ANNUAL REPORT

2023

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Letter from the Chairman

Zhang Jun
Chairman of the Supervisory Board

I am honoured to sum up another productive financial year for Basisbank and the whole BB Group. We continued our path of successful execution of our strategy towards becoming number the 3rd largest universal Bank in Georgia. Despite challenging environment, the Group has continued to deliver on its strategic priorities, generating strong growth in all key parameters and maintaining high profitability levels. We have proven significant improvements in the quality of the organization, becoming more client-centric and employee-centric, with these principles embedded into everyday life through policies, processes and relevant metrics.

In 2023 Basisbank achieved milestones and implemented strategic initiatives. We focused on transformation of our internal processes to improve the banking experience for customers while enhancing operational efficiency.

Our success in 2023 was largely attributed to our dedication to nurturing lasting relationships with our clients. We set ourselves apart by prioritizing our clients' needs and goals above all else. Whether it involves offering customized solutions, providing personalized services or embracing digital advancements for added convenience, our commitment to exceeding customer expectations never wavered.

Behind our operations stands a team of professionals whose passion, expertise and unwavering pursuit of excellence continue to propel us forward. Their resilience, flexibility and steadfast commitment played a role in overcoming external challenges and positioning Basisbank for sustained growth in the future.

Strategic Progress

Our Strategy at Basisbank is deeply client-centric: we try to identify their needs and thus create financial products and services tailored to them. As a result, we create value for our clients, that translates into customer loyalty and long-lasting co-operation. This approach is translated into the bank's increased market presence, thereby enhancing value for its employees, management and shareholders.

From 2022 we entered dynamic transformation stage and started navigating under broader horizons. Throughout 2023 we stayed true to the four pillars of our Strategy – Growth, Digitalization, Efficiency and Customer Experience and have delivered notable progress in all directions. By addressing all of them, operating ethically and winning the long-term commitment of our customers, partners, employees and stakeholders, Bank aims to become 3rd biggest bank on the market.

The year was closed with record profit for the group reaching GEL 77 million and a ROAE of 15.7%. The portfolios of Loans and Deposits showed 19% and 12% growth respectively. The Bank remained strongly capitalized, with an increased equity and regulatory capital, supported by shareholders and partner IFIs.

We expect to deliver strong results and market share gains in the years to come as a high-performing organisation, with dedicated employees and management.

Changes in Board Composition

In 2023 our Board has been further strengthened with the appointment of two new independent members of the Supervisory Board: Ms. Nino Okhanashvili and Ms. Sabina Dziurman.

Ms. Dziurman brings extensive Audit and Risk Management experience and further strengthens the Board's composition, particularly in her role as Chair of the Risk Committee. While Ms. Okhanashvili with over 20 years extensive Management experience in the industry shall further strengthen Audit Committee, as an Independent Member. The new members have added diverse backgrounds and expertise to the Board.

The bank will continue to review the composition, background and expertise of the Board to ensure that it is capable of challenging and supporting the Management Board in setting and delivering the Group's Strategy.

ESG Dedication

The Group is making reasonable progress on managing climate-related and social opportunities and risks, improving information collection and evaluation practices. It continues and enhances providing sustainable financing to the businesses, who go beyond basic needs and look for environmental as well as social footprint. Through recent years, the Bank upholds green approach to operations, utilization and infrastructure and is considering Green concept for the new head office.

We remain committed to promoting diversity, equality and high ethical standards in the Group. We make sure that there is a healthy balance of gender, experience and ethnic representation not only at the Board level, but also at the organizational level.

Future Outlook

Looking back on the accomplishments of the year we are aware of the upcoming challenges. The changing environment, advancements and evolving customer demands bring both opportunities and hindrance to our industry. Nevertheless, I am confident that with our forward thinking approach and dedication to excellence, Basisbank is well prepared to navigate the complexities of the future successfully and generating strong results and benefits for every stakeholder group.

In conclusion I want to express my appreciation to our shareholders for their continuous support and belief in our vision. I also want to express my heartly gratitude to the Management Board for their commitment and ability to drive success.

I also thank our clients for their trust and collaboration that motivates us to strive for excellence consistently. Lastly, I applaud our employees for their work, commitment, and resilience, as they represent key drivers behind our achievements.

Zhang Jun
Chairman of the Supervisory Board

Letter from General Director

David Tsaava
General Director

Dear Customers and Shareholders,

It is a pleasure for me to address our stakeholders as the CEO of Basisbank and to provide details on the vision, path and results of one of the top players of Georgia's banking industry. Continuous developments, flexibility and dedication are key features of Basisbank, which enables us to surf along with the turbulence and increased geopolitical risks present across the region.

We must acknowledge Basisbank's steadfast dedication to quality, customer-focused service and ability to deliver value to our clients, investors, employees and communities. Ever since our establishment, we have constantly put our customers' needs and goals first, working hard to surpass their expectations at every interaction point during their banking journey. We remain flexible adjusting our approaches to navigate the challenges of the landscape while staying rooted in our fundamental principles.

With the help of our excellent team of dedicated professionals, supported by our client-centric business model, we have been able to deliver value to different groups of stakeholders: shareholders, customers, employees and society.

Business environment

Global recovery from post-pandemic period remains to be slow, with several factors contributing to that: the ongoing war in Ukraine affecting unprecedentedly the region and the world, the effects of monetary policy tightening for reducing inflation, withdrawal of fiscal support due to high debt and overall post-pandemic consequences.

Along with this, Georgian economic growth is stable, 7.5% year-over-year, and continues to grow at a stable rate. The inflation rate has been well managed contributing to the stabilization of inflation around its target 3% rate, international trade has shown a stable two-digit increase for several consecutive years, while Tourism revenues also increasing at promising rates, already surpassing 2019 pre-pandemic levels.

Georgia ranks high in the region and remains one of the top countries for doing business, ranking as one of the top countries in the world by transparency, public integrity, economic freedom, global innovation etc. More after EU Candidacy Status granted to Georgie and Fitch Ratings affirming a positive outlook on Georgia's long-term foreign currency issuer default rating (IDR), we think we are in a momentum which we must seize and take advantage of increased chances of investors' raised interest.

Banking Trends in Georgia

The Georgian banking industry is one of the fastest growing and the driver of the country's economy. It is constantly evolving against a backdrop of shifts, regulatory changes, and technological progress. The sector withstood the pressure of and fully recovered from post-pandemic consequences, along with the Russia-Ukraine war, that impacted economies and societies and posed challenges for the banking sector as well.

In 2023 there was a continued trend towards digitalization with customers increasingly seeking seamless and convenient banking services. Basisbank has also resonated with this pattern and started rethinking the whole process of Digital Value Proposition: development of more sophisticated features and transformation of customer digital experience.
The banking sector is considerably stable, highly resilient, well capitalized and one of the most profitable and developed industry in Georgia. Its soundness has been reaffirmed by the positive outlook outlined by the international rating agencies. As a player in Georgia's banking sector, Basisbank is dedicated to setting high standards for performance. We view transformation as an opportunity to enhance customer interactions, streamline processes and drive sustainable growth in a dynamic market environment.

There are 17 banks operating in Georgia and there is a high concentration from the top two banks. Basisbank aims to shorten the gap and rank as a 3rd strong player adding greater depth and diversification to the market.

Strong Results

In my capacity as CEO of Basisbank, I am pleased to draw attention to the strong growth and robust advancement of each of our business lines, each of which has been crucial in determining the direction of our company's expansion and position on the market.

Over the last years, we have devoted our energy to strengthening our banking franchise, developing new products, digital channels and enhancing customer experience. By doing so, we generated strong results across key performance metrics.
Our core business continues to be our Business banking line, which serves the various financial requirements of Georgia's small and medium-sized companies and corporates. Our total loan portfolio increased by +19.1% year to year where loans to Businesses still is the remain focus and a key factor to our strategy execution. Over the year loans to businesses increased by +26%, driven mostly by growth in SME loans.

Simultaneously, our corporate banking segment has sustained its growth, functioning as a reliable financial associate for businesses ranging from small companies to large enterprises. Through widened market reach, improved digital experience and customized offerings like trade financing, SME and green lending, financial instruments, etc., we have helped companies to reach their expansion goals, encouraged entrepreneurship and advanced economic development in the country.

The year 2023 was very successful for us, and the figures are proving the strength and capacity of the group. A strong +13% growth in Gross Operating Income was recorded in 2023, generated by strong Net Interest Income and operational revenue, translated into a Net Operating Income of 91 million and Net Profit of 77 million in 2023, which account for 15% and 4% increase year-over-year respectively, however, if we look at the normalized figures, there was +41.9% increase in the Net Profit without one-time effect of 2022 year's portfolio acquisition. We are keen to maintain efficiency high and our goal is to gradually reduce our operating cost in coming years. In 2023 Cost-to-Income ratio amounted to 47.7%, by 0.6 ppt lower than in 2022.

In 2023, the Group reported the highest RoAE since the end of the pandemic reaching 15.7% and RoAA to 2.4%.

Our capital is robust, the common Tier 1 ratio stood at 15.10% at the end of the year and total capital ratio at 18.17%. In 2023 Tier 2 instruments were issued by the Bank: Subordinated Bond amounting USD 10 million, Subordinated Loan from shareholder amounting GEL 7 million and Subordinated Loan to retail customers amounting USD 4.9 million. Shareholders continue to support the bank's development. Early in 2024 shareholders injected USD 10 million in common equity, while the bank continued issuing Subordinated Loan to retail customers. Currently, BB's capital needs are fully covered, the CAR standing above the minimum by 2%.

BB team

We would not have been able to achieve these impressive results without the dedication of our team. Each member of the Basisbank family, from our frontline employees who give our clients individualized care and assistance to our impactful leaders, who guide us towards new frontiers, is essential to our group's journey of development and transformation. Their enthusiasm, skills and unchanging commitment set us apart from the competitors and strengthen our position as a reliable financial partner for people, companies, and organizations around the country.

In 2023, to keep pace with ever changing environment and direct more focus on Digital value creation, we initiated a agile transformation. Strategic directions were identified and transformed into Agile teams, spread across three main directions: digital channels, loans and main banking products. The teams started implementation of projects prioritized during the year. This structure will enable Basisbank to be more effective and flexible in deploying new products and services, as well as becoming more adaptable to new realities that challenging industry can provide.

I want to thank all our remarkable employees for their commitment and supporting customers and each other during what has been an incredibly challenging year. I have no doubt that the diligence and commitment of our staff will keep pushing us to new heights of success as we manage the complexity of the banking industry and look for new development and growth opportunities.

Focus on ESG

Basisbank aims to advance as one of the key players in sustainable banking in Georgia by integrating relevant banking practices and offering environmentally and socially conscious products.

The Georgian economy is in a development stage and therefore, most businesses require funding for the basic needs. Still, there is a considerable number of businesses that go beyond and strive to position themselves as responsible players of society. They aim to become more environmentally friendly, reduce negative impact, support socially vulnerable groups and play an impactful role in transition to a more environmentally and socially sustainable economy. Basisbank aims to identify and support these types of businesses, also tries to raise awareness on environmental and social matters for other businesses as well to change their mindset and actions towards becoming more environmentally and socially conscious. By doing this, Basisbank is contributing to the overall E&S transition of the market and the country.

As a reflection of this, in 2023 we developed a renewed ESG Strategy, which was based on a materiality assessment involving all major stakeholders of the bank: clients, partner IFIs, management and employees. The Strategy highlights our commitment to ethical business practices, from lowering our carbon footprint and boosting energy efficiency to offering green and social financial products and maintaining the highest standards of governance.

Looking Ahead

We have an interesting year ahead, with new challenges and opportunities.

As we pursue excellence and sustainable value creation with agility and adaptability, whether it is by extending our product offerings, improving our digital banking skills, or strengthening our relationships with clients and communities, I am confident, we are creating long-term success and enhanced value for our stakeholders.

Yours sincerely,

David Tsaava,
General Director

Financial Highlights

In GEL million

Net Profit
77
+41.9% YoY

ROAA
2.4%

ROAE
15.7%

Net Interest Income
137
+8.6% YoY

Net Non-Interest Income
37
+36.30%

Operating Profit Before Impairment
91
+14.8% YoY

Operating Expenses
83
+12.0%

Cost to Income
47.7%

Cost of Risk
0.18%

Gross Loan Portfolio
2,527
+19.1%

Customer Deposits
2,192
+11.8%

Other Funding
774
+8.8%

CAR Ratio
18.17%

LCR Ratio
136.70%

NSFR Ratio
117.20%

BB Group's Profile

BB Group's Profile

30 YEARS
OF MARKET PRESENCE

MEMBER OF HUALING GROUP
1ST LARGEST
PRIVATE INVESTMENT GROUP IN GEORGIA
92% OF SHAREHOLDING

4TH LARGEST
FINANCIAL INSTITUTION
4.4% OF MARKET SHARE

3RD LARGEST
BY BUSINESS LOANS
5.0% OF MARKET SHARE

Who we are

We are the 4th largest Financial Group in Georgia, with 30 years of market presence. We are positioning ourselves as a Universal Financial Institution with top number 3rd Bank Mindset, acting responsibly and earning lasting loyalty of our clients, partners, and stakeholders.

We are the 3rd largest Bank in financing Businesses, and 4th in retail. Our strategic focus is on strengthening positions in all key areas in retail and business services, with new propositions and superior solutions to build on our strength as a customer-centric, forward-looking bank.

We are happy to serve over 200,000 Business and Retail clients, while covering all regions through a network of 40 branches and a strong pool of over 900 employees.

Backed with a solid capital base, balanced with strong financial support, we accumulated superior expertise in doing business and gained a competitive edge on the market in supporting businesses.

Steady organic growth boosted with successful acquisition of retail and corporate businesses in 2022 led the Bank to dynamic transformation stage and it started mapping new strategic objectives.

Our Strategic Business Lines

With the help of two subsidiaries, BB Insurance and BB Leasing, we offer tailored banking, insurance, and leasing services to all client segments through our multi-channel distribution platform. Coordinated functioning of these lines produce synergies to offer broad scale financial services to all client segments.

Commercial Banking

Insurance

Leasing

How we create value

With pragmatic and analytical thinking as a basis, studying our customer needs and observing big data, we see a big picture and based on that, create financial products and services tailored to our clients. As a result, we create value for our clients, that translates into customer loyalty and long-lasting co-operation. Incorporating ESG principles into our strategy, culture, and day-to-day activities we strive for continuous development in response to market challenges and opportunities.

How we create value

Our Purpose:

Building better and more sustainable future by co-operating with our clients and helping them grow

Our Values:

- Cooperation
- Growth
- Analytical Mindset
- Flexibility
- Quality

Our Resources:

- Functional, team based organizational structure
- Client-centric business model, with long-term operating focus
- Professional, committed and responsible employees
- Enhanced software systems and profound data analytics
- Holistic risk management approach
- Strong capital base
- Solid Brand
- Loyal customer base
- Supportive network of partner IFIs

Delivering added value to:

- **Customers:** Integrated customer experience, high service standards across all channels, specialized expertise in various business sectors
- **Shareholders:** Growing investments, robust profitability
- **Employees:** Stable and challenging working environment, continuous professional development, equality, diversity and inclusion, high ethical standards
- **Society:** Developing households and businesses, green and sustainable impact

Our Strategy

Our vision

We want to create a bank of the future, with simplistic procedures and flexible services, providing diverse products and services in one space, adapted to client necessities and enabling them to deliver results faster, easier and in a more comfortable way. Our utmost purpose is to simplify everyday life for our customers and increase the availability of financial services where and when needed.

