,495
Low grade	361,573	194,295	–	7,402	563,270
Not rated	984,615	35,522	–	–	1,020,137
Defaulted					
Non-performing	–	–	236,992	974	237,966
Other	–	–	4,829	–	4,829
Balance at 31 December 2020	4,491,078	382,118	241,821	8,376	5,123,393
Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,521,205	108,883	–	1,283	2,631,371
Standard grade	534,592	102,058	–	4,390	641,040
Low grade	111,250	101,843	–	4,968	218,061
Not rated	120,797	1,431	–	–	122,228
Defaulted					
Non-performing	–	–	110,378	6,056	116,434
Other	–	–	58,098	9,152	67,250
Balance at 31 December 2020	3,287,844	314,215	168,476	25,849	3,796,384
Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,278,947	151,938	–	409	1,431,294
Standard grade	834,885	135,345	–	309	970,539
Low grade	96,053	86,728	–	1,987	184,768
Not rated	439,222	65,394	–	11	504,627
Defaulted					
Non-performing	–	–	144,323	706	145,029
Other	–	–	33,148	49	33,197
Balance at 31 December 2020	2,649,107	439,405	177,471	3,471	3,269,454

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,041,103	31,976	–	412	1,073,491
Standard grade	514,395	51,890	–	965	567,250
Low grade	150,067	109,522	–	2,388	261,977
Not rated	198,617	978	–	–	199,595
Defaulted					
Non-performing	–	–	66,765	1,619	68,384
Other	–	–	34,185	3,131	37,316
Balance at 31 December 2020	1,904,182	194,366	100,950	8,515	2,208,013
Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	31,764	262	–	–	32,026
Standard grade	42,352	703	–	–	43,055
Low grade	21,929	2,914	–	–	24,843
Not rated	1,730	–	–	–	1,730
Defaulted					
Non-performing	–	–	406	–	406
Other	–	–	1,324	–	1,324
Balance at 31 December 2020	97,775	3,879	1,730	–	103,384
Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	12,756	7,605	–	–	20,361
Standard grade	8,673	17,403	–	–	26,076
Low grade	201	12,767	–	–	12,968
Not rated	45,716	15,501	–	–	61,217
Defaulted					
Non-performing	–	–	3,595	–	3,595
Other	–	–	15,155	–	15,155
Balance at 31 December 2020	67,346	53,276	18,750	–	139,372
Accounts receivable				Stage 1	Total
Not rated				4,935	4,935
Balance at 31 December 2020				4,935	4,935
Other financial assets				Stage 1	Total
Not rated				40,219	40,219
Balance at 31 December 2020				40,219	40,219
Financial and performance guarantees issued	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	160,612	7,628	–	–	168,240
Standard grade	40,554	7,414	–	–	47,968
Low grade	39,485	5,250	–	–	44,735
Not rated	1,198,042	6	–	–	1,198,048
Defaulted					
Other	–	–	31,037	–	31,037
Balance at 31 December 2020	1,438,693	20,298	31,037	–	1,490,028

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

Letters of credit	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	49,162	–	–	–	49,162
Standard grade	10,970	–	–	–	10,970
Low grade	261	–	–	–	261
Not rated	58,698	–	–	–	58,698
Defaulted					
Other	–	–	5,940	–	5,940
Balance at 31 December 2020	119,091	–	5,940	–	125,031

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	450,119	2,683	–	–	452,802
Standard grade	62,708	878	–	–	63,586
Low grade	15,682	14,740	–	–	30,422
Not rated	136,726	799	–	–	137,525
Defaulted					
Other	–	–	1,198	–	1,198
Balance at 31 December 2020	665,235	19,100	1,198	–	685,533

Types of collateral the Group accepts include real estate, movable properties as well as financial assets (deposits, shares and guarantees) and other registered liens. Measurement and processing of collateral is governed by generally acceptable standards and collateral-specific instructions. These transactions are structured under legally verified standard agreements where the pledges are secured through public registry where eligible. The following table shows the ratio of the loan portfolio to the market value of collateral held by the Group in respect of the portfolio. As at 31 December 2022, up to 78.6% of the collateral held has been revalued within the last two years (2021: 76.0%, 2020: 76.2%). For residential mortgage loans, in cases where the collateral for a loan may not be officially registered until its construction is complete, respective loan is shown as unsecured, even though it is usually secured by the corporate guarantee of the construction company.

29. Risk management continued

Credit risk continued

Credit quality per class of financial assets continued

As at 31 December 2022										
	Total gross carrying amount	Unsecured	Loan-to-value %							
			Less than 50%	50-80%	80-90%	90-100%	100-200%	200-300%	300-400%	More than 400%
Commercial loans	5,315,666	714,675	1,037,528	900,866	158,713	245,750	1,243,415	340,917	70,694	603,108
ECL coverage	1.72%	2.79%	0.56%	1.18%	0.82%	1.56%	3.14%	1.18%	1.31%	1.01%
Residential mortgage loans	4,193,204	120,439	981,034	1,859,064	532,412	441,719	230,274	8,114	2,665	17,483
ECL coverage	0.72%	2.45%	0.01%	0.38%	1.00%	1.45%	3.07%	4.42%	1.43%	4.06%
Micro and SME loans	3,825,663	405,004	885,724	966,056	278,684	280,462	800,119	73,083	30,447	106,084
ECL coverage	1.66%	4.73%	0.02%	0.41%	0.92%	1.48%	2.92%	3.42%	4.59%	5.88%
Consumer loans	3,602,054	1,794,035	629,846	694,153	217,045	174,755	83,286	4,926	1,196	2,812
ECL coverage	3.76%	6.79%	0.03%	0.51%	1.36%	1.59%	4.58%	7.69%	0.92%	1.53%
Gold – pawn loans	164,554	1	8,589	58,481	94,082	2,044	1,338	–	–	19
ECL coverage	3.31%	N/A	50.54%	0.07%	0.30%	13.65%	35.87%	N/A	N/A	84.21%
Loans to customers at amortised cost, gross	17,101,141	3,034,154	3,542,721	4,478,620	1,280,936	1,144,730	2,358,432	427,040	105,002	729,506

As at 31 December 2021										
	Total gross carrying amount	Unsecured	Loan-to-value %							
			Less than 50%	50-80%	80-90%	90-100%	100-200%	200-300%	300-400%	More than 400%
Commercial loans	5,554,184	670,741	474,531	1,396,633	167,960	238,995	1,193,148	814,879	197,306	399,991
ECL coverage	2.87%	1.51%	1.43%	0.69%	1.04%	2.71%	2.50%	10.60%	1.87%	1.17%
Residential mortgage loans	4,022,058	94,513	715,692	1,556,323	651,029	519,179	440,231	11,085	4,739	29,267
ECL coverage	0.82%	4.19%	0.02%	0.09%	0.66%	1.19%	3.41%	9.24%	2.15%	3.32%
Micro and SME loans	3,731,756	429,366	725,310	933,874	272,270	328,758	835,894	90,748	34,841	80,695
ECL coverage	1.99%	5.89%	0.10%	0.27%	0.66%	1.65%	3.11%	4.59%	2.43%	9.47%
Consumer loans	2,981,305	1,560,864	443,343	514,287	178,141	143,989	132,295	3,634	731	4,021
ECL coverage	4.56%	8.07%	0.07%	0.36%	1.02%	1.43%	2.67%	11.23%	2.60%	3.13%
Gold – pawn loans	165,417	1	4,182	37,427	118,095	4,568	1,128	–	–	16
ECL coverage	1.25%	N/A	0.02%	4.83%	0.09%	2.47%	2.48%	N/A	N/A	75.00%
Loans to customers at amortised cost, gross	16,454,720	2,755,485	2,363,058	4,438,544	1,387,495	1,235,489	2,602,696	920,346	237,617	513,990

As at 31 December 2020										
	Total gross carrying amount	Unsecured	Loan-to-value %							
			Less than 50%	50-80%	80-90%	90-100%	100-200%	200-300%	300-400%	More than 400%
Commercial loans	5,123,393	499,548	635,950	1,147,875	114,903	146,474	1,018,590	147,898	750,360	661,795
ECL coverage	3.49%	3.10%	0.45%	1.14%	5.01%	8.62%	9.36%	6.17%	2.48%	0.87%
Residential mortgage loans	3,796,384	90,628	972,294	1,896,005	438,750	200,236	129,234	9,315	2,236	57,686
ECL coverage	1.28%	3.19%	0.03%	0.77%	2.59%	3.55%	7.87%	4.64%	3.31%	2.86%
Micro and SME loans	3,269,454	353,143	919,622	938,206	264,999	217,848	494,492	38,622	7,581	34,941
ECL coverage	3.13%	10.74%	0.10%	1.12%	2.08%	5.71%	5.30%	7.79%	13.78%	13.82%
Consumer loans	2,208,013	1,118,714	460,494	436,194	90,076	48,783	49,946	1,055	640	2,111
ECL coverage	5.15%	9.38%	0.13%	1.01%	2.36%	0.71%	2.66%	4.83%	1.72%	1.94%
Gold – pawn loans	103,384	–	3,340	23,313	72,392	1,748	2,576	2	–	13
ECL coverage	0.22%	N/A	0.09%	0.06%	0.20%	2.06%	0.78%	0.00%	N/A	76.92%
Loans to customers at amortised cost, gross	14,500,628	2,062,033	2,991,700	4,441,593	981,120	615,089	1,694,838	196,892	760,817	756,546

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Credit risk continued

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

During the year, the Group modified the contractual cash flows on certain loans and advances to customers. All such loans had previously been transferred to at least Stage 2, with a loss allowance measured at an amount equal to lifetime ECL.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

	Amortised cost before modification	Net gain/(loss) arising from modification
Financial assets modified during 2022:		
Commercial loans	621,067	2,169
Residential mortgage loans	73,863	(3,081)
Micro and SME loans	173,382	(2,524)
Consumer loans	305,726	(25,835)
Gold – pawn loans	–	–
Loans to customers	1,174,038	(29,271)
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	1,174,038	(29,271)
Financial assets modified during 2021:		
Commercial loans	437,979	388
Residential mortgage loans	132,638	530
Micro and SME loans	243,217	(4,185)
Consumer loans	271,896	(9,446)
Gold – pawn loans	–	–
Loans to customers	1,085,730	(12,713)
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	1,085,730	(12,713)
Financial assets modified during 2020:		
Commercial loans	117,119	83
Residential mortgage loans	364,619	(34)
Micro and SME loans	347,449	(3,347)
Consumer loans	347,562	(4,625)
Gold – pawn loans	–	–
Loans to customers	1,176,749	(7,923)
Finance lease receivables	52,188	(1,172)
Total loans to customers and finance lease receivables	1,228,937	(9,095)

The gross carrying value of loans that have previously been modified (when they were in Stage 2 or 3) which are now categorised as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses, are shown in the table below:

	Gross carrying amount	Corresponding ECL
Financial assets modified since initial recognition, as at 31 December 2022		
Commercial loans	10,100	(24)
Residential mortgage loans	72,919	(104)
Micro and SME loans	40,925	(129)
Consumer loans	19,482	(204)
Loans to customers	143,426	(461)
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	143,426	(461)

29. Risk management continued

Credit risk continued

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

Financial assets modified since initial recognition, as at 31 December 2021	Gross carrying amount	Corresponding ECL
Commercial loans	19,521	(121)
Residential mortgage loans	81,892	(231)
Micro and SME loans	35,301	(347)
Consumer loans	25,063	(633)
Loans to customers	161,777	(1,332)
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	161,777	(1,332)

Financial assets modified since initial recognition, as at 31 December 2020	Gross carrying amount	Corresponding ECL
Commercial loans	14,952	(1)
Residential mortgage loans	100,079	(444)
Micro and SME loans	68,748	(1,023)
Gold – pawn loans	–	–
Loans to customers	226,187	(3,430)
Finance lease receivables	717	(3)
Total loans to customers and finance lease receivables	226,904	(3,433)

The geographical concentration of the Group's assets and liabilities is set out below:

	2022			Total
	Georgia	OECD	CIS and other foreign countries	
Assets:				
Cash and cash equivalents	1,508,225	1,453,844	622,774	3,584,843
Amounts due from credit institutions	2,358,551	54,175	20,302	2,433,028
Investment securities	1,798,172	2,436,465	115,092	4,349,729
Loans to customers and finance lease receivables	16,339,883	–	521,823	16,861,706
All other assets	1,473,703	120,271	78,620	1,672,594
	23,478,534	4,064,755	1,358,611	28,901,900
Liabilities:				
Client deposits and notes	13,017,449	966,722	4,277,226	18,261,397
Amounts owed to credit institutions	2,622,787	2,142,083	501,783	5,266,653
Debt securities issued	312,053	333,915	–	645,968
Lease Liability	101,402	–	13,068	114,470
All other liabilities	275,030	81,893	7,667	364,590
	16,328,721	3,524,613	4,799,744	24,653,078
Net balance sheet position	7,149,813	540,142	(3,441,133)	4,248,822