We work hard to outperform client's anticipations by innovativeness, searching novelty and client-centricity, to become loyal and trustworthy companion in financial issues.

Our Strategy

Our strategy throughout the years was continuous development and gaining greater market share on the market. Organic growth was successfully boosted by Portfolio acquisition in 2022, which lead Group to dynamic transformation stage and unleashed need for new strategic objectives.

Currently, our objective is to understand customer needs and create value for them by offering services and products tailored to their personal and business requirements. This approach is intended to increase the bank's market share, thereby enhancing value for its employees and shareholders.

Our strategy to achieve this objective has the following four pillars: Growth, Digitalization, Efficiency and Customer Experience, each of them having several sub-objectives.

STRATEGIC PILLARS

MARKET SHARE GROWTH & PROFITABILITY			DIGITALIZATION			BUSINESS TRANSFORMATION		IMPROVING CUSTOMER EXPERIENCE	
Grow market share in core business	Become #3 Bank by Assets	High Profitability and ROAE > 15%	New Ibank/ Mbank Development	Digitalize banking processes	Enhance Digital channels	Apply agile transformati on to all major business units	Client-centric Service Model Development	Become top of mind Bank by Customer Experience	Increase NPS

Strong Focus on ESG

By addressing all of them, operating ethically with a green mindset and winning the long-term commitment of our employees, customers, partners, and shareholders, we aim to become the 3rd biggest bank on the market.

Digital Strategy

The bank has also rolled out a digital strategy, which is an integral part of the Bank's overall strategy.

DIGITAL TRANSFORMATION PILLARS

ENHANCING DIGITAL CHANNELS	PLATFORM INNOVATION	NEW MBANK/IBANK DEVELOPMENT
• Planned 2024 upgrades to the Mobile Bank app to significantly enhance user experience and functionality • All products, services and transactions available digitally • New Digital Products • Digital onboarding • Digital Signatures • Improved payment interfaces • Digital loan management • Digital card services	• The introduction of instant loan automated processes through the 'BBCredit.ge' • internet and mobile bank platforms significant enhancement positions BB as a competitor in digital banking innovations • Rapid responsiveness to customer credit needs, enhancing customer satisfaction and competitiveness.	• New web-platform ecosystem concept integrating latest market standards • Digital loan and deposit application and management • Remotely ordering/updating cards • BMatch platform integration for FX conversion • Renewed functionalities/interface for payments • Digital card • Digital onboarding

The strategy outlined above shall be focused on compliance with modern standards ensuring new and upgraded digital services will not only meet current customer needs but are also robust and secure. It will fully respond to future customer needs.

A new version of the Mobile Bank launching in 2024 highlights a forward-thinking approach leveraging the latest technologies to further enhance the banking experience, keeping pace with industry innovations and customer expectations.

Key Enablers of our Strategy

Highly qualified management and team, client-centric business model, loyal client base and strong support from shareholders and international partners are key enablers in achieving our strategic objectives. With all these strategic building blocks we have laid the groundwork for the bank of the future and are committed to delivering strong profitability and maximizing shareholder value.

Management and Team

- **Management with extensive experience in crisis management and acquisitions, consistently engaged in the daily operations of the bank.**
- **A team of highly qualified professionals with deep industry and sector expertise.**
- **An agile organizational structure that enables swift decision-making.**

Intergated Business Model

- **Client-centric business model**
- **The bank and its subsidiaries offer diverse product lines, and their coordinated cooperation generates significant synergies, enhancing overall performance.**

Strong Support from Shareholders and International Financial Institutions

- **The bank has strong capital and steady support from its shareholders.**
- **It also benefits from ongoing partnerships with international financial institutions that support the bank with funding, grants, sponsorship, technical assistance, and management improvements.**

Loyal Client Base

- **The bank has retained clients since its establishment, supporting them in achieving their key objectives.**
- **Identifying customer needs is the initial step in the bank’s business cycle.**

Our History

The history of Basisbank ("BB" or the "Bank") starts **in 1993**. Founded by a group of visionary mathematicians in Tbilisi, with a single service center, couple of employees and a modest capital, Basisbank emerged as one of Georgia's leading private financial institutions creating one of the most valuable banking brands in the country.

The harsh social, economic, and political environment in the country, post-soviet period and transition to free market economy led Bank to numerous difficulties. However, Basisbank team managed to stay afloat and advance with clear strategy and profound results. The company had a clear vision of evolving into a forward-looking bank - the development plan was fulfilled through intensive communication and cooperation with customers and other stakeholders, rational decision-making, clear strategy, and consistent steps forward.

Early 2000s were significant years for Basisbank, key steps and decisions were taken by the owners to transform the newly established bank into a solid financial institution: a strategy for the development was elaborated and first steps were taken on establishing the links and solid co-operation with International Financial Institutions. At that stage, the Bank laid foundation to growth-oriented, strategic platforms relying solely on internal resources, which soon attracted foreign investors searching for investment opportunities.

In 2008, EBRD acquired 15% of Basisbank's shares which kick-started organizational re-modelling processes targeting more agile and efficient structure. The primary goal was to establish a robust financial institution with well-developed structures, policies, and procedures. These enhancements were designed to advance the bank's position in the financial market and attract strategic investors.

In 2012, one of the largest investors in Georgia – Xinjiang Hualing Industry & Trade Co. Ltd (Hualing Group) – acquired 90% of Basisbank shares, later increasing shareholding to 92%. BB's progress on the market since the entrance of Hualing Group was considerable - the main task was to ensure speedy growth, retain sound financials and earnings history and achieve these targets with careful risk management practices to retain sustainability of the long-term development path. Financial support from solid parent created new opportunities for the bank and profound results followed soon – the bank had been recording accelerated growth on the market for several succeeding years and upgraded its position from number 11 to the Top 5 biggest commercial banks operating in the country. After the entrance of the new shareholder the bank had been recording accelerated growth on the market for succeeding years. From 2012 till end of 2022 the bank increased its Assets 20 times, its Gross Loans 28 times, Total Equity 18 times and Customer Deposits 20 times.

In 2017 Bank establishes two subsidiaries, BB Insurance and BB Leasing, forming Basisbank Group (BB Group). The financial group structure enabled the Bank to synergize the resources and provide a diversified range of financial services to a broader range of customers.

In 2022 the Group was focused on executing the strategic agenda, dramatically changing the trajectory, and setting towards much ambitious targets that instantly elevated Basisbank Group to a much stronger position in the next strategy cycle.

BB Group accelerated its growth strategy with the announcement of two strategic transactions – amalgamation of VTB Bank Georgia's retail and business portfolios, amounting to GEL 787 million in Loan Portfolio and GEL 665 million in Deposit Portfolio, executed in March 2022. Acquisitions added business scale, capabilities, workforce and more than 136,000 new retail and business customers to BB Group, which was, well in line with the Bank's growth strategy and ambitious transformation journey but put the bank well ahead of the stated strategic goals by several years.

As a result, BB's Retail and Business Segments increased significantly which was well in line with the Bank's growth strategy and ambitious transformation journey of becoming third largest bank in Georgia. This acquisition increased BB's assets by more than 50%, positioning it as the 4th largest Bank on the market. The bank's market share by Assets increased to 4.4%. 24 new branches were added to the existing network, around 135 thousand clients added to the client base and over 350 employees joined.

2022 yearly growth percentages of Financial Parameters were also fascinating:

Year 2022 was a year of many challenges and accomplishments, including reorganization of BB's key business units and directions to create more efficient customer centric perspective crucial for long-term success, consistent steps towards digital banking solutions across our segments, migration of new customers and employees.

Today Basisbank Group stands among leading financial institutions in the country. It has acquired the loyalty of its clients, partners, and shareholders and has grown into a reputable, trustworthy partner and a significant player on the market. Currently the bank is under a Strategic Transformation process, as a result of which further advancements on the market should follow.

Our People

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

Number of Employees	Women Employees	Women Middle Managers
927	70%	50%

The employees remained one of the main values of the Bank. They are the ones, who creates success, so it is important to know their priorities and constantly keep a hand on their pulse. Our top priorities are Continuous Professional Development for Employees and Responsible Employment Practices.

Continuous Professional Development for Employees

Talent Acquisition and Development

Acquisition: One of the most important projects of 2023 was staffing our front-line units. The campaign called "Start your career in Basisbank" turned out to be successful, we hired 60 new employees for the front-line units and branches.

Become a recommender: We started the referral program "Become a recommender" among employees;

Employment Forums: We participated in employment forums and were able to attract new talents.

Memorandums: We have signed a memorandum with the universities, and we are actively cooperating.

On-boarding: A system was created to facilitate easy adaptation and engagement of new employees. In the on-boarding process, roles are outlined that actively participate in the adaptation of new employees.

Development: Bank aim is to see to an employee development necessity and provides relevant training and development programs financed by the bank or partner International Financial Institutions.

Our partner EFSE, financed several types of Trainings, such as Sales Management, Sales TOT, Effective Presentation, Financial Analysis, Agile Transformation, SQL, Design etc.

In 2023, several training courses were implemented within the bank itself, affecting 30 groups from different structural units. The topics covered included: Service Standards, Sales techniques, Mentoring, Management etc. The training needs were identified based on feedback from the managers of specific structural units, thus defining the goals and objectives of the training and implementing the training process.

Mentorship Program

In 2023, the mentorship program was launched - employees with the best results and characteristics were identified across the branches, who were given the opportunity to join the mentor program and help new employees adapt and improve their skills. The selected mentors received training in "Mentoring", where they improved their feedback and communication skills. The program is very interesting and motivating for the branch employees, as those involved share and get knowledge as well as compensations.

Responsible Employment Practices

Employee Evaluation System

In 2023 we implemented the Evaluation System, which is a goal-oriented (so-called performance-based) management system covering all employees of the bank.

The system includes both measurement and management of existing results, as well as evaluation of their effectiveness. Based on our systems as well as market research:

- We have created a single, clear bonus system that covers all roles;
- We started measuring results in non-sales roles as well;
- Increased goal orientation across all roles.

New Compensation packages: We have developed new compensation packages for frontline employees.

Retaining old and new employees: For this we made a new internal project "Become a member of the mobile group". A mobile group with special conditions and additional benefits was created for frontline employees.

Equality and Diversity

Bank promotes diversity, Equality and High ethical standards within the group's employees. The bank also pays attention to work safety standards and maintains it on a highest level.

Women share in employees is 70%, while 50% of middle managers are also women. The bank has several benefits for women employees, such as paid maternity leave, special working hours, bonuses upon birth of a child etc.

Activities implemented for Our Staff

In 2023, in accordance with the goals and objectives of Basisbank, an internal communication plan was developed, initiatives were implemented in accordance with the action plan, and employees were consistently informed about the processes, main news and achievements in the organization.

The main communication platform in the organization is Workplace, in which all team members are united. The platform allows all important topics to be shared in a timely manner and available to each employee online.

Meetings were periodically held during the year, within the framework of which top management and middle managers shared with employees the statuses of important projects, achieved results, future plans and goals. Different formats were prepared to present the employees behind the successful projects, results and achievements.

Various championships, meetings and activities were planned for employees with different interests. Activities carried out included:

- Sports championships;
- „What? Where? When?" Domestic championship and Corporate Business League;
- Master classes on various topics with invited speakers;
- Different workshops and masterclasses;
- Activities for employees' children;
- Charity campaign with the involvement of employees and financed by the bank;

Bank's 30 Year Anniversary

To celebrate its 30-year Anniversary, the Bank has organized an impressive event at Kachreti Ambassador Hotel with its shareholders, around 900 employees and guests. Employees from all regions were united in one space and celebrated 30 years of the bank's success.

CSR

The long-term success of the business depends on the company's good reputation, which is largely related to the company's corporate social responsibility. Corporate social responsibility is closely related to sustainable development. Both include economic, social and environmental aspects. To achieve economic success and competitiveness today, it is necessary to focus on ethical standards, to take care of the welfare of society and the environment.

Educational Projects:

Within the framework of the **"Basisbank for Education"** program, the Bank has been providing support to partner universities for number of years, funding students' education, internships and employment, providing students with personal computers, equipping the material and technical base of universities, financing various types of events, etc.

In cooperation with the **USAID Basic Education Program**, children with special needs were provided with special resources for learning. It was printed and given to schools. "Big books" and "Situational posters" that make it easier for the teacher to provide the necessary material to the children.

For years, within the framework of the partnership with the **National Bank's portal "Finedu"**, we have been taking care of raising the public's financial awareness.

Cultural Projects:

Basisbank makes a significant contribution to the promotion of Georgian theater and the support of modern artistic processes. We believe that the support of the business sector will give Georgian culture even more opportunities for development.

We have been the general sponsor of Marjanishvili theater for two consecutive years. In 2023 we became the general sponsor of the Union of State Puppet Theaters and jointly implemented several interesting projects. Among them is the first Batumi International Theater Festival.

The Bank is a sponsor of the intellectual club "What? where When?". We have been protecting and sponsoring the rights of spectators for many years.

Social Projects:

Basisbank is active in social projects, always responds to the needs of vulnerable groups of society through various projects. Homes for the homeless, orphans and the elderly people are systematically provided with the resources they need.

A memorandum of cooperation has been signed between Basisbank and the Center for Strategic Research and Development of Georgia (CSRDG), which provides for the strengthening of social enterprises operating in Georgia and the promotion of the development of the concept of social entrepreneurship on the part of Basisbank through both financial and technical support mechanisms. Within the framework of the partnership, a grant competition was announced, within the framework of which we will provide both financial and technical support to the winning social enterprise, which will facilitate the provision of jobs for people with disabilities and their integration into society.

In today's world, social and environmental responsibility are no longer considered separately. More investment in green projects, declaration as an environmentally friendly bank is directly related to the reputation of the bank and makes the business more stable. In parallel with specific actions, through various initiatives, we promote the raising of environmental awareness of employees and the formation of environment-friendly behavior.

A memorandum of cooperation has been signed between the bank and social enterprise “Tene”. The partnership between the parties envisages placing “Tene” bins in the bank's offices, where the used plastic is collected, for its further utilization. Customers of Basisbank and every employee employed by the bank have the opportunity to actively participate in the plastic waste collection project through Tene bins located in the offices, and Tene provides recycling of the collected plastic.

We are looking for different ways to implement environmental actions. We try to equip the bank with energy-saving devices, carry out green campaigns and use energy resources wisely.

For Basisbank, projects that are environmentally friendly, as an ecological aspect of sustainable development, are high priority parts of the bank's corporate social responsibility, as we think that reducing negative environmental impact, managing waste and using natural resources wisely and considering social issues is the duty and responsibility of every individual and organization.

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BASISBANK

Business Overview

Retail Business

Retail Business Overview

Our mindset is client-centric when thinking about products and services, that we want to provide for our customers. We want to create a bank of the future, with simplistic procedures and flexible services, providing diverse products and services in one space, adapted to client necessities.

With the aim to simplify everyday life and increase availability of financial services where and when needed, we provide a broad range of services, products and offers to our Retail clients, that meet their everyday needs and enable them to deliver results faster, easier and in more comfortable way. For this we provide different platforms that fit the preferences of a wide variety of our client base. We have wide network of branches across all key points in Tbilisi and regions, however, we focus on our digital platforms, Mobile Bank and Internet Bank, these are the touchpoints, which we have in mind when thinking about future and fulfilling our aspiration to provide single service point for our customers.

We serve a diversified retail customer base including mass retail clients, premium clients and high-net-worth individuals - “Unique” clients, as we call them. All segments have their unique priorities and needs, and we try to provide solutions for each of them, while suggesting continuous improvement in customer experience. For this, we have Standard products and services, but also have room for customization, to meet the exact needs of clients.

The main priorities for the retail business management department in 2023 were: increasing the quality of service and increasing customer satisfaction, improving customer service processes in remote channels and improving the work business process, which was reflected in relevant projects during the year.

In 2023 we refined our products and services further and introduced several new products and services to our Retail Clients. Among those, we launched new platform BBCredit.ge, which enables our clients to get information about our credit product terms and get funds digitally. Above that, we maintained focus on improvement of user experience. As a result, we expanded our active customer base both by gaining new customers and by increasing engagement with our existing clients. In addition, we increased our penetration levels among payroll clients.

Retail Products and Services

Bank provides broad range of products and services to **Retail** Clients

Core Services

- Retail Lending
- Current and Term Deposits, CDs
- Brokerage and Treasury Services
- Trade Finance and Factoring
- Leasing
- Insurance

Retail Segment in figures

Our retail loan portfolio increased by 6% year-over-year, driven mostly by growth in consumer loans.

As for Retail Deposits, they increased by 16% year-over-year and reached GEL 1.06 billion.

With the information provided above, bank has managed to secure a position of 4th biggest bank in Georgian Financial Market by Retail Loans and Deposits.

Market Share by Retail Loans

4.1%

4th biggest on the market

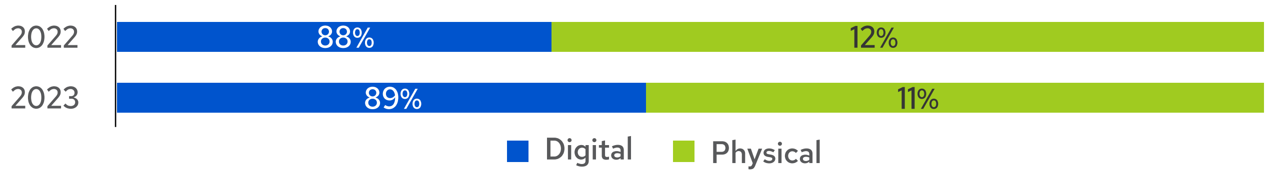
Market Share by Retail Deposits

3.85%

4th biggest on the market

Digitalization trend

There is a general trend in the market of increasing transactions and sales in digital channels, while decreasing the share of physical channels. Basisbank also follows this pattern. In 2023 the share of transactions in digital channels increased by 21% and reached 89% of total Transactions.



Looking forward

our aim is to outperform clients' anticipations by innovativeness, and client-centricity, to become loyal and trustworthy companion in financial journey.

In 2024, our main task and strategy is to create a portfolio of products and services that will offer customers opportunities available on the market and will continue to be focused on customer needs.

For the implementation of the strategic plans of 2024, the priorities are:
- to improve the quality of service and increase customer satisfaction;
- to increase the qualifications of employees and, if necessary, staffing with additional qualified personnel;
- to increase sales and profitability.

Mobile and Internet Banking

Our Mobile and Internet Banking services are tools for our clients to access banking services digitally and meet their needs. We try to maintain the same products and features in both Mobile and Internet Banks.

The vast majority of all banking transactions are conducted through these digital channels, which also serve as selling platforms for our core products to take loans and open deposits digitally.

What we did in 2023

Our Bank has made considerable investments to improve its Mobile/Internet Banking infrastructure and provide its tech-savvy clients with seamless and safe banking experiences. During 2023, the tasks carried out in these directions are:

- Providing more sophisticated information to clients;
- Providing more sophisticated features to clients;
- Implementation of additional security mechanisms - integration of the application with the fraud management system.

Looking forward

During 2024 and the following years, extensive development of remote channels is planned. Customers will be able to use the first version of a new Mobile Bank, created with modern standards, that will cover day-to-day needs of the users.

We also plan upgrades to current Mobile Bank, which will include the following:

- Renewed functionalities/interface for bills and other payments;
- Functionality to digitally apply for and withdraw loans and repay them;
- Functionality to digitally open deposits;
- Functionality to order new cards and update the existing ones remotely;
- Digital card;
- Digital onboarding for potential clients.

For web-platform we plan to create new web-platform that our web-platform shall have:

- New Web-platform ecosystem concept;
- Sophisticated features for getting information and making transactions;
- Functionality to digitally apply for and withdraw loans and repay them;
- Functionality to digitally open deposits;
- Functionality to order new cards and update the existing ones remotely;
- BMatch platform integration for FX conversion.

Our aspiration is to ensure our digital platforms are our main channels. Our priority for next year is to further improve user experience, simplify processes and help clients to easily get the products and services needed digitally.

Branches and Alternative Channels

Other than digital channels, we offer full coverage branch network and a broad range of alternative channels to our customers. We operate a wide network of self-service terminals and ATMs, which enable our customers to conduct most of their daily banking operations without the need to enter a branch.

What we did in 2023

Branches

Maximum effort was directed to the full staffing of the branch network, which improved seamless customer service at branches. In 2023 one new branch was opened and by the end of the year, we had 22 branches in Tbilisi and 17 in regions, 39 branches in total. Basisbank started a new sales-oriented service model in two branches.

ATMs, Self-Service Machines and Cash Deposit Machines

In order to improve customer service processes in remote channels, the functionality BB ATMs were completely updated (including contactless withdrawal), BB Kiosk was also introduced in branches, it has become easier for our customers to deposit money both during working and non-working hours.
In 2023 we launched a new product – Self-service Machines, which will enable our retail customers to independently perform operations without the need to visit the branch.

Looking forward

For fulfilling strategic goals, we need to improve service quality and client satisfaction, development of employee qualifications and staffing with highly qualified employees.

To meet these goals, we are planning several upgrades to our branches and alternative channels in 2024:

- Implementation of Credit Conveyor phase 2, which implies automating loan approval process. Target is to approve 80% by Credit Conveyor and 20% physically;
- Implementation of branch monitoring practices for improved service quality;
- Renewal of ATM system, contactless getting of cash, electronic keys for safe accounts.

Retail Loans

As Basisbank's core business activity is lending, our primary goal is to improve our products, services and customer satisfaction in this direction mostly. Our aim is to simplify and digitalize processes more and increase access to finance for different segments of retail clients. The lending practices are always in line with the Bank's risk appetite and undergo prudent risk management lines.

We offer a broad range of credit products and try to fit all types of our potential customer needs. We provide Consumer Loans, Mortgage Loans, Loans for Developers, Installments and provide offset services to the clients interested.

What we did in 2023

In 2023 we launched BBCredit.ge, a platform for retail credit products, which enables our customers to remotely receive information on our credit products and terms, choose the products that most fit their needs, apply for the loans and be able to withdraw money in a very short period of time. On the one hand, the platform facilitates remote access to products for the existing customers of the bank, and on the other hand, it creates an opportunity to reach even more new customers.

Also, we refined several lending processes internally, made the bonus system more transparent and introduced new motivational schemes, that improved teamwork and interactions with clients.

Retail loans in figures

Retail Loan Portfolio (thousands)
808,824
+6% YoY

Out of which Mass Retail Segment (thousands)
573,884
-4% YoY

Out of which Retail Premium Segment (thousands)
234,940
+44% YoY

Looking forward

Under the aim to simplify processes to our customers and increase their satisfaction, we have outlined several milestones for 2024:

- Increasing Loan Portfolios in different strategic directions;
- Implementation of electronic signature, which will reduce the time of signing contracts;
- Approving limits on existing clients automatically, without their involvement;
- Strengthening team;
- Improving internal processes and procedures.

Retail Deposits

We offer different types of deposits to our clients, such as Term Deposits, Demand Deposits, Certificates of Deposit, Child Deposits, Money Boxes and Saving Services. The terms are quite competitive and flexible: high interest rates, small minimal amounts, all currency availability and scheme options for choice.

Deposit Insurance

From January 1st, 2018, the Bank is a member of a deposit insurance system established in Georgia in accordance with the Law of Georgia on Deposit Insurance System.

In the case of insurance event, the amount available on the depositor's deposit/account will be reimbursed by the Deposit Insurance Agency, within the specified limit. The amount above the limit shall be compensated as provided under the effective legislation of Georgia.

What we did in 2023

During 2023 we upgraded terms for some products, to make them more flexible and desired for our clients.

- Further improvements of Deposit products specifications;
- Further Optimization of business processes to save time.

To incentivize the use of digital channels, we are offering higher rates on deposits opened through mobile applications.

Retail Deposits in figures

As of 31 December 2023, 176 thousand Retail clients had deposits. In 2023 compared to 2022, the number of deposits opened in branches/service centers increased by almost 60% and amounted to GEL 1,057 million, which was 16% increase year-over-year.

Retail Loan Portfolio (thousands)
1,057,469
+16% YoY

Out of which Mass Retail Segment (thousands)
319,540
+1% YoY

Out of which Retail Premium Segment (thousands)
737,929
+24% YoY

Looking forward

Under the aim to simplify processes to our customers and increase their satisfaction, we have outlined several milestones for 2024:

- Deposits coverage growth in Retail segment;
- Further improvements of Deposit products specifications;
- Further Optimization of business processes to save time.

Premium and Unique Banking

We are offering comprehensive premium products and services to our Premium Retail segment, where we differentiate Premium and Unique clients.

We serve around 2,600 premium clients, which by the end of the year, increased their loan and deposit portfolios by 44% and 24% year-on-year, respectively.

Premium

Premium banking is about comprehensive, fast and individual services with the help of a personal banker. High-rank cards, complete confidentiality, special banking conditions, offers, advantages and individual approaches ensure a comfortable banking experience for clients of the premium segment.

broad scale of premium services: personal banker service, comfortable digital services, special offers on banking products and exclusive benefits.

Premium Segment in Figures

In 2023, the number of premium customers of Basisbank exceeded 2,000. The deposit portfolio of premium customers amounted GEL 196 million and the loan portfolio amounted GEL 143 million.

Number of Premium Clients (#)
2,055
+33% YoY

Premium Loan Portfolio (thousands)
142,528
+69% YoY

Premium Deposit Portfolio (thousands)
195,866
88% YoY

Looking Forward

Bank is planning to offer customers updated service packages with financial incentives and more sophisticated customer experience.

Unique Banking

We have created a premium class service that offers our customers a new and different approach, designed to simplify everyday life with an individual approach to each customer. Unique banking offers Private banker, special banking conditions, unique offers and advantages, highly qualified banking consultations – banking concept created for a maximum simplicity and more financial freedom.

Acknowledging the individuality and uniqueness of each customer, our personal Bankers offer exclusive banking products to unique clients, increasing the loyalty of existing customers, taking care of their needs and consulting in various financial matters.

Unique Segment in figures

Currently we have over 600 Unique clients, which are high-income individuals. The deposit portfolio of premium customers amounted GEL 196 million and the loan portfolio amounted GEL 143 million.

Number of Unique Segment Clients (#)
612
+7% YoY

Unique Segment Loan Portfolio (thousands)
92,413
+18% YoY

Unique Segment Deposit Portfolio (thousands)
542,063
+10% YoY

Looking Forward

In 2024, we plan to offer our customers an updated service package with financial and travel benefits. Additionally, Unique clients are offered sophisticated financial products, such as subordinated loans and bonds issued by the bank.

Additional Services

Payments

We want to support our customers when they need fast physical and online payment experiences. For this reason, we offer a variety of payment methods for our Retail customers:

- Contact and contactless card payments;
- Google Pay/ Apple Pay;

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

Card insurance

In 2023, together with a subsidiary insurance company, we offered the card insurance service to our clients. If the amount is withdrawn or spent from the card for a reason independent of the client, the loss will be compensated by the card insurance within the limits and conditions stipulated by the relevant package.

Updated system of shipments

The direction of shipments is constantly increasing in the country and there is a high demand from users. In order to be as fast and flexible as possible in the process of receiving the service, in 2023 we worked on the implementation of a new system that will serve customers on the basis of a single window concept in the process of cashing out/sending shipments in the system. Implementation of the system reduces the service time and improves the user experience in the process of receiving the service.

Corporate and SME Business

Corporate and SME Business Overview

Our aim is to be a reliable partner for all types of businesses and provide all types of services and products needed by them at different stages of their development. We thrive to provide simplistic procedures and flexible services in one space and support the businesses with required funds, products and services to enable them grow and reach their goals faster.

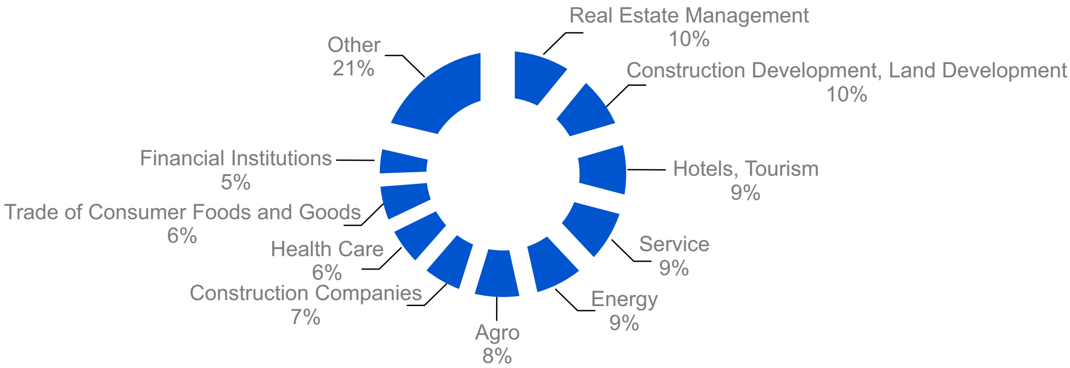
For this, we provide different platforms including a wide network of branches and digital platforms: Mobile Bank and Internet Bank to meet business everyday needs.

We serve all types of businesses, including large corporates, medium-sized and small enterprises. All types of businesses have their unique needs, and we try to have full packages of offers for each of them, while trying to continuously improve customer service and experience.

Client Coverage

For meeting our and business goals, we offer different channels and touchpoints, including wide network of branches, Mobile Bank and Internet Bank. We have dedicated SME and Corporate Bankers who have their hand on the pulse of businesses and are focused on providing support for their needs. We also have a dedicated team of Corporate and SME Analysts, who have deep sector knowledge and business expertise.

While some business clients prefer to have their bankers always available for support/advice, another part of clients prefer digital channels to independently carry out their business necessities. We continuously try to develop our digital platforms to enable our clients to make the best use of the digital channels available to them.