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Credit risk continued

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

	2021				2020			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	836,325	419,324	264,913	1,520,562	742,844	985,848	242,263	1,970,955
Amounts due from credit institutions	1,922,671	–	8,719	1,931,390	1,995,963	–	20,042	2,016,005
Investment securities	1,477,367	970,901	147,396	2,595,664	1,421,642	939,964	182,791	2,544,397
Loans to customers and finance lease receivables	15,524,427	–	644,546	16,168,973	13,504,237	–	687,841	14,192,078
All other assets	977,703	178,765	57,019	1,213,487	1,020,701	247,355	44,429	1,312,485
	20,738,493	1,568,990	1,122,593	23,430,076	18,685,387	2,173,167	1,177,366	22,035,920
Liabilities:								
Client deposits and notes	11,180,811	894,192	1,962,999	14,038,002	11,211,760	875,634	1,932,815	14,020,209
Amounts owed to credit institutions	1,609,565	2,619,885	88,995	4,318,445	872,239	2,393,872	69,855	3,335,966
Debt securities issued	450,155	1,061,203	7,327	1,518,685	102,104	1,449,374	34,067	1,585,545
Lease Liability	84,875	–	2,787	87,662	91,217	–	4,418	95,635
All other liabilities	309,068	55,291	10,015	374,374	178,246	246,109	24,295	448,650
	13,634,474	4,630,571	2,072,123	20,337,168	12,455,566	4,964,989	2,065,450	19,486,005
Net balance sheet position	7,104,019	(3,061,581)	(949,530)	3,092,908	6,229,821	(2,791,822)	(888,084)	2,549,915

Liquidity risk and funding management

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. Banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high-quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2022 was 132.4% (2021: 124.0%, 2020: 138.6%).

The Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. NSFR as at 31 December 2022 was 131.9%, (2021: 132.5%, 2020: 137.5%), all comfortably above the NBG's minimum regulatory requirements.

The Group also matches the maturity of financial assets and financial liabilities and regularly monitors negative gaps compared with the Bank's standalone total regulatory capital calculated per NBG regulation.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

29. Risk management continued

Liquidity risk and funding management continued

Financial liabilities, as at 31 December 2022	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	8,278,805	8,366,525	1,946,856	342,592	18,934,778
Amounts owed to credit institutions	3,300,204	623,612	1,310,937	654,002	5,888,755
Debt securities issued	7,843	343,014	411,265	–	762,122
Lease liability	7,633	22,444	77,028	16,756	123,861
Derivative financial liabilities	43,876	14,401	743	–	59,020
Other liabilities	98,779	455	319	118	99,671
Total undiscounted financial liabilities	11,737,140	9,370,451	3,747,148	1,013,468	25,868,207
Financial liabilities, as at 31 December 2021	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	5,301,533	7,317,413	1,657,540	352,824	14,629,310
Amounts owed to credit institutions	1,815,989	628,686	1,870,941	610,949	4,926,565
Debt securities issued	37,678	310,707	1,432,079	–	1,780,464
Lease liability	6,145	16,729	66,981	10,992	100,847
Derivative financial liabilities	3,206	2,972	1,687	–	7,865
Other liabilities	174,322	816	328	18	175,484
Total undiscounted financial liabilities	7,338,873	8,277,323	5,029,556	974,783	21,620,535
Financial liabilities, as at 31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	5,974,433	6,593,251	1,651,120	353,414	14,572,218
Amounts owed to credit institutions	982,039	811,129	1,553,898	558,866	3,905,932
Debt securities issued	72,994	143,409	1,408,547	345,886	1,970,836
Lease liability	6,342	19,057	69,248	21,751	116,398
Derivative financial liabilities	92,554	130,785	24,181	–	247,520
Other liabilities	75,519	2,525	6,656	102	84,802
Total undiscounted financial liabilities	7,203,881	7,700,156	4,713,650	1,280,019	20,897,706

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

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2022	1,280,906	625,011	778,275	30,294	2,714,486
31 December 2021	1,010,650	663,865	885,895	17,546	2,577,956
31 December 2020	857,416	492,293	933,097	27,436	2,310,242

The Group expects that not all guarantees or commitments will be drawn before expiry of the commitment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above. Perpetual Tier 1 capital notes are presented in 'Over 5 years' category given the fact that management does not consider them to be covered earlier than that.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Market risk continued

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2022. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the years ended 31 December 2022, 2021 and 2020, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	2022		
	Increase in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
GEL	14	2,432	1,348
EUR	24	3,732	107
USD	21	1,624	1,022

Currency	2022		
	Decrease in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
GEL	14	(2,432)	(1,348)
EUR	24	(3,732)	(107)
USD	21	(1,624)	(1,022)

Currency	2021		
	Increase in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
GEL	53	6,733	5,516
EUR	2	238	–
USD	5	355	–

Currency	2021		
	Decrease in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
GEL	53	(6,733)	(5,516)
EUR	2	(238)	–
USD	5	(355)	–

Currency	2020		
	Increase in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
GEL	15	1,427	1,452
EUR	2	242	–
USD	3	13	–

Currency	2020		
	Decrease in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
GEL	15	(1,427)	(1,452)
EUR	2	(242)	–
USD	3	(13)	–

29. Risk management continued

Market risk continued

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2022 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement. The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the 12 months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the years ended 31 December 2022, 31 December 2021 and 31 December 2020, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	2022		2021		2020	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
EUR	13.4%	1,251	8.6%	209	15.1%	2,527
USD	10.9%	806	6.4%	1,027	13.0%	3,049

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar reasons.

The Group calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing or renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2022, 31 December 2021 and 31 December 2020, is as follows:

	Effect on net interest income
2022	(51,899)
2021	(52,552)
2020	(40,748)

Operational risk

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

Operating environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and that Georgia has undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems.

This includes the adoption of a new body of legislation (including a new tax code and procedural laws). In the view of the Board, these steps contribute to mitigating the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments, and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Risk management continued

Emerging risks

Information compiled from all the businesses is examined and processed in order to analyse, control and identify emerging risks.

The Group has identified climate risk as an emerging risk. Climate-related risk is the risk of financial loss and/or damage to the Group's reputation as a result of accelerating transition to a lower-carbon economy as well as the materialisation of actual physical damage as a result of acute or chronic weather events. Among other things, transitional and physical risks may impact the performance and financial position of our customers and their ability to repay their loans.

The Bank conducted a qualitative analysis to understand how, under different scenarios, the transition and physical effects of climate change can drive credit, liquidity, capital, market, operational and reputational risk for the Bank over 'short-term' (i.e. one to two years) to 'very long-term' (i.e. over eight years) time horizons. Risks are perceived to be low over the coming years. However, reputational risks can occur if our climate action lacks ambition and credibility. Moreover, the Bank conducted a qualitative analysis of the transition and physical risks for the sectors in which our corporate and MSME clients are active. The results of this analysis showed that although both strong climate policy (transition risks) and untamed climate change (physical risks) can negatively affect borrowers' repayment capacity and value of collateral in the future (from 2030 and beyond), risks over the next years are expected to be low for our commercial portfolio and are not likely to affect current expectations of credit loss. We thus do not currently consider the impacts of climate change in individual clients' credit risk assessment. However, we have started collecting data from clients to refine our assessment of their climate-related risks as part of standard due diligence. Transition and physical risks for retail clients still have to be assessed.

Overall, many of the effects of climate change will be longer term in nature, with an inherent level of uncertainty, and have no effect on accounting judgements and estimates for the current period. As a result, there are no additional notes provided in the financial statements. Potential impacts of climate-related risks will be subject to further analysis in the future.

The Group acknowledges climate change risk as an emerging risk. For further details please refer to principal risks and uncertainties on page 81.

The Group has described climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in the climate-related disclosures on pages 103 to 117.

30. Fair value measurements

Fair value hierarchy

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

At 31 December 2022	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	166,546	166,546
Land	–	–	9,008	9,008
Residential properties	–	–	112,890	112,890
Non-residential properties	–	–	44,648	44,648
Investment securities	5,285	3,960,360	5,547	3,971,192
Other assets – derivative financial assets	–	39,270	–	39,270
Other assets – investment securities at FVTPL	2,660	–	–	2,660
Assets for which fair values are disclosed				
Cash and cash equivalents	3,584,843	–	–	3,584,843
Amounts due from credit institutions	–	2,433,028	–	2,433,028
Loans to customers and finance lease receivables	–	–	16,266,826	16,266,826
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	59,020	–	59,020
Liabilities for which fair values are disclosed				
Client deposits and notes	–	18,228,352	–	18,228,352
Amounts owed to credit institutions	–	4,033,727	1,209,141	5,242,868
Debt securities issued	–	490,559	151,808	642,367
Lease liability	–	13,068	104,670	117,738

30. Fair value measurements continued

Fair value hierarchy continued

At 31 December 2021	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	226,849	226,849
Land	–	–	11,762	11,762
Residential properties	–	–	152,167	152,167
Non-residential properties	–	–	62,920	62,920
Investment securities	5,823	2,586,152	3,689	2,595,664
Other assets – derivative financial assets	–	135,079	–	135,079
Other assets – investment securities at FVTPL	2,146	–	–	2,146
Assets for which fair values are disclosed				
Cash and cash equivalents	1,520,562	–	–	1,520,562
Amounts due from credit institutions	–	1,931,390	–	1,931,390
Loans to customers and finance lease receivables	–	–	15,787,725	15,787,725
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	7,865	–	7,865
Liabilities for which fair values are disclosed				
Client deposits and notes	–	14,013,500	–	14,013,500
Amounts owed to credit institutions	–	3,635,353	683,092	4,318,445
Debt securities issued	–	1,310,806	280,109	1,590,915
Lease liability	35	3,574	90,760	94,369
<hr/>				
At 31 December 2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	231,241	231,241
Land	–	–	10,981	10,981
Residential properties	–	–	147,585	147,585
Non-residential properties	–	–	72,675	72,675
Investment securities	3,229	2,539,092	2,076	2,544,397
Other assets – derivative financial assets	–	9,154	–	9,154
Other assets – investment securities at FVTPL	5,731	–	–	5,731
Assets for which fair values are disclosed				
Cash and cash equivalents	1,970,955	–	–	1,970,955
Amounts due from credit institutions	–	2,016,005	–	2,016,005
Loans to customers and finance lease receivables	–	–	13,896,221	13,896,221
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	247,520	–	247,520
Liabilities for which fair values are disclosed				
Client deposits and notes	–	14,007,521	–	14,007,521
Amounts owed to credit institutions	–	2,899,263	436,703	3,335,966
Debt securities issued	–	1,402,958	241,976	1,644,934
Lease liability	–	–	103,012	103,012

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

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

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

30. Fair value measurements continued

Fair value hierarchy continued

Trading securities and investment securities

Trading securities and a certain part of investment securities are quoted equity and debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Assets and liabilities not measured at fair value but for which fair value is disclosed

The fair values in the level 2 and level 3 of the fair value hierarchy are estimated using the discounted cash flows valuation technique. Current interest rates for new instruments with similar credit risk, currency and remaining maturity is used as discount rate in the valuation model.

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 31 December 2019	Purchase of securities	At 31 December 2020	Purchase of securities	At 31 December 2021	Purchase of securities	At 31 December 2022
Level 3 financial assets							
Equity investment securities	973	1,103	2,076	1,613	3,689	1,858	5,547

Movements in Level 3 non-financial assets measured at fair value

All investment properties are Level 3. Reconciliations of their opening and closing amounts are provided in Note 14.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	2022		2021		2020	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets						
Equity investment securities	5,547	+/- 826	3,689	+/- 549	2,076	+/- 309

In order to determine reasonably possible alternative assumptions, the Group's adjusted key unobservable model inputs are as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

30. Fair value measurements continued

Fair value hierarchy continued

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

The following tables show descriptions of significant unobservable inputs to Level 3 valuations of investment properties:

	2022	Valuation technique	Significant unobservable inputs	MIN	MAX	Weighted average	Other key information	MIN	MAX	Weighted average
Investment property	166,546									
Land	9,008									
Development land	6,872	Market approach	Price per square metre	0.012	2.220	1.033	Square metres, land	32	20,000	4,026
Agricultural land	2,136	Income approach	Rent per square metre	0.006	0.006	0.006	Square metres, land	5,178	26,796	23,295
			Occupancy rate	65%	65%	65%				
		Market approach	Price per square metre	0.001	0.709	0.337	Square metres, land	310	140,000	19,296
Residential properties	112,890	Market approach	Price per square metre	0.049	5.466	1.004	Square metres, building	18	3,170	225
Non-residential properties	44,648									
	40,611	Market approach	Price per square metre	22.870	3,838.861	1,321.071	Square metres, land	50	23,884	2,684
							Square metres, building	32	3,000	984
	4,037	Income approach	Rent per square metre	0.006	0.006	0.006	Square metres, building	1,701	12,706	358
			Occupancy rate	65%	65%	65%				

* Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

30. Fair value measurements continued

Fair value hierarchy continued

Description of significant unobservable inputs to valuations of non-financial assets continued

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2022, 31 December 2021 and 31 December 2020:

	At 31 December 2022		
	Amortised cost	FVOCI	FVTPL
Financial assets			
Cash and cash equivalents	3,584,843	–	–
Amounts due from credit institutions	2,433,028	–	–
Loans to customers and finance lease receivables	16,861,706	–	–
Accounts receivable and other loans	397,990	–	–
Equity instruments	–	10,893	–
Debt instruments	378,537	3,960,299	–
Interest rate contracts	–	–	348
Foreign currency derivative financial instruments	–	–	38,922
Investment securities at FVTPL	–	–	2,660
Total	23,656,104	3,971,192	41,930
Financial liabilities			
Client deposits and notes	18,261,397	–	–
Amounts owed to credit institutions	5,266,653	–	–
Debt securities issued	645,968	–	–
Lease liability	114,470	–	–
Trade and other payables (in other liabilities)	68,721	–	–
Foreign currency derivative financial instruments	–	–	59,020
Total	24,357,209	–	59,020