Our clients sector representation is highly diversified. We serve almost all sectors present in the country and have minimized sector concentration risks.

As our bankers have deep industry and sector knowledge, they offer added value to the business relationships with the clients.

Business Segment Products and Services

Bank provides broad range of products and services to **Business Clients**

Core Services

- Business Lending
- Current and Term Deposits, CDs
- Brokerage and Treasury Services
- Trade Finance and Factoring
- Leasing
- Insurance

What we did in 2023

The main priorities for the business management department in 2023 were increasing the quality of service and increasing customer satisfaction while creating simple ecosystem for customers, improving customer service processes in remote channels and improving the business process, which were reflected in relevant projects during the year.

During 2023 we optimized our processes, refined our products and services to simplify procedures, create tailor-made offers and made it easier for businesses to approach us and benefit from them to get funds or additional services needed. We also further improved the characteristics of our products and services with specific focus on Digital Channels. We also introduced and updated internal procedures, reconsidered internal process timings, moved to more paperless processes, etc.

Additionally, we established a specific team within the Credit Department, which monitors development and construction projects on-site. The creation of this team has improved oversight of construction projects and enabled the bank to offer more informed financing of the sector.

In December, we received Best supporting bank of SME business 2023 Award from Global Finance, which recognizes our continuous efforts towards fulfilling our customer needs.

Business Segment in Figures

Our business loan portfolio increased by 26% year-over-year, driven mostly by 38% growth in SME loans.

Business Loans (thousands)
1,718,340
+26% YoY

Business Borrowers (#)
1,830
+13% YoY

Business Deposits (thousands)
1,134,903
+8% YoY

Business Depositors (#)
2,622
+8% YoY

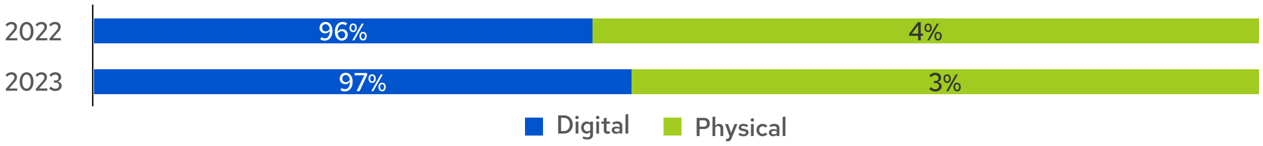
The figures mentioned above, resulted in the following Market shares of Business Loan and Deposit Portfolios:

Market Share by Business Loans
5.0%
2022: 5.6%

Market Share by Business Deposits
5.9%
2022: 5.2%

Digitalization trend

There is a trend of increasing transactions and sales in digital channels, while decreasing the share of physical channels. In 2023 the share of business transactions in digital channels amounted to 97% while transactions in Physical channels amounted 3%. The comparative figures for 2022 were 96% for digital and 4% for physical.



Looking forward

Our aim is to meet the needs of our business clients, to become the number one choice bank for the clients throughout all stages of their development.

In 2024, our main strategy is to create a portfolio of products and services that will offer customers all opportunities available on the market and will continue to be focused on their needs.

For the implementation of the strategic plans of 2024, our priorities are:
- to improve the quality of service and increase customer satisfaction;
- increasing the qualifications of employees;
- increase in sales and profitability in the network;
- develop new automated loan product line, which shall minimize human intervention;
- Fundamental changes to internet and Mobile bank towards simplification and enhanced functionality;
- Develop the green policy and accelerate green product integration.

Mobile Bank and Internet Banking for Business

Our digital channels are continuously developing to meet our business clients' expectations and enable them to independently carry out their everyday business necessities.

Internet Bank is more broadly used by our business clients for their business operations due to the detailed desktop view can provide. Our Mobile Bank is another alternative for those who want to get an instant snapshot of what is going on in the business or track specific transactions. We try to maintain the same products and features on both platforms.

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 client onboarding and loan disbursement process happen offline through the branches.

What we did in 2023

Our Bank has made considerable investments to improve its Mobile Bank infrastructure and provide its tech-savvy business clients with seamless and safe banking experiences.

In 2023, we added number of features to our Mobile and internet bank:
- Providing more sophisticated information to clients;
- Providing more sophisticated features to clients;
- Implementation of additional security mechanisms - integration of the application with the fraud management system.

Looking forward

During 2024 and the following years we plan to invest in digital channels development extensively. Our business Customers will be able to use a first version of new Mobile Bank, created with modern standards, that will cover day-to-day needs of the businesses.

In 2024 we plan We also plan upgrades to current Mobile Bank, which will include the following:
- Renewed features for getting information;
- Renewed features for making transactions;

For web-platform we plan to create new web-platform that our web-platform shall have:
- New Web-platform ecosystem concept;
- Renewed features for getting information;
- Renewed features for making transactions;
- BMatch platform integration for FX conversion.

Our priority for next years is to further improve user experience, simplify processes and help clients to easily get the products and services needed digitally.

Business Loans

Providing funding to Businesses is one of the key enablers of profitable growth for our MSME and Corporate clients. While providing funding needs to our client businesses, we are continuously developing and improving our products and processes to improve client satisfaction.
At the end of 2023, Basisbank is 3rd biggest Bank on Georgian financial market by Business loans. The biggest part of Bank's business loan portfolio is taken by SME Loans, which grew significantly compared to 2022, by 37.7%.

Total Business Loans (thousands)
1,718,340
+26% YoY

Corporate Loans (thousands)[1]
128,039
+5% YoY

SME Loans (thousands)
1,590,302
+37.7% YoY

As Basisbank's core business activity is lending, our primary goal is to improve our products and services and customer satisfaction in this direction mostly. Our aim is to simplify and digitalize processes more and increase access to finance for different segments of business clients. The lending practices are always in line with the Bank's risk appetite and undergo prudent risk management lines.

We offer a broad range of credit products and try to fit all types of our potential customer needs. We provide Business Loans, Credit Lines, Overdrafts, Seasonal Loans and other supporting services to the clients interested.

[1]Classification of loans in the table differs from the classification used to prepare Note 11 of the consolidated and separate financial statements for the year ended 31 December 2023.

What we did in 2023

In 2023 we tried to further enhance the lending products offered, tried to increase customer satisfaction and thus, increase penetration and reach even more new customers.

We refined several lending processes internally, made the bonus system more transparent and introduced new motivational schemes, that improved teamwork and interactions with clients.

As a result,

- In 2023, the number of applications received from various channels increased by 28%;
- Business lending portfolio increased significantly and amounted to GEL 1,718 million at the end of the year, which was a 26% increase compared to previous year.

Basisbank's efforts in support of local SME business development has been recognized for leadership by Global Finance. Basisbank has received the award for **Best Supporting Bank of SME Business 2023.**

In addition, the Bank was recognized as **The Fastest Growing Bank of 2023** by Global Finance as well.

Looking forward

Under the aim to increase customer satisfaction and therefore increase penetration, we have outlined several milestones for 2024:

- Introducing a new automated loan product line, which shall minimize manual intervention and effectively disburse loans, which will increase access to finance to SMEs.
- Implementation of electronic signature, which will reduce the time of signing contracts;
- Approving limits on existing clients automatically, without their involvement.
- Strategic improvement of mobile and internet bank platforms, increasing functionality and simplicity.
- Introduce payboxes, which shall significantly shorten queues in branches.

Agribusiness Loans

We provide dedicated services and sector expertise to our agriculture sector clients. We have designated the desk for Agribusiness and have been issuing agricultural newspaper for years.

The bank is also participating in **Preferential AgroCredit Program** held by Rural Development Agency. The project supports businesses in rural areas and provides cheap financial resources through loan interest co-financing to legal entities, with government covering up to 11% of the interest cost. More than 1,125 loans were extended to 711 unique clients. The purpose of the project is to improve processes of primary agricultural production, processing, storage and sale. By the end of 2023, bank has subsidized over GEL 110 million under this project.
In total, we have placed more than GEL 180 million in sector development.

Factoring and Documentary Operations

We provide a factoring service to our business clients, which enables the client to recover large amounts of their accounts receivable and improve their liquidity/cash position.

We also provide a broad range of documentary operations with businesses that have business overseas, import or export their goods. We provide Bank Guarantees, Letters of Credit and Documentary Collection Services to reduce the risks associated with trade transactions.

By the end of 2023, the balance of Letters of Credit was increased by 159%, while the balance of financial guarantees issued increased by 107%.

Green Lending

We collaborate with big international funds such as the European Bank for Reconstruction and Development's (EBRD) GEFF Project, Green for Growth Fund (GGF) and Global Climate Partnership Fund (GCPF). Also, we participate in Deep and Comprehensive Free Trade Agreement (DCFTA) by EU to finance green economy and reduce environmental impact. We finance new green businesses of re-equipment of existing businesses to achieve better energy efficiency and provide professional support on the journey to becoming green. In addition, financial guarantees and cashbacks are provided to incentivize businesses to invest in green projects.

Over the years the Bank has received funding from European Bank for Reconstruction and Development (EBRD), Global Climate Partnership Fund (GCPF) and Green for Growth Fund (GGF) to support Green Economy and provided over 160 Sustainable Loans to launch and develop energy efficient, renewable energy, women-owned and social projects in the country.

Our dedication towards green and sustainable financing has brought the Bank international recognition.

Basisbank collaborated with ADB to secure access to affordable financing, a significant support mechanism for SMEs to succeed in environmentally and socially important investments. The Bank has won 2023 TFP Best Green Deal award from ADB for the special contribution to green investment initiatives.

Co-financing

Bank collaborates with Enterprise Georgia Program, which supports the growth of existing businesses or the launch of new businesses in Georgia. many businesses have been granted finance from Bank and government jointly.

Under this program, beneficiaries can access financing with two key benefits: co-financing of the loan interest and Credit Guarantee Scheme by participating in the loan guarantee for additional security.
The program includes 6- and 12-months subsidies on the accrued interest rates including a co-financing of a refinancing rate of up to 7% over the entire loan period covered by national agency “Enterprise Georgia”. This project is focused on supporting growth in specific industries, including Tourist services, Hotel industry/ balneological resorts, Industrial, Agricultural tourism and eco-tourism industries. By the end of 2023, the outstanding loan portfolio under this program was GEL 73 million.

The bank is also participating in Preferential AgroCredit Program as mentioned above and has subsidized over GEL 110 million under this project.

Leasing

We also provide a leasing option for our clients, which is an alternative source of funding. In this case, the bank directly acquires fixed assets for business and transfers to client for additional comfort. At the end of the lease term, the client. becomes the owner of the asset. Under the "Enterprise Georgia" program, it is possible to purchase manufacturing machinery and various equipment under co-financing possibility as well.

Business Support Best cases in 2023

JSC PANEX

Basisbank cooperates with JSC Panex, the only energy-efficient sandwich panels manufacturer in Georgia, since 2019. Panex produces polyurethane wall and roof sandwich panels intended for a wide range of customers, ensuring a high-quality product, service and durability.

Basisbank has been actively supporting sustainable and green financing since 2015, significantly increasing its contribution to Green Lending over the past several years. As part of this mission, BB has received a special award from its international partner ADB in 2023. By making climate-friendly technologies more readily available, trade can support climate action initiatives. Basisbank and ADB have collaborated specifically for this purpose to support Panex and encourage more green investments initiatives in Georgia. ADB in cooperation with Basisbank has extended USD 2 million to provide Panex with needed liquidity for imports of energy-efficient raw materials and supplies.
As a second phase, Basisbank extended EUR 105 thousand to the company under EBRD's credit line to support further growth of the production of energy-efficient sandwich panels in Georgia.

Business Deposits

We try to cover other needs of businesses as well while having our funding support as a primary service.

We provide flexible terms for Business Deposits, which include Term Deposits, Current Deposits and CDs. There are different types of deposit products that fit specific business types and needs. The terms are quite competitive and flexible: high interest rates, small minimal amounts, all currency availability and scheme options for choice.

What we did in 2023

During 2023 we upgraded terms for some products, to make them more flexible and desired for our clients.

- Further improvements of Deposit products specifications;
- Further optimization of business processes to save time.

To incentivize the use of digital channels, we are offering higher rates on deposits opened through mobile applications.

Business Deposits in figures

At 2023 Year-end the amount of Business Loan portfolio was GEL1.13bln, which was 8% increase compared to 2022.

Business Deposit Portfolio (thousands)
1,134,903
+8% YoY

Out of which Corporate Business Deposits (thousands)
931,609
+3% YoY

Out of which SME Business Deposits (thousands)
203,294
+38% YoY

Looking forward

Under the aim to simplify processes to our customers and increase their satisfaction, we have outlined several milestones for 2024:

- Business Deposits coverage growth;
- Further improvements of Deposit products specifications for increased customer satisfaction;
- Further optimization of business processes to save time internally and improve customer experience.

Treasury and Brokerage Services

Brokerage Services

We offer tailored end-to-end solutions for potential clients to invest in diversified securities such as government or corporate bonds. Along with that, we also provide full-scale custodian services for our customers. In addition, we are one of the Primary Dealers of the market in Government securities and have access to Primary Auctions. Bank also provides full-scale custodian services.

Primary Dealer of securities market

- Privilege given by MOF to banks compliant with certain criteria
- Primary Dealer from day one
- Access to Primary Auctions
- Access to Secondary Markets
- Quoting Government Securities market prices

Custodian Services

- Full range of Custodian Services
- For Government and GEL Denominated Corporate Securities

BMatch Trading Platform

- Brokerage service to acquire Foreign currency
- Delivered via internet bank
- Integrated in Bloomberg Terminal
- Applications can be secured with two instruments:
    - Full cash cover
    - Guarantee for 5% of application amount

Treasury Services

We also provide Bloomberg platform and personal dealer services for foreign exchange trading and conversion. Basisbank is the only Bank in Georgia which has implemented Bloomberg Platform services for the clients. These services are integrated into Internet and Mobile Bank platforms and simplify foreign currency related business needs to its business clients.

Personal Dealer

- Online Platform to convert Currencies
- Trade with Treasury in real time
- Delivered via Internet Bank

FX Forwards and FX Swaps

- To hedge FX Risk
- To manage liquidity for desired currencies

REPOs

- Liquidity Management tool
- For Government and Corporate Securities

Other Services

POS Terminals, Business cards and other services for business payments

We support lots of businesses to grow their business in-store and online by accepting payments through a variety of methods. We offer POS terminal installations, employee trainings and support to businesses free of charge. In 2023 we focused on enhancing the user experience and service quality for our business clients. A better customer experience will lead to more businesses using our services to accept cashless payments, to support digital payments and e-commerce in Georgia.

Business cards are another contactless means for carrying out business transactions, which is a good way to control business expenses. We offer competitive terms for this and partner with most of banks in Georgia.

Cash Boxes

Bank has introduced Cashboxes, same as Deposit Safes, which are placed at Basisbank client company offices and significant amounts of cash are inserted into them, which is simultaneously reflected on client bank accounts. By the end of 2023, the bank had only 2 such cash- boxes.

BB Leasing

BB Leasing Business Model and Strategy

BB Leasing was established by the end of 2017 and takes stable second biggest leasing company position on the market.