	At 31 December 2021			At 31 December 2020		
	Amortised cost	FVOCI	FVTPL	Amortised cost	FVOCI	FVTPL
Financial assets						
Cash and cash equivalents	1,520,562	–	–	1,970,955	–	–
Amounts due from credit institutions	1,931,390	–	–	2,016,005	–	–
Loans to customers and finance lease receivables	16,168,973	–	–	14,192,078	–	–
Accounts receivable and other loans	3,680	–	–	2,420	–	–
Equity instruments	–	9,581	–	–	5,378	–
Debt instruments	–	2,586,083	–	–	2,539,019	–
Interest rate contracts	–	–	2,827	–	–	1,549
Foreign currency derivative financial instruments	–	–	132,252	–	–	7,605
Investment securities at FVTPL	–	–	2,146	–	–	5,731
Total	19,624,605	2,595,664	137,225	18,181,458	2,544,397	14,885
Financial liabilities						
Client deposits and notes	14,038,002	–	–	14,020,209	–	–
Amounts owed to credit institutions	4,318,445	–	–	3,335,966	–	–
Debt securities issued	1,518,685	–	–	1,585,545	–	–
Lease liability	87,662	–	–	95,635	–	–
Trade and other payables (in other liabilities)	56,223	–	–	53,952	–	–
Interest rate contracts	–	–	1,385	–	–	1,102
Foreign currency derivative financial instruments	–	–	6,480	–	–	246,418
Total	20,019,017	–	7,865	19,091,307	–	247,520

30. Fair value measurements continued

Fair value of financial instruments that are carried in the financial statements not at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities, fair values of other smaller financial assets and financial liabilities, or cash and short-term deposits, fair values of which are materially close to their carrying values.

	2022		
	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash and cash equivalents	3,584,843	3,584,843	–
Amounts due from credit institutions	2,433,028	2,433,028	–
Loans to customers and finance lease receivables	16,861,706	16,266,826	(594,880)
Financial liabilities			
Client deposits and notes	18,261,397	18,228,352	33,045
Amounts owed to credit institutions	5,266,653	5,242,868	23,785
Debt securities issued	645,968	642,367	3,601
Lease liability	114,470	117,738	(3,268)
Total unrecognised change in unrealised fair value			(537,717)

	2021			2020		
	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets						
Cash and cash equivalents	1,520,562	1,520,562	–	1,970,955	1,970,955	–
Amounts due from credit institutions	1,931,390	1,931,390	–	2,016,005	2,016,005	–
Loans to customers and finance lease receivables	16,168,973	15,787,725	(381,248)	14,192,078	13,896,221	(295,857)
Financial liabilities						
Client deposits and notes	14,038,002	14,013,500	24,502	14,020,209	14,007,521	12,688
Amounts owed to credit institutions	4,318,445	4,318,445	–	3,335,966	3,335,966	–
Debt securities issued	1,518,685	1,590,915	(72,230)	1,585,545	1,644,934	(59,389)
Lease liability	87,662	94,369	(6,707)	95,635	103,012	(7,377)
Total unrecognised change in unrealised fair value			(435,683)			(349,935)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For financial assets and financial liabilities maturing in less than a year, it is assumed that the carrying amounts approximate to their fair value.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

31. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts and credit card loans as described below. See Note 29 "Risk management" for the Group's contractual undiscounted repayment obligations.

	At 31 December 2022							Total
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	
Financial assets								
Cash and cash equivalents	2,853,938	730,905	–	–	–	–	–	3,584,843
Amounts due from credit institutions	2,396,574	733	2,257	2,885	8,986	1,291	20,302	2,433,028
Investment securities	953,357	2,315,414	536,088	217,956	142,195	182,498	2,221	4,349,729
Loans to customers and finance lease receivables	4,204	2,087,706	1,238,926	2,103,947	4,575,809	2,420,979	4,430,135	16,861,706
Accounts receivable and other loans	2,057	375,736	35	1,518	18,644	–	–	397,990
Total	6,210,130	5,510,494	1,777,306	2,326,306	4,745,634	2,604,768	4,452,658	27,627,296
Financial liabilities								
Client deposits and notes	5,406,670	2,812,580	1,298,966	6,963,532	1,229,394	283,703	266,552	18,261,397
Amounts owed to credit institutions	701,207	2,599,102	168,560	396,759	677,401	363,797	359,827	5,266,653
Debt securities issued	–	7,816	51,107	281,519	109,683	195,843	–	645,968
Lease liability	–	6,899	7,161	14,146	46,624	26,963	12,677	114,470
Total	6,107,877	5,426,397	1,525,794	7,655,956	2,063,102	870,306	639,056	24,288,488
Net	102,253	84,097	251,512	(5,329,650)	2,682,532	1,734,462	3,813,602	3,338,808
Accumulated gap	102,253	186,350	437,862	(4,891,788)	(2,209,256)	(474,794)	3,338,808	

	At 31 December 2021							Total
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	
Financial assets								
Cash and cash equivalents	1,291,890	228,672	–	–	–	–	–	1,520,562
Amounts due from credit institutions	1,893,732	8,003	7,744	–	9,652	3,540	8,719	1,931,390
Investment securities	1,162,051	1,282,493	7,478	12,486	39,734	88,776	2,646	2,595,664
Loans to customers and finance lease receivables	2,966	3,046,387	926,061	1,976,611	4,005,985	2,281,105	3,929,858	16,168,973
Accounts receivable and other loans	261	1,608	9	1,802	–	–	–	3,680
Total	4,350,900	4,567,163	941,292	1,990,899	4,055,371	2,373,421	3,941,223	22,220,269
Financial liabilities								
Client deposits and notes	2,455,123	2,783,998	1,177,931	6,048,073	852,196	454,304	266,377	14,038,002
Amounts owed to credit institutions	170,410	1,638,683	221,013	355,637	996,956	526,697	409,049	4,318,445
Debt securities issued	–	37,515	16,364	233,824	1,008,104	222,878	–	1,518,685
Lease liability	–	6,198	5,782	10,355	35,238	22,808	7,281	87,662
Total	2,625,533	4,466,394	1,421,090	6,647,889	2,892,494	1,226,687	682,707	19,962,794
Net	1,725,367	100,769	(479,798)	(4,656,990)	1,162,877	1,146,734	3,258,516	2,257,475
Accumulated gap	1,725,367	1,826,136	1,346,338	(3,310,652)	(2,147,775)	(1,001,041)	2,257,475	

31. Maturity analysis of financial assets and liabilities continued

	At 31 December 2020							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	1,452,379	518,576	–	–	–	–	–	1,970,955
Amounts due from credit institutions	1,987,538	12,054	539	1,931	4,161	1,203	8,579	2,016,005
Investment securities	309,234	2,101,428	23,996	11,165	12,013	31,404	55,157	2,544,397
Loans to customers and finance lease receivables	–	2,671,296	842,716	1,594,714	3,482,213	2,189,857	3,411,282	14,192,078
Accounts receivable and other loans	101	1,942	29	348	–	–	–	2,420
Total	3,749,252	5,305,296	867,280	1,608,158	3,498,387	2,222,464	3,475,018	20,725,855
Financial liabilities								
Client deposits and notes	2,167,103	3,761,867	1,164,650	5,349,181	971,894	345,709	259,805	14,020,209
Amounts owed to credit institutions	196,049	781,139	225,093	558,857	721,802	501,080	351,946	3,335,966
Debt securities issued	–	72,550	36,352	98,412	1,144,567	46,258	187,406	1,585,545
Lease liability	–	6,229	6,234	11,846	34,630	22,802	13,894	95,635
Total	2,363,152	4,621,785	1,432,329	6,018,296	2,872,893	915,849	813,051	19,037,355
Net	1,386,100	683,511	(565,049)	(4,410,138)	625,494	1,306,615	2,661,967	1,688,500
Accumulated gap	1,386,100	2,069,611	1,504,562	(2,905,576)	(2,280,082)	(973,467)	1,688,500	

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the 'Up to 1 year' category in the table above. The remaining current accounts are included in the 'On demand' category. To match the coverage of short-term borrowings from the NBG with the investment securities pledged to secure it, those securities are included in the 'On demand' category. Considering credit cards have no contractual maturities, the above allocation per category is done based on the statistical coverage rates observed.

The Group's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreements;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As at 31 December 2022, client deposits and notes amounted to GEL 18,261,397 (2021: GEL 14,038,002, 2020: GEL 14,020,209) and represented 74% (2021: 69%, 2020: 72%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2022, amounts owed to credit institutions amounted to GEL 5,266,653 (2021: GEL 4,318,445, 2020: GEL 3,335,966) and represented 21% (2021: 21%, 2020: 17%) of total liabilities. As at 31 December 2022, debt securities issued amounted to GEL 645,968 (2021: GEL 1,518,685, 2020: GEL 1,585,545) and represented 3% (2021: 7%, 2020: 8%) of total liabilities.

In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

31. Maturity analysis of financial assets and liabilities continued

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled, except for current accounts which are included in the 'Up to 1 year' category in the table above, noting that respective contractual maturity may expand over significantly longer periods:

	At 31 December 2022		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	3,584,843	–	3,584,843
Amounts due from credit institutions	2,402,449	30,579	2,433,028
Investment securities	4,022,815	326,914	4,349,729
Loans to customers and finance lease receivables	5,434,783	11,426,923	16,861,706
Accounts receivable and other loans	379,346	18,644	397,990
Prepayments	40,020	3,592	43,612
Inventories	17,096	–	17,096
Right-of-use assets	–	117,387	117,387
Investment properties	–	166,546	166,546
Property and equipment	–	398,855	398,855
Goodwill	–	33,351	33,351
Intangible assets	–	149,441	149,441
Income tax assets	224	640	864
Other assets	189,080	128,806	317,886
Assets held for sale	29,566	–	29,566
Total assets	16,110,222	12,801,678	28,901,900
Client deposits and notes	16,481,748	1,779,649	18,261,397
Amounts owed to credit institutions	3,865,628	1,401,025	5,266,653
Debt securities issued	340,442	305,526	645,968
Lease liability	28,206	86,264	114,470
Accruals and deferred income	73,660	32,706	106,366
Income tax liabilities	20,258	79,275	99,533
Other liabilities	157,948	743	158,691
Total liabilities	20,967,890	3,685,188	24,653,078
Net	(4,867,668)	9,116,490	4,248,822

	At 31 December 2021			At 31 December 2020		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,520,562	–	1,520,562	1,970,955	–	1,970,955
Amounts due from credit institutions	1,909,479	21,911	1,931,390	2,002,062	13,943	2,016,005
Investment securities	2,464,508	131,156	2,595,664	2,445,823	98,574	2,544,397
Loans to customers and finance lease receivables	5,952,025	10,216,948	16,168,973	5,108,726	9,083,352	14,192,078
Accounts receivable and other loans	3,680	–	3,680	2,420	–	2,420
Prepayments	39,276	1,602	40,878	26,467	1,126	27,593
Inventories	11,514	–	11,514	10,340	–	10,340
Right-of-use assets	–	80,186	80,186	–	83,208	83,208
Investment properties	–	226,849	226,849	–	231,241	231,241
Property and equipment	–	378,808	378,808	–	387,851	387,851
Goodwill	–	33,351	33,351	–	33,351	33,351
Intangible assets	–	144,251	144,251	–	125,806	125,806
Income tax assets	109	183	292	21,841	192	22,033
Other assets	235,049	11,898	246,947	288,602	37,392	325,994
Assets held for sale	46,731	–	46,731	62,648	–	62,648
Total assets	12,182,933	11,247,143	23,430,076	11,939,884	10,096,036	22,035,920
Client deposits and notes	12,465,125	1,572,877	14,038,002	12,442,801	1,577,408	14,020,209
Amounts owed to credit institutions	2,385,743	1,932,702	4,318,445	1,761,138	1,574,828	3,335,966
Debt securities issued	287,703	1,230,982	1,518,685	207,314	1,378,231	1,585,545
Lease liability	22,335	65,327	87,662	24,309	71,326	95,635
Accruals and deferred income	53,346	26,811	80,157	30,536	23,358	53,894
Income tax liabilities	85,270	25,598	110,868	–	62,434	62,434
Other liabilities	182,070	1,279	183,349	306,299	26,023	332,322
Total liabilities	15,481,592	4,855,576	20,337,168	14,772,397	4,713,608	19,486,005
Net	(3,298,659)	6,391,567	3,092,908	(2,832,513)	5,382,428	2,549,915

32. Related party disclosures

In accordance with IAS 24 'Related Party Disclosures', parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year-end, and related expenses and income for the year are as follows:

	At 31 December 2022		At 31 December 2021		At 31 December 2020	
	Associates	Key management personnel*	Associates	Key management personnel*	Associates	Key management personnel*
Loans outstanding at 1 January, gross	–	12,050	–	10,646	–	6,718
Loans issued during the year	–	7,090	–	8,944	–	7,798
Loan repayments during the year	–	(7,246)	–	(6,531)	–	(5,322)
Other movements	–	(2,075)	–	(1,009)	–	1,452
Loans outstanding at 31 December, gross	–	9,819	–	12,050	–	10,646
Less: allowance for impairment at 31 December	–	(67)	–	(27)	–	(9)
Loans outstanding at 31 December, net	–	9,752	–	12,023	–	10,637
Interest income on loans	–	745	–	644	–	424
Expected credit loss	–	(200)	–	–	–	(69)
Deposits at 1 January	202	31,127	166	32,619	3	30,475
Deposits received during the year	–	9,212	36	21,490	163	23,211
Deposits repaid during the year	–	(15,773)	–	(32,337)	–	(19,565)
Other movements	41	(11,933)	–	9,355	–	(1,502)
Deposits at 31 December	243	12,633	202	31,127	166	32,619
Interest expense on deposits	–	(959)	–	(1,368)	–	(1,249)

* Key management personnel includes members of BOGG's Board of Directors and key executives of the Group.