BB Leasing's focus and strategic segments are small and medium businesses, as the company's aim is to satisfy their business and financial needs. The key to the development of the company lays in improved service delivery channels, quality products attached with extended consulting and highly automated processes. The Company's well-developed, systematized sales network and wide coverage is provided by the parent company - JSC Basisbank. The services provided by BB Leasing are accomplished by many years of successful operation and progress achieved on the market, trust gained among business community and financial intermediaries, which has been reflected in the long-term cooperation between the Bank and its partners and customers.

BB Leasing uses its products to enable business clients to take advantage of specific assets that the company transfers to them in exchange for a fairly and transparently defined amount, and within a reasonable period, with the option of redemption, return or renewal. Leasing an asset does not require collateral, unlike loan financing of an asset the subject of the lease is the collateral itself. When buying an asset through leasing, the business has to pay only a small part of its value (small investment), which allows reducing the investment cost and using the remaining cash to develop the business. In addition to alleviating the tax burden, saving time is another advantage of leasing, as negotiations with suppliers, documentation issues, legal, administrative, insurance, customs and logistics procedures are entirely handled by the leasing company. BB Leasing professionals provide illustrative examples to clients during the meetings and quantify the time and costs saved.

BB Leasing offers the following leasing products to its clients:

Vehicle's Leasing

Vehicles leasing is available to both individuals and legal entities. The main advantage of this product is the favorable conditions and encouragement of the wide introduction of eco-friendly transport, which is an illustration of the company's social responsibility. The product is planned to be delivered through digital channels as well.

Fixed Assets Leasing

Leasing of fixed assets is an alternative way of rapid development of small and medium business. Individuals and legal entities can use the special payment schedule, which can be adjusted to their own income schedule or business cycle. In the future, the company plans to further develop this product and offer novelty to the market.

Leaseback

Leaseback is a product for legal entities. The Company plans to offer digital and direct marketing channels in combination with insurance.

Preferential Agroleasing

Preferential Agroleasing - Agricultural Machinery Leasing is co-financed with the Agricultural Project Management Agency. The project serves to develop added value-creating infrastructure for agricultural products. The product is intended for enterprises that produce agricultural products, process agricultural products in any form, or produce agricultural product packaging.

Leasing Under Enterprise Georgia

Leasing under Enterprise Georgia project is the result of cooperation with a large-scale program with Enterprise Georgia, whose main goal is to improve the business environment, develop entrepreneurship in Georgia, support the entrepreneurs, develop the private sector, promote Georgia's investment climate and stimulate exports.

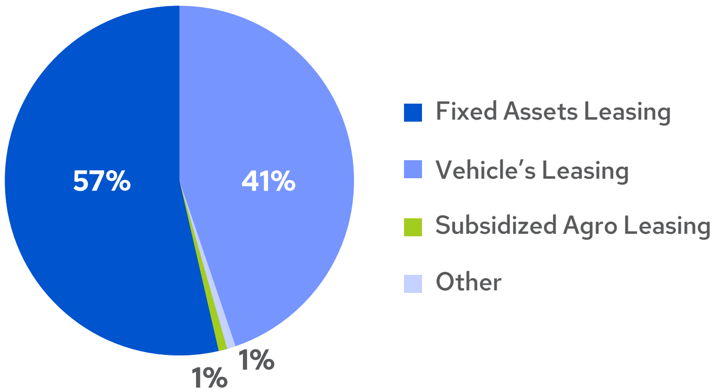
The Coverage area is the key cities of Georgia: Tbilisi, Rustavi, Telavi, Gori, Kutaisi, Zugdidi, Batumi and their surrounding settlements.

2023 Performance

In 2023, BB leasing assets approximated GEL 32.8 million, which was a 43% increase YoY. The equity of the company reached GEL 21.9 million. The Leasing Portfolio grew by 49% and amounted to GEL 26.1 million.

The company's internal capital generation was strong, net profit increased up to GEL 3 million giving 47% of y/y growth. The Company contributed 3.8% to the Group's net profit, which displays that BB Leasing has become significant part in implementation of the Group's strategy and growth.

Portfolio by Products



The results are driven mostly by income generated from leasing activities, reaching up to GEL 6.1 million. Expected credit loss allowance amounted to GEL 210 thousand, displaying that the risks are followed and monitored closely, preventing the Company from retaining non-working assets on the balance sheet for a long time, the recovery of leased assets in arrears is very quick and well-prescribed procedures and terms allow the Company to recover the assets and re-lease or sell in the shortest period. Such performance is attributed to the thorough risk strategy and finance policy adopted by the Company complimenting to the low-risk costs and good quality of assets.

Looking Forward:

Next steps of BB Leasing will be directed towards development of supplementary services for the clients, by adopting digital solutions that will be used by our customers allowing them to benefit not only from leasing products, but also from insurance and banking products, thereby supporting the cross-selling within the holding.

BB Insurance

BB Insurance Business Model and Strategy

BB Insurance was established by JSC Basisbank in 2017. The company is committed to creating sustainable value through operational business efficiency by leveraging the synergies across companies within the BB Group and offering a diversity of services and solutions to targeted customers.

BB Insurance offers its customers a variety of products in both retail and corporate segments. The products offered are: motor Insurance, property insurance, credit life insurance, Cargo insurance, Business Interruption insurance, General Third-Party liability insurance, and Aviation business risks insurances.

Based on the universally recognized Bank assurance (BIM) model, BB Insurance effectively utilizes Basisbank's resources and provides fast and flexible services to its customers all over the country through BB Group's branches. The mentioned business model distinguishes BB insurance from other competitors, thus creating a unique environment for serving our group customers.

The company is actively pursuing digitalization of its operations, with a particular focus on developing remote services that allow clients to claim reimbursements in a more flexible and time-efficient manner. The company places a strong emphasis on digital sales, prompt claims settlement processes, reputable reinsurers, flexible and straightforward products, financial stability, and professional staff. These factors enable BB Insurance to maintain and expand its flexibility and accessibility to clients across the country, with a streamlined governance structure and effective decision-making processes.

Company's **strategic objective** is to establish as a stable and reliable partner to its customers and stakeholders. For this, the company has made transparency as its top priority and adheres to this principle while doing business with customers and partners.

Key strategic priorities of the company are:

- Focus on digitalization to ensure sustainability and steady growth.
- Continuous implementation of initiatives and changes in services and customer approach to respond to the challenges and manage the risks properly in this volatile environment.
- Enhancement of partnership with A-rated reinsurers.
- Enhancement of risk management tools and practices to ensure proper management of portfolio risks.

2023 Performance

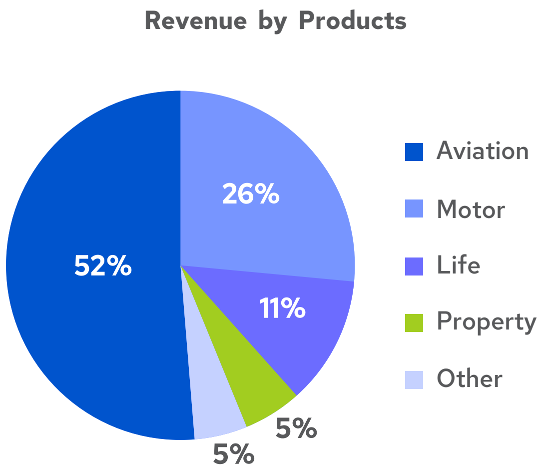
In 2023 we delivered strong results. Insurance revenue rose to GEL 18.8 million and our Net Profit reached GEL 3.1 million, which is 52% of growth reached y-y.

In 2023, the strategic focus was directed to the corporate segment, which is increasing considerably compared to the retail segment, as the corporate segment develops in parallel with the economic growth.

The company has been very active and focused on business and aviation, where gained a leading position holding 40% of the market.

From total insurance revenue, the biggest amount was generated from Aviation amounting GEL 9.7 million, which increased by 20% YoY. Motor insurance increased by 6% up to GEL 4.9 million, while Life insurance GWP increased by 63% and amounted to GEL 2.1 million.

Chart below shows the distribution of Insurance Revenue by Insurance products:



The Company ended the year 2023 with net profit of GEL 3.1 million (2022: GEL 2.04 million, +52% y-y growth) and assets reaching GEL 95.5 million.

Looking Forward:

Next steps of BB Insurance will be directed towards development of supplementary services for the clients, by adopting digital solutions that will be used by our customers allowing them to benefit not only from leasing products, but also from insurance and banking products, thereby supporting the cross-selling within the holding.

By maintaining a healthy financial stance, the Group continues to strengthen its position in its strategic segment - small and medium-sized businesses, corporate and retail sectors. Development in the retail sector will be the key focus in the coming years, activities will be boosted through digital platforms in the most convenient way. The Group will speed up the introduction of a client- centered model with more effective coverage.

ბაზისბანკი
BASISBANK

Market Overview

Market Overview

Georgian Macroeconomic Environment in a snapshot

Favorable Business Environment

Georgia business environment remained favorable during 2023, showing top rankings for critical indexes relevant for doing business.

Transparency Index
#1 out of 120 countries
Index by: International Budget Partnership

Public Integrity Index
#29 out of 119 countries
Index by: European Research Centre for Anti-Corruption and State-building

Global Innovation Index
#65 out of 132 countries
Index by: World Intellectual Property Organization

Economic Freedom Index
#32 out of 184 countries
Index by: The Heritage Foundation

Business Bribery Index
#35 out of 194 countries
Index by: TRACE International

Corruption Perceptions Index
#49 out of 180 countries
Index by: Transparency International

Prudent Macroeconomic Policy

GDP
USD30.5bln
+22% YoY
Source: Geostat

Budget deficit as of GDP
2.4%
-0.6 ppts YoY
Source: Ministry of Finance of Georgia

Public debt as of GDP
39.2%
+0.8ppts YoY
Source: Ministry of Finance of Georgia

Gross International Reserves as of GDP
16.4%
-3.2ppts YoY
Source: National Bank of Georgia

Macroeconomic Overview

Despite economic resilience in early 2023 with reduced inflation after last year's peaks, economic activity is still far away from its pre-pandemic level. The long-term consequences of the pandemic, the war in Ukraine, the effects of monetary policy tightening necessary to reduce inflation, the withdrawal of fiscal support amid high debt are holding back the global recovery.

The IMF forecasts the world economy to continue growing at 3.2% during 2024 and 2025, at the same pace as in 2023. In 2022, it grew by 3.5% and in 2023 by 3.3%. The projections remain below the historical (2000–19) average of 3.8%.

Oil and Food prices decreased after they soared to highs in March 2022. Low commodity, as well as oil prices with the contractionary monetary policy helped the inflation to remain low. However, despite the increased monetary rate, the job market, as well as the general economic activities, remain strong. Indicating that the effect of fiscal and monetary stimulus made during the pandemic has not been decayed yet. Hence, it is expected that monetary easing could have a lower than initially expected pace.

Economic Growth: Besides the increased demand, which supports the higher economic growth rate through increased production, the Georgian economic growth amounted to 7.5% y/y in 2023.

Based on the forecast of the NBG, the Georgian economy continues to grow at a stable rate, projected at a 6.85% growth in 2024. The continuing Russian-Ukrainian war worsened the pace of global economic recovery. Particularly, the forecasts have worsened for the European countries, which is due to the tightening of financial conditions in response to globally increased inflation. In addition, the projected slowdown of economic growth compared to 2023, is the result of the relative weakening of external demand, which is due to the expected delay in economic growth in trading partners and the deterioration of the country's competitiveness against the background of the strengthened exchange rate of the GEL.

NBG Economic Growth Forecast

2024	2025	2026
6.8%	5%	5%

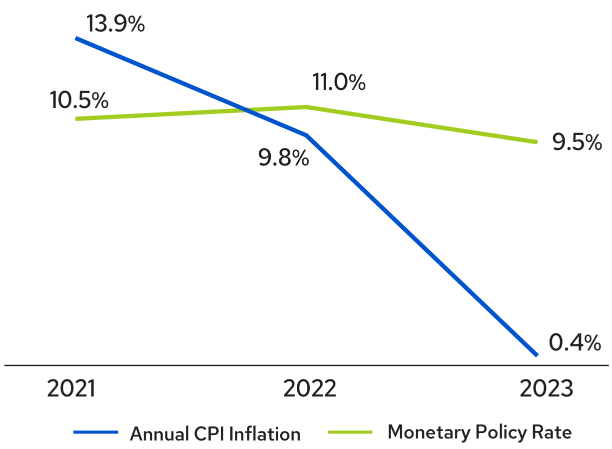
The World Bank forecasts the Economic Growth rate to be 4.8% in 2024, whereas IMF updated its forecast to be 5.7%. Various positive factors, including the granting of the European Union membership candidate status to Georgia, had improved growth expectations.

Inflation:

Since the end of the pandemic, low commodity and oil prices with the contractionary monetary policy helped the inflation to remain low. However, despite the increased monetary rate, the job market, as well as the general economic activities, remain strong. Indicating that the effect of fiscal and monetary stimulus made during the pandemic has not been decayed yet. Hence, it is expected that monetary easing could have a lower than initially expected pace.

After hitting 13.9% at the beginning of 2022, the inflation gradually decreased in Georgia followed by

Annual Inflation and Monetary Policy Rate



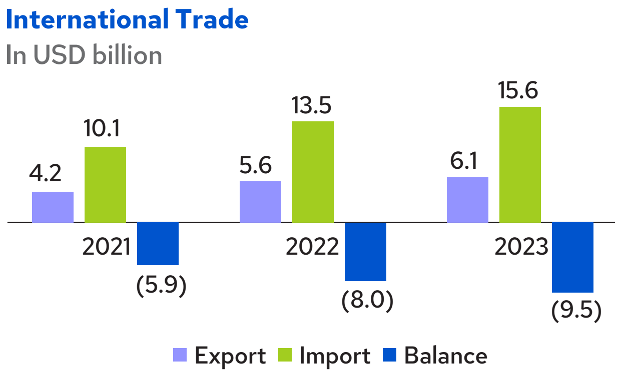
a gradual exit from tight monetary policy, from 11% set in March 2022 to 9.5%. The annual inflation in Georgia stands below the target of 3% since April 2023 and amounted to 0.4% y/y in December 2023. Meanwhile the average annual inflation of 2023 amounted to 2.5%. As for the prediction, the NBG expects average inflation of 2.2% in 2024.

This has been the result of lower commodity prices as well as decreased international shipping costs on the international markets and appreciated Lari against the main trading partners' currencies.

Inflation is expected to remain around 3% targeted by central bank. The factors contributing to the decline in inflation are expected to remain over the short term but subsequently stabilize which would push inflation close to the target by the end of the year.

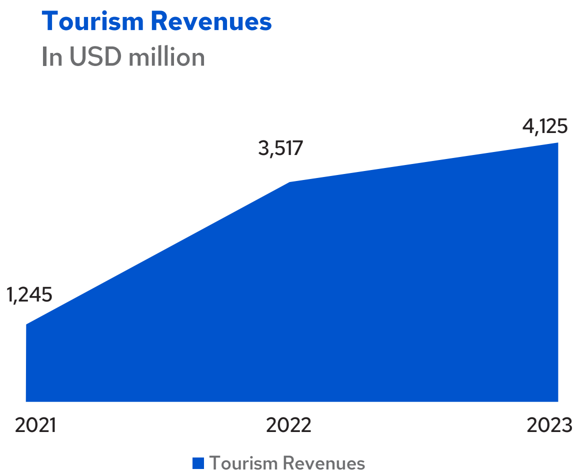
International Trade:

In 2023, the International Trade amounted to $21.69 billion, which is 13.4% higher compared to 2022.
The widening trade deficit was partially balanced by the continued recovery in tourism in 2023. Meanwhile, FDI showed an annual decrease in 2023 and the remittances decreased a bit as well in 2023.



Tourism:

Tourism revenues amounted to $4.13 billion in 2023, which is a 17% annual increase and a 26% increase compared to the pre-pandemic 2019 level. As for the international visits, in 2023, the number amounted to 6.17 million which is 31% more compared to last year and still 20% less compared to the pre-pandemic 2019 level.

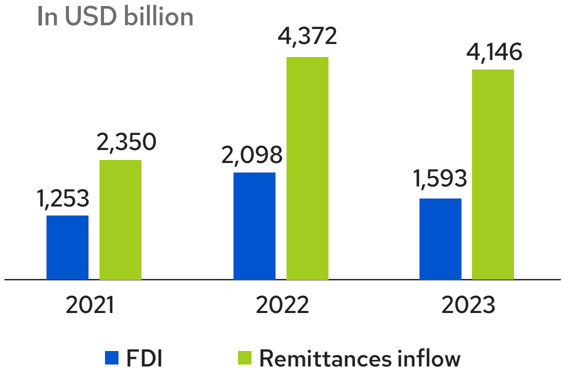


FDI and Remittances:

Foreign Direct Investments (FDI) in Georgia decreased by 24% annually and amounted to $1.59 billion in 2023.

In 2023, the total amount of money transfers amounted to $4.15 billion which is 5% less compared to the previous year. In 2023, the largest share of remittances came from Russia (37% share), followed by Italy (12.6% share) and the USA (11.1% share).

FDI and Remittances
In USD billion



Georgia macroeconomic indicators remain strong, supported by strong government and fiscal policies, increased consumption, and strong financial sector. Georgia was granted EU candidate status in December 2023, which significantly improves the expectations for investments and growth.

Banking Sector Review

The Georgian banking sector remained resilient regardless the tight geopolitical situation in region. **Strong capital and liquidity buffers** guaranteed the high credibility of the banking sector. The sector maintained continuous support to the economy regardless of the variety and severity of the recent economic cycles. The sector upholds **strong assets quality** and **attractive profitability** for the investors. **High level of dollarization** remains one of the main challenges for financial stability. But it has a downward trend that is proactively managed by the NBG.

In 2023, the growth of the banking sector was following economic growth. Total credit to GDP increased by about 4.1 pp to 65.6%, while deposits to GDP ratio increased by 2.2 pp to 63.1%. Credit to GDP ratio remains below its long-run trend, indicating the reduction of debt burden for the households. It mitigates further pressure on the portfolio quality for upcoming years.

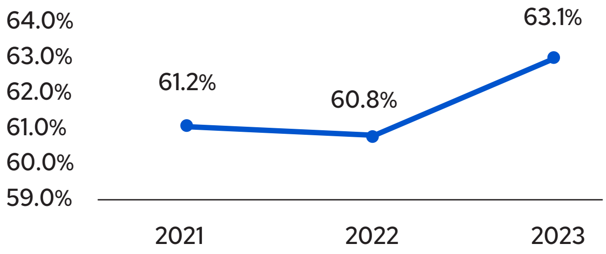
USD Interest Rates: In 2024 we expect the Georgian banking sector to face high cost of funding on the foreign currency resources for longer than initially expected. It will be aggravated by increased cost of funding on the foreign currency deposits compared to 2023 year. The interest margins on the foreign currency side could be somewhat stressed on the balance sheet. This stress will be partially mitigated by reduced mandatory reserve requirements for commercial banks for foreign currency funding.

GEL Interest Rates: On the other hand, local currency interest rates have a downward trend that is in line with the hampered inflation rate in the Georgian economy. We expect these dynamics to be maintained in 2024. It will benefit commercial banks from the improved interest margins in local currency.

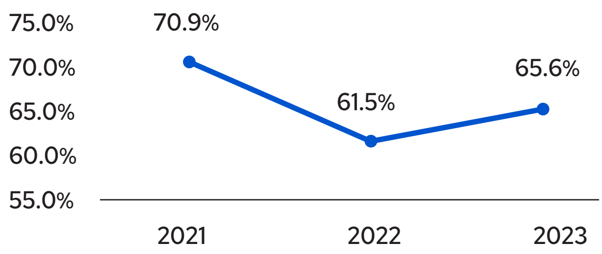
Loans portfolio quality remains robust and shows positive dynamics on an annual basis. The share of non-performing loans decreased by 0.03 pp to 1.48%. While the share of non-performing loans uncovered by reserves amounted to 3.8% of regulatory capital.

The sector operates with strong capital and liquidity buffers. By the end of 2023, total capital adequacy ratio

Sector Deposits as a percentage of GDP



Sector Loans as a percentage of GDP



amounted to 22.2%, above the minimum requirements[2]. Liquidity buffers were solid throughout the year for short-term as well as for long-term purposes. Liquidity coverage ratio (LCR) averaged at 129.1% in 2023, well-above the minimum requirement of 100%, which estimates short-term liquidity position of the banking sector. While the net stable funding ratio (NSFR) averaged at 129.3% indicating the solid long-term liquidity position of the sector.

Regulatory Updates

Central Banks maintained tightened monetary policies following the pandemic to hamper inflation growth. In 2023 inflation rate declined consistently around the globe in response to restored supply chains and increased interest rates. But regardless of the decreasing rate of inflation, economic activities and job markets remain robust. Meaning that central banks could be more cautious in cutting policy rates too early. As there is no pressure on the monetary authorities from the economic activity side to support the economy through instruments of monetary policy.

Despite the reduction of inflationary pressure and high economic growth, the risks of financial stability arising from the foreign sector remain noteworthy. Within the inflation targeting and de-dollarization policies framework, the national bank of Georgia implemented a number of macro prudential instruments throughout the year to mitigate inflationary expectations and support financial stability.

In accordance with the credit activity, the NBG decided to increase the maximum maturity of unsecured consumer loans back to 4 years, from November 2023. Considering that the growth rate of unsecured consumer loans recorded in 2022 has declined, and the overall credit activity remains at a sustainable level, the regulation will have a positive impact on sustainable growth.

The NBG actively works to reduce the structural risks caused by a high level of financial dollarization, especially on the households' side. Starting from 2024, commercial banks are allowed to issue foreign currency denominated retail loans only above 300 thousand GEL for unhedged borrowers. The regulation will significantly reduce dollarization of the retail loans book. The mortgage loans segment is the main segment which could be affected by this regulation.

Hence, the financial sector maintains stability and faces potential threats arising from the uncertain geopolitical situation in the region with solid capital and liquidity buffers. The banking sector has enough resources to ensure sustainable lending to the economy.

[2]Minimum requirements for regulatory capital varies across banks. So, there is no single metric to compare actual ratio to min. requirement for the sector. Throughout 2023, all of the commercial banks satisfied minimum capital requirements including all of the capital buffers imposed by the NBG.

Financial Overview

Financial Overview

BB progress

In 2023, the Group continued its growth in all key parameters and delivered main group targets at the bank as well as at the group level.

The results reflect on the strength of BB Group strategy and resilience.

Profitability: Double digit growth of Revenues > +13% y/y Record Net Operating Income > +14% y/y	The net results in operating profit and net revenues delivered by the Group reached 14%-13% y/y growth respectively, supported by still wide margins and stronger non-interest income YOY growth.
Efficiency ratio <50% CoR < 0.5% RoAE > 15%	Operating profit to risk-weighted assets (RWAs) is 3.2% in 2023 vs 3.4% in 2022. The reason for the slight reduction is mostly related to reduced NIM. Return on RWAs is higher in 2023 due to lower CoR.

Resilient and diversified franchise:

The consolidated balance sheet increased by 14% y/y to GEL 3.62 billion and Basisbank secured 4th place on the market by all main metrics. By the end of the year, the Bank's market share in the banking sector amounted to 4.41% (+0.01 pp y/y) as of assets, 4.70% (+0.1 pp y/y) as of loans and 4.40% (+0.12 pp y/y) as of deposits portfolios.

4.4%
Market Share by Assets
+0.01 pp YoY

4.7%
Market Share by Loans
+0.1 pp YoY

4.4%
Market Share by Deposits
+0.12 pp YoY

Strong capital positioning:

Capital Ratios

The bank maintains Resilient capital with solid capital buffers above minimum requirements due to strong organic growth of revenues, and Shareholders support of equity. Tier 2 capital is supported by new capital instruments issued on the market during the year.

15.1%
CET1 ratio
YE 2023

18.2%
CAR ratio
YE 2023

Liquidity coverage ratio
The Bank maintains sound liquidity and funding base, with LCR at 137% (minimum 100%) and NSFR 117% by the end of the year 2023.

137%
LCR
FY 2023

117%
NSFR
FY 2023

Performance

Due to significant changes in BB's size and position in 2022, BB's performance on Group level almost doubled compared to period before acquisition.

	2023	2022	2021
Net Profit	**GEL 77 million** +4% YoY	**GEL 74 million** +92% YoY	**GEL 39 million**

- On YoY basis there was a 41.9% increase in Normalized Net Profit without one-time effect (2022 net profit results affected by one-time gain received from acquisition of VTB Bank Georgia's retail portfolios). Excluding normalization effect YoY growth was 4.0%
- Net profit growth was mainly driven by increased operating income across almost all revenue categories – Net interest income (NII), Non-Interest income from operations and lower Cost of Risk ("CoR") for the period as compared to 2022.
- Return on average equity ("RoAE") adjusted with one-off effect is 15.7% and 13.7% for YE 2023 and 2022 respectively (factual for 2022 18.5%). Considering this factor, the year 2023 RoAE is the highest since the end of pandemic.

The growth trend was maintained in 2023, the Net Profit increased by 41.9% compared to 2022 result. If 2022 results are normalized for acquisition effect. If normalization effect is excluded, 4% increase in Net Profit in 2023.

P&L in Million GEL	**2023**	**2022**	**Chg.%**
Net Interest Income	137	126	9%
Net fee income	13	8	63%
Other income operations	16	12	33%
Revenues from leasing and insurance	8	7	14%
Total revenue	**174**	**153**	**14%**
Operating expenses	-83	-74	12%
Net operating Income before impairment	**91**	**79**	**15%**
LLP	-4	-11	-64%
Other income / loss	-10	-13	-23%
One time effect due to acquisition of VTB Bank Georgia's portfolios	-	19	NMF
Net profit	**77**	**74**	**4%**

Operating Profit:

The Operating Profit before Impairment increased by 15% compared to 2022, amounting to GEL 91 million.

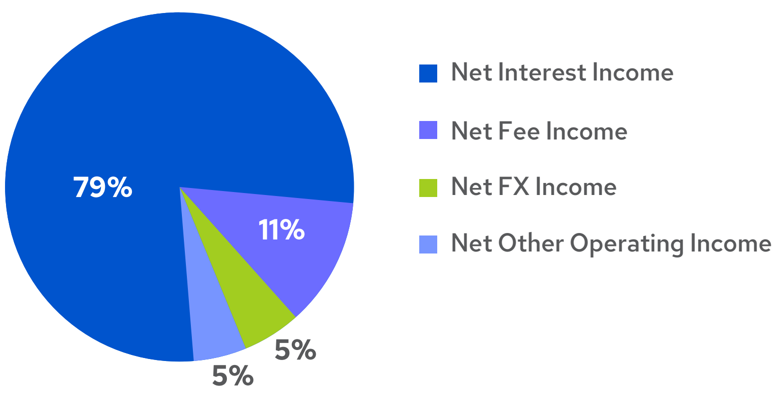
Operating Profit

2023	2022	2021
GEL 91 million	**GEL 79 million**	**GEL 41 million**
+15% YoY	+95% YoY	

Income Structure:

We shall analyze Total Income on a net basis, which also equals to Gross Profit of the Bank and is sum of Net Interest and Non-interest income, which increased by 9% and 43% respectively. At YE of 2023, the Net Interest income amounted to 79% of Total Net Income. Net fee income, Net FX Income and Net Other operating Income amounted to 11%, 5% and 5% of total each.

Income Structure



In 2023 Interest Income increased by 20.2% YoY, whereas Interest Expense increased by 31.3%, resulting in a Net Interest Income increase of 9%.

	2023	2022	2021
Interest Income	**GEL 310 million** +20% YoY	**GEL 258million** +93% YoY	**GEL 134 million**

Net Interest margin:

Income generated from interest earning activities remains the main source of revenue. Despite pressure on the funding side, the margins remain still wide.

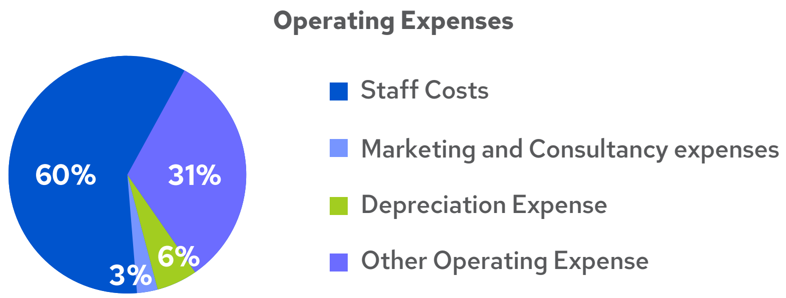
NIM is mostly affected from Liability side, share of more expansive funds increased as compared to 2022 due to the shift to more long- term fixed income instruments. The NIM was impacted from both sides - tightening rate on Loan and increasing indexes in Lari and FX funds. Due to market expectations the banks started to cut loan rates earlier than on funds, thus reducing the NIM temporarily.

in Million GEL	2023	2022	Chg.%
Total interest Income	310	258	20%
Total interest expense	174	132	31%
Net interest Income	137	126	9%
Avarage Interest Earning Assets	2,755	2,381	16%
Avarage Interest Bearing Liabilities	2,205	2,016	9%
Gross interest yield [(1)]	11.26%	10.84%	0.42%
Gross interest paid [(2)]	7.88%	6.56%	1.32%
NIM [(3)]	4.96%	5.29%	-0.33%

NIM decreased by 0.33% and was at 4.96% for 2023. The main driver of decrease was Increase in Cost of Funds (6.48% in 2023 compared to 5.60% in 2022), which itself was caused by introduction of another Subordinated debt.

Operating Expenses:

In Administrative and other Operating Expenses, we look at Staff Costs, Depreciation Expenses, Marketing and Consultancy Expenses and Other Operating Expenses. In 2023, 60% of Total Operating Expenses were attributed to Staff Costs, 4% to Marketing and Consultancy, 6% to Depreciation and 31% to Other Operating Expenses.



1. Gross interest yield means interest paid on average interest-earning asset for the period
2. Gross interest paid means interest paid on average interest-bearing liability for the period
3. Net interest margin is net interest income to average earning assets

The cost to Income ratio was maintained within 50% target, following to Bank's strategic growth stage. In 2023 it amounted to 47.7% (2022 – 48.3%).