Details of Directors' emoluments are included in the Remuneration Report on pages 202 to 222. Compensation of key management personnel comprised the following:

	2022	2021	2020
Salaries and other benefits	11,841	12,915	11,932
Share-based payments compensation	58,208	25,048	27,188
Social security costs	–	–	–
Total key management compensation	70,049	37,963	39,120

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 28). The number of key management personnel at 31 December 2022 was 23 (31 December 2021: 21, 31 December 2020: 20).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

33. Capital adequacy

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

During the year ended 31 December 2022, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of risk-weighted assets, computed based on the Bank's standalone special-purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel III requirements.

As at 31 December 2022, 31 December 2021 and 31 December 2020, the Bank's capital adequacy ratio on this basis was as follows:

	2022	2021	2020
Tier 1 capital	3,388,048	2,691,000	1,989,190
Tier 2 capital	618,232	784,800	830,145
Total capital	4,006,280	3,475,800	2,819,335
Risk-weighted assets	20,279,424	17,977,949	16,040,094
Tier 1 capital ratio	16.7%	15.0%	12.4%
Total capital ratio	19.8%	19.3%	17.6%
Min. requirement for Tier 1 capital ratio	13.8%	13.6%	9.2%
Min. requirement for Total capital ratio	17.2%	17.7%	13.8%

34. Events after the reporting period

On 16 February 2023, the Group's Board of Directors approved a GEL 148 million share buyback and cancellation programme which commenced from 16 February 2023. The shares will be purchased in the open market. The purpose of the buyback is to reduce the share capital, and the cancellation of the treasury shares will be executed on a monthly basis.

ADDITIONAL INFORMATION

GRI content index

Bank of Georgia Group PLC has reported the information cited in this GRI content index for the period (1 January 2022–31 December 2022) with reference to the GRI Standards.

GRI 1 used		GRI 1: Foundation 2021
GRI indicator	Description	Report section or other documentation
GRI 2: General Disclosures 2021		
The organization and its reporting practices		
2-1	Organizational details	About Us (page 01)
2-2	Entities included in the organization's sustainability reporting	Sustainable Business (page 85) Notes to Consolidated Financial Statements (pages 248 to 250)
2-3	Reporting period, frequency and contact point	Sustainable Business (page 85)
2-4	Restatements of information	Not applicable
2-5	External assurance	We have not sought external assurance for sustainability reporting
Activities and workers		
2-6	Activities, value chain, and other business relationships	About Us (page 01) Our Purpose and Strategy Framework (pages 18 to 19)
2-7	Employees	Sustainable Business (page 122)
2-8	Workers who are not employees	Sustainable Business (page 122)
Governance		
2-9	Governance structure and composition	Directors' Governance Statement (pages 171 to 178) Board of Directors (pages 179 to 181)
2-10	Nomination and selection of the highest governance body	Nomination Committee Report (pages 186 to 191)
2-11	Chair of the highest governance body	Directors' Governance Statement (page 171) Board of Directors (page 179)
2-12	Role of the highest governance body in overseeing the management of impacts	Directors' Governance Statement (pages 172 to 174; pages 177 to 178)
2-13	Delegation of responsibility for managing impacts	Sustainable Business (page 89) Directors' Governance Statement (pages 171 to 173; pages 177 to 178)
2-14	Role of the highest governance body in sustainability reporting	Sustainable Business (pages 85 and 89) Directors' Governance Statement (page 174) Audit Committee Report (page 194)
2-15	Conflicts of interest	Audit Committee Report (page 196) Directors' Remuneration Report (page 219; page 205) Directors' Report (page 226)
2-16	Communication of critical concerns	Audit Committee Report (page 196)
2-17	Collective knowledge of the highest governance body	Nomination Committee Report (page 187)
2-18	Evaluation of the performance of the highest governance body	Directors' Governance Statement (pages 177 to 178)
2-19	Remuneration policies	Directors' Remuneration Report (pages 202 to 222)
2-20	Process to determine remuneration	Directors' Remuneration Report (pages 202 to 222)
2-21	Annual total compensation ratio	Directors' Remuneration Report (page 211; page 213)

GRI indicator	Description	Report section or other documentation
Strategy, Policies and Practices		
2-22	Statement on sustainable development strategy	Chairman's Statement (page 08) Chief Executive Officer's Statement (page 10) Sustainable Business (pages 85 to 86)
2-23	Policy commitments	https://bankofgeorgiagroup.com/governance/documents Sustainable Business (pages 84 to 148)
2-24	Embedding policy commitments	Risk Management (pages 56 to 61) Principal Risks and Uncertainties (pages 62 to 81) Sustainable Business (pages 84 to 148) Directors' Governance Statement (pages 171 to 178)
2-25	Processes to remediate negative impacts	Principal Risks and Uncertainties (pages 62 to 81) Sustainable Business (page 88; pages 141 to 145)
2-26	Mechanisms for seeking advice and raising concerns	Sustainable Business (pages 87 to 88; page 123) https://bankofgeorgiagroup.com/governance/documents
2-27	Compliance with laws and regulations	Principal Risks and Uncertainties (page 71) Sustainable Business (pages 141 to 142)
2-28	Membership associations	Sustainable Business (page 90)
Stakeholder Engagement		
2-29	Approach to stakeholder engagement	Engaging with our stakeholders for shared success (pages 20 to 21) Section 172(1) statement (pages 149 to 151)
2-30	Collective bargaining agreements	Not applicable Sustainable Business (page 88)
GRI 3: Material Topics		
GRI 3: Material Topics		
3-1	Process to determine material topics	Sustainable Business (page 85)
3-2	List of material topics	Sustainable Business (page 85)