Progress in figures:

The trend of growth is continuous for Basisbank. Year 2022 was boosted significantly by the acquisition of VTB Bank Georgia's loan and deposit portfolios which resulted in 65% growth of BB Group assets. In 2023, the trend was back to normal recording up to 14% increase YoY in assets and liabilities. Main driver of the growth was over Gel 400 million in Net Loan Portfolio, over GEL 300 million in total funding which was aligned with the Bank's growth strategy.

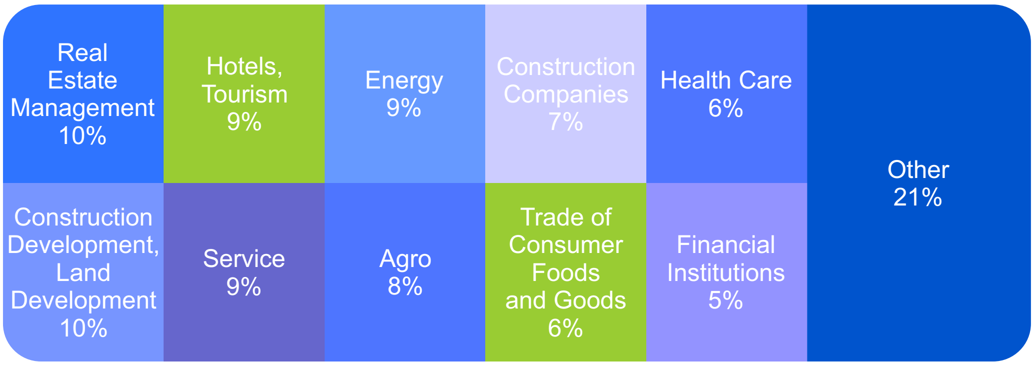
Loan Portfolio

In 2023, the loan portfolio of the bank increased by 19.1% y/y to 2.53 billion GEL, from which Business loans increased by 26.2% y/y to 1.718 billion GEL, while Retail loans increased by 6.3% y/y to 0.81 billion GEL.

	2023	2022	2021
GLP	**GEL 2.53 billion**	**GEL 2.1 billion**	**GEL 1.26 billion**
	+19 pp YoY	+68 pp YoY	

In 2023, the Bank has transformed business processes on the business segment side, that already showed significant results. In 2023, Loans to SMEs amounted to GEL 1.6 billion. Loans to large corporates up to GEL 125 million. As for the retail loans, the balance increased by GEL 48 million[3].

As for Business Portfolio distribution by Sectors, it is well-diversified, and no high concentration can be identified in any sector. The breakdown of Business Loans by sectors is presented in the chart below:



The share of non-residents in Loan Portfolio at end of 2023 amounted to 3.8%, while share of Related Parties amounted to 0.3%. As for Portfolio concentration for Top 20 Groups and Top 20 Borrowers, the amount was 24.3% and 19.5% respectively compared to 24.2% and 19.2% for 2022.

[3] Classification of loans mentioned in this paragraph differs from the classification used to prepare Note 11 of the consolidated and separate financial statements for the year ended 31 December 2023.

Loan Portfolio Quality:

In million GEL / %	2021	2022	2023
NPL ratio	3.8%	2.6%	2.7%
NPL Coverage Ratio	49.3%	62.9%	48.7%
NPL Collateral Coverage Ratio	145.4%	144.2%	135.2%
Stage 1	1,154	1,938	2,328
Stage 2	50	101	105
Stage 3	60	83	94
Stage 3 Loans %	4.7%	3.9%	3.7%

*NPL coverage ratio equals total expected credit loss amount for loan commitments divided by the NPL loans

NPL Collateral Coverage ratio equals sum of expected credit losses for loan portfolio and the minimum amount of NPL Loans Exposure and Discounted Collateral Amounts of those NPL Loans (after applying different haircuts for different types of collaterals 0%-100%) divided by the NPL loans.

The Bank's Loan Portfolio quality is exceptional in the Banking System. The Bank has a low-Risk Appetite and therefore maintains a low level of Cost of Risk, which is 0.18% for 2023. For 2022 it was at 0.65%, reflecting the blend with acquired portfolio.

NPLs are also low in the range of around 3% each year. In 2023 it amounted to 2.7% of Gross Loan Portfolio and in 2022 – 2.6% respectively.

Funding and Liquidity

Customer Deposits:

The Bank is primarily funded by customer accounts which stands at 71% of liabilities at end-2023, and loans/deposits ratio stands at 115%.

On the funding side, total Customer Deposits increased by 11.8% YoY and amounted to GEL 2.19 billion. Deposits of Legal Entities increased by 8.1% (GEL 85 million) and Deposits of Individuals by 16.1% (GEL 147 million). Main source of growth was Retail client's growth in Term Deposits.

Customer Deposits	2023	2022	2021
	GEL 2.19 billion	GEL 1.96 billion	GEL 0.88 billion
	+12% YoY	+123% YoY	

- Significant increase in time deposits is related to market expectations seeking savings with higher yields. 2/3 of individuals deposits are placed on time deposits.
- Fixed maturity exposure helps to manage LCR better and reduce extra liquidity costs on on-demand funds where exposures are penalized with higher run-off rates.
- The bank directs its efforts to reduce the dependence on high value depositors. The concentration is constantly reducing, however more effective measures are required to increase BB's awareness of reaching more clients.

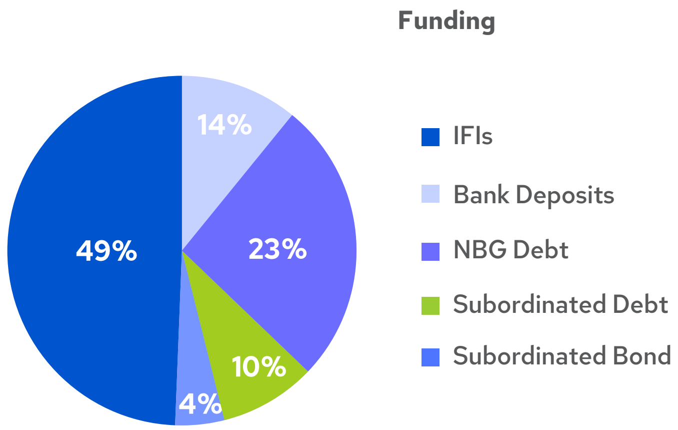
Total Customer Deposit Portfolio FX Concentration is 50.1%

The share of non-residents in Customer Deposits at the end of 2023 amounted to 7.8%, while share of Related Parties amounted to 4.4%. Portfolio concentrations are improved, enhancing liquidity position. As for Top 20 Groups and Top 20 Depositors, the amount was 44.4% and 38.2% respectively compared to 49.6% and 42.2% for 2022.

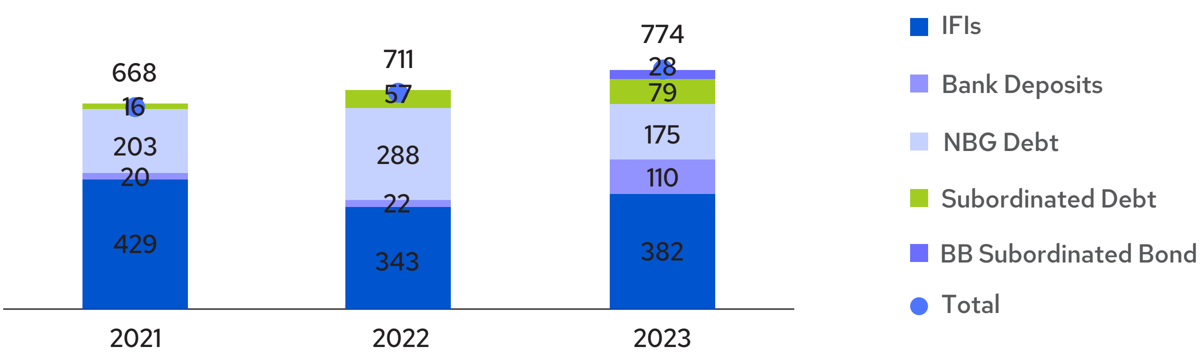
Other Funding:

Basisbank's funding remains stable, well supported by increased funding from partner International Financial Institutions.

Total funding excluding Customer Deposits increased by 8.8% and amounted to GEL 774 million. The breakdown is presented below:



Funding from IFIs increase mainly is attributed to Senior Loans and Trade Finance.



In 2023, the Bank continued working with the existing and new international partners attracting strong investment in the development of the Bank's lending business. As a result, in 2023, the Bank strengthened cooperation with the existing partner institutions and disbursed in total 92 million USD out of which 19 million USD represented long-term senior loans and 73 million short-term loans directed at the development of international trade finance business.

Total IFI Funds Raised

USD 92 million

Short-term

USD 73 million

Long-term

USD 19 million

In 2023, BB signed an agreement on 10,000,000 EUR with Finance in Motion(FiM) and Green for Growth Fund (GGF) for a 5-year green lending facility marking a six yearlong successful cooperation with the partner. Cooperation, which was initiated with the aim to provide much needed finance for energy efficiency and renewable energy investments in Georgia developing a robust energy efficiency and renewable energy market. Parallel to the financial support received from the lender, technical assistance was made available to Basisbank in 2023 by GGF for developing ESG Strategy and introduction of Green Product.

Over the recent years, the Bank has demonstrated commitment to sustainability and green finance agenda, comprehensively updating its Environmental and Social Management System (ESMS) and providing loans for green measures – primarily to SMEs and corporates - through IFI and DFI financing. Being committed to further growing green lending, aligning with the sustainable finance regulations from the National Bank of Georgia (NBG), and incorporating sustainability into our core business, in 2023, GGF has offered a one year comprehensive TA to help the Bank develop a Sustainability Strategy, enhance its green lending framework and green products, and build the capacity of its team around sustainability and green finance. The project has been implemented with cooperation of an experienced consultants' team from PWC.

As part of the technical assistance, Basisbank received support from its Partner Asian Development Bank (ADB) as well. In 2023, Basisbank received technical assistance for strengthening the international financial sanctions framework and improving tools for managing Trade Based Money Laundering (TBML) risks. The project was supported by the Asian Development Bank's Trade and Supply Chain Finance Program (TSCFP) and was implemented by experts from international consulting firm.

In addition, in 2023, Basisbank continued devoting larger resources to serving the long-term needs of Basisbank's MSME clients and attracted 19 million USD in total from its long-term partners Blue Orchard, GGF and ResponsAbility. Our cooperation with the lenders counts many years of outstanding contribution in support of our MSME business development.

As part of our cooperation with International Institutions for trade finance, in 2023, Basisbank entered into a series of negotiations with its partners to increase trade finance credit lines making significant progress in this direction. Our strategic partners in international trade finance, International Financial Corporation (IFC) and ADB have doubled their approved limits to Basisbank giving the Bank possibility to provide its clients with more flexible and cheaper resources to develop their cross-border business.

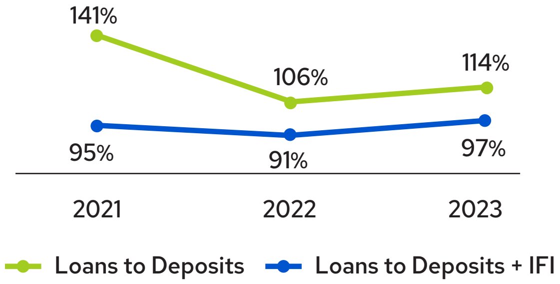
Overall, 2023 can be considered as one of the most successful and fruitful years for the development of our green and trade business.

Liquidity:

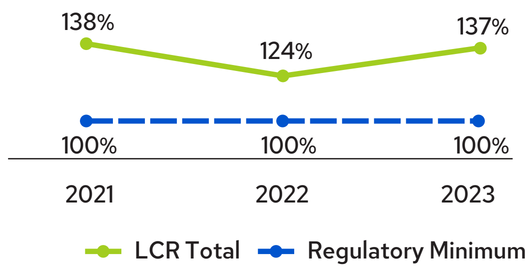
BB has a reasonably stable funding base, where the biggest part of its liquid assets are cash and cash equivalents (8% of Total Assets) as well as government and corporate securities (8.8% of Total Assets) eligible for pledging and repo operations. The Bank keeps large mandatory reserves with the NBG (equal to 5% of Total Assets), part of which could be made available to the bank in case of liquidity stress.

During 2023 the Bank has stayed within NBG requirements for Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The minimum requirement for both ratios is 100%. Basisbank' s buffers are high above this threshold and amounted to 137% for LCR and 117% for NSFR in 2023, compared to 124% and 122% in 2022.

Solid balance structure and liquidity level



Strong Liquidity Coverage



Capital position and regulatory compliance

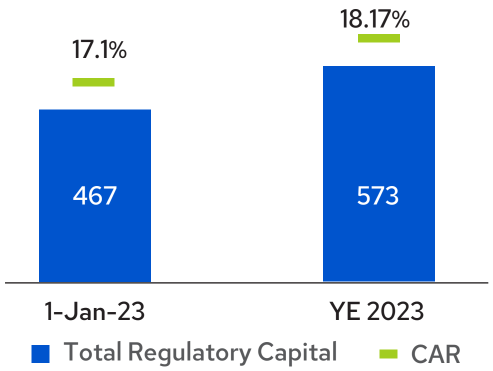
Basisbank's Regulatory Capital increases dynamically year-over-year. It is well supported by strong shareholder support in the form of periodic injections or Subordinated debts, as well as Tier 2 Instruments issued by the bank.

In 2023, to further support the Bank's growth, the dividends paid to the parent amounting to GEL 7 million, were returned to the Bank in the form of Subordinated Loan (Tier 2 capital Instrument). In addition, the bank issued Subordinated Bond amounting USD 10 million (GEL 27.7 million) and Subordinated Loan to retail customers amounting USD 4.9 million (GEL 13.2 million).

From January 2023, the NBG initiated the transition to IFRS standards. A credit risk adjustment (CRA) buffer and an updated procedure for its calculation were introduced. 2.1% of CRA buffer was added to total capital requirement. As of 31 December 2023, the Basisbank's Tier 1 capital ratio stood at 15.1% and Total CAR at 18.17% (due to introduction of new standard, previous year ratios are not comparable).

Regulatory Capital

In mln Gel



Capital Adequacy Ratios and Regulatory Thresholds

	1 Jan-23	YE2023
CET1 CAR Requirement	11.1%	11.7%
BB CET1 CAR	15.3%	15.1%
Tier 1 CAR Requirement	13.2%	14.0%
BB Tier 1 CAR	15.3%	15.1%
Total CAR Requirement	16.7%	17.1%
BB Total CAR	17.2%	18.2%

Basisbank stays fully compliant with capital adequacy requirements stipulated by National Bank of Georgia.

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BASISBANK

Corporate Governance

Corporate Governance

2023 Highlights

Two new members in Supervisory Board

In December 2023 the Bank welcomed two new independent members of Supervisory Board: Nino Okhanashvili and Sabina Dziurman replacing two former members, Mi Zaiqi and Nikoloz Enukidze. Sabina Dziurman, with over 20 years of expertise, was appointed as a Chair of Risk Committee, while Nino Okhanashvili, with over 20 years of experience, was appointed as an Independent Member of Audit Committee. They have added diverse backgrounds and expertise to the Board.