Topic-specific disclosures

GRI indicator	Description	Report section or other documentation
GRI 200: Economic		
GRI 201: Economic Performance 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Our Purpose and Strategy Framework (pages 18 to 19) Strategy and Performance (pages 22 to 46) Sustainable Business (pages 84 to 148)
201-1	Direct economic value generated and distributed	Overview of Financial Results (pages 154 to 167)
201-2	Financial implications and other risks and opportunities due to climate change	Sustainable Business (pages 95 to 117)
GRI 203: Indirect Economic Performance 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 85 to 87; pages 93 to 94)
203-2	Significant indirect economic impacts	Sustainable Business (pages 85 to 87; pages 93 to 94)
GRI 205: Anti-corruption 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Principal Risks and Uncertainties (pages 72 to 73) Sustainable Business (page 88)
205-3	Confirmed incidents of corruption and actions taken	Sustainable Business (page 88)
GRI 400: Social		
GRI 401: Employment 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 122 to 134)
401-1	New employee hires and employee turnover	Sustainable Business (page 127)
401-3	Parental leave	Sustainable Business (page 125)
GRI 404: Training and Education 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 127 to 131)
404-1	Average hours of training per year per employee	Sustainable Business (page 131)
404-3	Percentage of employees receiving regular performance and career development reviews	Sustainable Business (page 129)
GRI 405: Diversity and Equal Opportunity 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 91 to 92) https://bankofgeorgiagroup.com/governance/documents
405-1	Diversity of governance bodies and employees	Sustainable Business (page 122) Nomination Committee Report (page 187)
405-2	Ratio of the basic salary and remuneration of women to men	Sustainable Business (page 124)
GRI 418: Customer Privacy 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Principal Risks and Uncertainties (pages 72 to 76) Sustainable Business (pages 144 to 145)
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Sustainable Business (page 145)

GRI indicator	Description	Report section or other documentation
Non-GRI Disclosures		
Customer protection		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (page 121)
Topic-specific indicator	NPS	Sustainable Business (page 120)
Customer experience		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (page 120)
Topic-specific indicator	NPS	Sustainable Business (page 120)
Financial inclusion and empowerment		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 92 to 94)
Topic-specific indicator	Digital MAU; Payments MAU; sCoolApp MAU; Number of self-employed borrowers	Sustainable Business (page 86)
Product innovation		
GRI 3: Material topics 2021	3-3 Management of material topics	Business Model and Strategy (pages 24 to 25; pages 40 to 41)
Topic-specific indicator	Number of active digital users; Number of mBank/iBank transactions; Offloading rate	Key Performance Indicators (pages 54 to 55)
Ethical business		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 87 to page 88)
Topic-specific indicator	Number of ethics-related concerns received	Sustainable Business (page 87)
Climate, environmental, and social management of loan portfolio		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (page 97; page 101)
Topic-specific indicator	% exposure to carbon-related assets in loan portfolio; % exposure to fossil fuel and coal-related assets in loan portfolio	Sustainable Business (page 109)
Human rights		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (page 87; page 89) Sustainable Business (page 91; page 94)
Topic-specific indicator	eNPS	Sustainable Business (page 132)
Risk management		
GRI 3: Material topics 2021	3-3 Management of material topics	Risk Management (pages 56 to 61)
Topic-specific indicator	Risk indicators	Principal Risks and Uncertainties (pages 62 to 81)

References

The Bank, BOG, or Bank of Georgia	JSC Bank of Georgia
The Company	Bank of Georgia Group PLC
The Board	The Board of Directors of Bank of Georgia Group PLC
The Code	The UK Corporate Governance Code published in 2018
The Directors	Members of the Board of Directors
The Group	Bank of Georgia Group PLC and its group companies as a whole
Supervisory Board	Supervisory Board of the Bank
Executive Management	Management Team of the Group as presented on the Group's website at https://bankofgeorgiagroup.com/governance/people/management ; in some contexts related to Bank of Georgia, it refers to Management Team of the Bank as presented on the Bank's website at https://bankofgeorgia.ge/en/about/management .
We/our/us	References to 'we', 'our' or 'us' are primarily references to the Group throughout this Report. However, the Group comprises and operates through its subsidiaries which are legal entities with their own relevant management and governance structures (as set out in relevant parts of this Report). In that regard, when using 'we', 'our' or 'us' in the context of the banking business in Georgia, we refer to JSC Bank of Georgia. Likewise, 'we', 'our' or 'us' in the context of Georgian capital markets and investment banking activities, we refer to JSC Galt & Taggart, unless otherwise specifically indicated in this Annual Report.

Glossary

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

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

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

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

Constant currency basis Changes assuming constant exchange rate;

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

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

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

Cost to income ratio Operating expenses divided by operating income;

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

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

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

Leverage (times) Total liabilities divided by total equity;

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

Liquidity coverage ratio (LCR) High-quality liquid assets (as defined by NBG) divided by net cash outflow over the next 30 days (as defined by NBG);

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

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

NBG (Basel III) Common Equity Tier I (CET1) capital adequacy ratio Common Equity Tier I capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia;

NBG (Basel III) Tier I capital adequacy ratio Tier I capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia;

NBG (Basel III) Total capital adequacy ratio Total regulatory capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia;

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

Net stable funding ratio (NSFR) Available amount of stable funding (as defined by NBG) divided by the required amount of stable funding (as defined by NBG);

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

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

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

NPL coverage ratio adjusted for discounted value of collateral Allowance for expected credit loss of loans to customers and finance lease receivables plus discounted value of collateral, divided by NPLs;

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

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

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

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

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

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

NMF Not meaningful

Shareholder Information

Our website

All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors, key financial information, regulatory news, share and dividend data, AGM documentation and other significant information about Bank of Georgia Group PLC at <http://www.bankofgeorgiagroup.com>.

Our registered address

Bank of Georgia Group PLC
42 Brook Street
London W1K 5DB
United Kingdom

Annual General Meeting

The Annual General Meeting of Bank of Georgia Group PLC (the 'AGM') will be held at Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the date, time and business to be conducted at the AGM is contained in the Notice of AGM, which will be available on the Group's website: <https://www.bankofgeorgiagroup.com/information/meetings>.

Shareholder enquiries

Bank of Georgia Group PLC's share register is maintained by Computershare Investor Services PLC. Any queries about the administration of holdings of ordinary shares, such as change of address or change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website: www.investorcentre.co.uk or by calling the Shareholder Helpline on +44 (0)370 873 5866.

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZZ
United Kingdom

Contact information

Bank of Georgia Group PLC Investor Relations
Email: ir@bog.ge

Forward-looking statements

Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Bank of Georgia Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, and certain of which include, among other things, those described in "Principal risks and uncertainties" included in this Annual Report and Accounts, see pages 62 to 81. No part of these results or report constitutes, or shall be taken to constitute, an invitation or inducement to invest in Bank of Georgia Group PLC or any other entity and must not be relied upon in any way in connection with any investment decision. Bank of Georgia Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