Recreated ESG Strategy

Basisbank has rolled out a new ESG Strategy, which is part of Basisbank's Strategic goals and development. Strategy was elaborated based on the materiality assessment involving all major stakeholders of the bank: clients, partner organizations, management and employees and is aligned to UN Strategic Development Goals (SDGs).

Upgraded policies and procedures

This year we created and updated several policies and procedures across the Bank to support Corporate Governance and day-to-day management of the bank within an appropriate risk framework.

Bank has adopted and updated following policies and procedures: General Risk Management and Internal Capital Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Group Anti-Financial Crime Policy, several regulations on non-financial as well as financial risk management, Information security management policy, Guidelines for Assessment of Supervisory Board and Board-level Committees, Administrator Selection and Appointment Policy etc.

In 2023, the Bank developed several documents relevant to Corporate Governance, including: management members fit and proper re-assessment, collective Suitability of the Supervisory Board and Supervisory Board level committees, self-assessment of the compliance with the Corporate Governance Code, external and internal evaluation of the effectiveness of the Supervisory Board and Board level committees' members etc.

Corporate Governance Overview

Effective corporate governance in accordance with high international standards is a part of our identity. We are committed to maintaining a best-in-class corporate governance framework, fully compliant with NBG Corporate Governance Code, in line with international standards and best practices. Framework is suitable to support efficient decision-making, to align risk and accountability on the basis of clear and consistent roles and responsibilities, putting a strong focus on enhancing a clear Governance structure ensuring value driven management and control.

NBG Corporate Governance Code on itself, is based on international standards and best practices, such as those of Basel Committee on Banking Supervision, Directive 2000/36/EU of the European Parliament and of the Council of 26 June 2013, the Organization for Economic Cooperation and Development (OECD), the UK Stock Exchange etc.

In the pursuit to deliver greater shareholder value, Basisbank has continued to subject its operations to the highest standards of Corporate Governance, which is an essential foundation for sustainable corporate success, especially in an emerging market economy. We are committed to upholding the principles of good Corporate Governance in all our operations, which is the basis of strong public trust and confidence reposed in us by shareholder, customers, business partners, employees and the financial markets and the key to our continued long-term success.

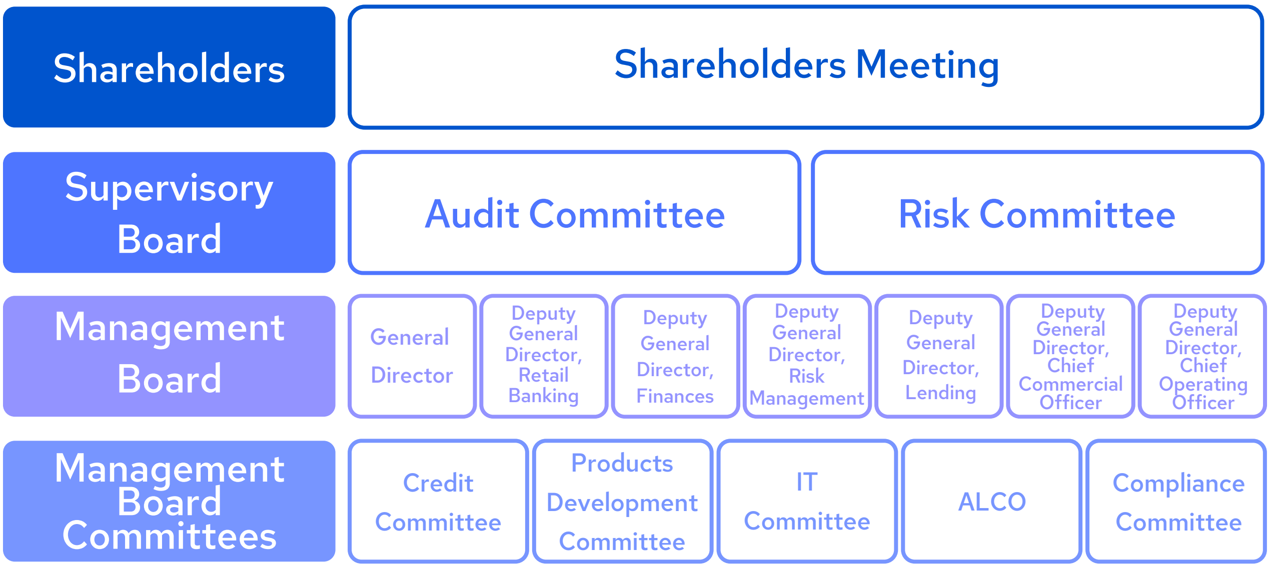
In line with the principles of above-mentioned regulations, the Bank established Corporate Governance structure suitable with the size, complexity, structure, economic significance, risk profile and business model of the Bank and its Group.

Corporate Governance Structure

Basisbank's (Bank) governance structure sets a formal framework for the Management Board to follow Bank's strategy and objectives, as well as manages the relationship between Directors and Shareholders. Bank has elaborated a thorough set of policies and systems to ensure that its ultimate objectives are met and there is an effective framework for oversight and control.

Basisbank's corporate governance structure combines three separate bodies:

- General Meeting of Shareholders
- Supervisory Board and Board Level Committees
- Management Board and Management Board level committees



Annual General Meeting

The General Meeting of Shareholders is the supreme governing body of the Bank. Shareholders exercise their rights by participating in the Shareholders General Meeting, appointing their representatives in the Supervisory Board and voting on certain matters in compliance with the legislation of Georgia and the Bank Charter.

General meeting takes decisions on the most important issues - approves the bank's charter, makes decisions on issuance of shares, distribution and usage of earnings, on changes in the bank's capital and makes decision on appointment and / or dismissal of the Board members.

At the General Meeting of Shareholders, one unit of ordinary share entitles its holder to one vote. Each scheduled meeting of the General Meeting of Shareholders is held once a year no later than two months after the preparation of the audited financial report for the previous year, which in turn shall be prepared four months after the end of the year. An unscheduled meeting of the General Meeting of Shareholders is convened at the request of the Chairman of the Supervisory Board, the Management Board or at least 5% of the shareholders.

The Notice of Annual General Meeting ("AGM") for 2024 will be circulated to all the shareholders at least 21 working days before the AGM and it will also be made available on the investor relations website.

Supervisory Board

The Supervisory Board of Basisbank appoints, supervises and advises the Management Board and is directly involved in decisions of fundamental importance to the bank. Supervisory Board is exercising its functions through the Supervisory Board Meetings and Supervisory Board-level Committees. The Board appoints and works closely with the Management Board, supervises and advises on important issues and is directly involved in fundamental decisions.

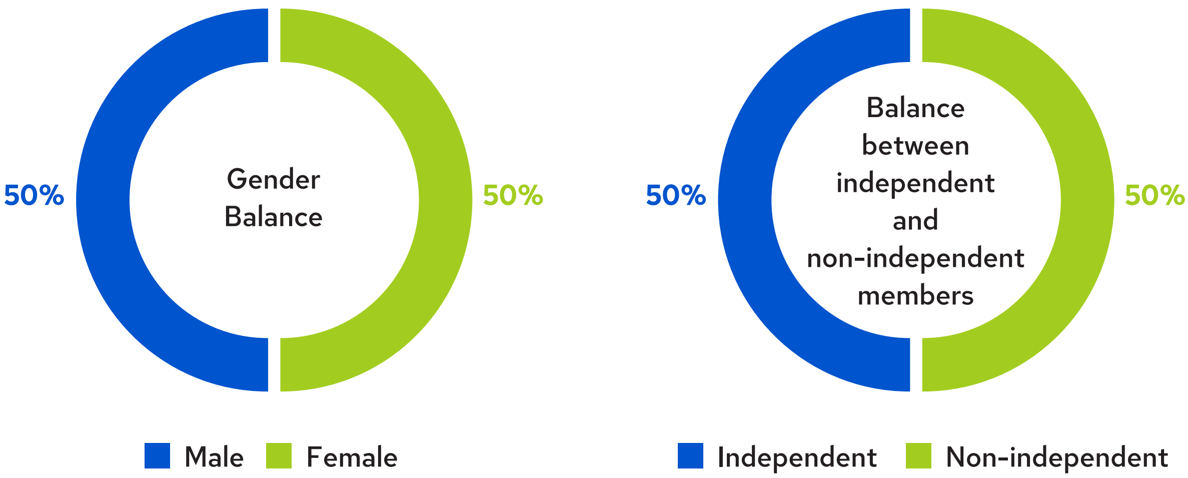
Key Functions: Key functions of Supervisory Board are supervision of the Basisbank's activities, Corporate Governance and Risk Management. Within the framework of these functions, Supervisory Board makes decisions on establishing Bank's values, organizational structure and ensuring that the Bank is governed with the principles of fairness, competence, professionalism and ethics. Board establishes the Bank's strategy and oversees management's implementation of the bank's strategic objectives. It ensures that the Bank is in compliance with all regulatory and supervisory requirements, establishes the risk appetite of the company along with Management Board and the CRO (Deputy General Director, Risks). The Board also oversees Management Board's activities and evaluates its decisions, ensuring independence and effectiveness of control functions, and conducts Management Board's performance evaluation in line with its long-term succession plan. The Board is responsible to oversee transactions with related parties and ensure existence of effective procedures and policies within the Bank in line with the requirements of law and regulatory framework.

Board Meetings: Board meetings are based on the principles of open dialogue, accountability and transparency, and members have the opportunity to be fully involved in the work process. Decisions are made in a transparent manner, with all members being equally involved in the dialog and decision-making process, except for the exclusion provided by the Bank's internal regulation on the Management of Conflict of Interests. Board's decisions as well as related material are submitted to the National Bank of Georgia on an ongoing basis.

Appointment and re-appointment of Supervisory Board Members: Supervisory Board Members are appointed by AGM for the tenor of 4 years. After 4 years their authority is prolonged until new members are appointed by next AGM. Same person can be appointed for the position for unlimited number of times.
Board members can resign any time. Resignation notice shall be sent 3 months earlier. Board member can be resigned by AGM any time before the tenor. New member should be appointed within 6 months from the date of resignation of former member.

Segregation of duties: Given the corporate governance structure with its separation of the Management and Supervisory Board, a member of the Supervisory Board is excluded from being a member of the Management Board. While Management board is actively involved in delivering strategy and day-to-day management of Bank, the role of Supervisory Board is oversight and recommendations to Management Board.

Board Diversity: Supervisory Board is diversified in terms of age, sex, nationality, background and expertise. Members contribute to Board functioning with their diverse opinions and advice on different issues. Bank believes, that this diversity brings a balanced expertise and perspectives to the matters reserved for Board and levels up decisions made by the Board. Female representation on the Board is at 50%.



Board Independence: Half of the Supervisory Board members (three out of six) are independent. Board members are independent, if they are not exposed to the influence from the Bank or third party, which can defer the member from making objective and independent decisions. They are obliged to inform Board regarding any matter, that could impair their independence. Independent members have key roles on Board level Committees, so they provide external experience and objectivity and help to avoid conflicts of interests more effectively.

The status of an independent member is terminated after 9 (nine) years from the first appointment as a member of the Board.

Evaluation of Board Performance: The Board is required to conduct a self-assessment of its and Board level Committees performance at least once a year. It evaluates the effectiveness of the Supervisory Board as a whole, its committees and members. Additionally, the external Auditor should evaluate effectiveness of Board's Performance every three years. The last external evaluation was conducted in 2023 for the year 2022. The last internal review was conducted in 2024, assessing performance for 2022 and Q1 of 2023.

Supervisory Board-level Committees

Supervisory Board has established two Supervisory Board level committees, Audit Committee and Risk Committee, and delegates specific areas of responsibility to them. The committees facilitate informed decisions and report regularly to Supervisory Board.

The Committees have unrestricted access to the Bank's management, internal information and documents related to any matter within the competence of the Committee. They have the right and opportunity to independently invite external consultants, and, if necessary, receive consultations and services on legal, technical, accounting, financial, risk management and other matters.

Audit Committee

Audit Committee is an independent control function established on Supervisory Board level, which supports the Supervisory Board in monitoring the implementation of Financial Reporting and Audit. Audit Committee is established by the members of Supervisory Board, where two out of the three members are independent. It directly reports to Supervisory Board.

The Chairperson of the Committee is an independent member of the Supervisory Board.

The Audit Committee is responsible for:
- Relationship with internal and external auditors, setting the scale and scope of internal and external audit;
- Provides oversight of the bank's internal and external auditors' recommendations;
- Reviewing annual consolidated and standalone financial/non-financial statements;
- Oversight and monitoring the quality of the Bank's accounting and financial reporting;
- Ensuring adherence to risk management framework and efficiency of internal controls and processes;

The Audit Committee meetings were held twice during the year.

Risk Committee

The Risk Committee is an independent control function established on Supervisory Board level, which supports the Supervisory Board in monitoring the implementation of Risk Strategy. The Committee is established by the members of the Supervisory Board, where two out of three are independent.

The Committee directly reports to the Supervisory Board. The Chairperson of the Committee is an independent member of the Supervisory Board.

The Committee is responsible for:
- Oversight of Bank's Risk Management Framework and functions;
- Oversight of Bank's risk strategies and policies and their effective implementation;
- Assessment and oversight of Bank's risk profile, limits and overall Risk Culture;
- Oversight of compliance with regulator and other internal and external regulations;
- Oversight of subsidiary's risk management function, risk management framework and the proper functioning of internal control systems.

The Risk Committee meetings were held twice during the year.

Committee Membership and Independence

Member	Independence	Audit Committee	Risk Committee
Zhang Jun	☐		
Sabina Dziurman	☑		■
Zaza Robakidze	☑	■	☐
Zhou Ning	☐	☐	
Nino Okhanashvili	☑	☐	
Mia Mi	☐		☐

■ Committee Chairperson ☐ Member

Management Board

Management Board (Board) has overarching responsibility for managing Basisbank, steering Bank and setting the bank's strategic course. Along with that, Board shall be responsible for running the ultimate business objectives in line with the Bank's strategy, navigating within an effective Risk Management and Internal Control framework, and ensuring best practices for Corporate Governance are adhered to.

The Board is collectively responsible for long term success of the Bank and delivering value to shareholders. Board members have appropriate balance of experience, skills, and knowledge, as well as independence from bias, to be able to fulfill their duties and responsibilities.

The Board is composed of seven Directors, a General Director and six deputies, each covering different directions: Retail Business, Lending, Finances, Risk Management, Operations and Commercial Business.

Key Responsibilities:
- Responsibility for the day-to-day management and oversight of the Bank and its operations;
- Approval and fulfilment of the Bank's strategy, long-term objectives and budgets; monitoring performance against those;
- Creating effective systems for Financial and non-financial Risk Management, risk controls, supporting risk culture within the Bank.

Appointment and re-appointment of Directors: All members of Management Board are appointed by Supervisory Board.

Members of Management Board are appointed for 4 years. After 4 years their authority is prolonged until new member is appointed by Supervisory Board. Same person can be appointed for the position for unlimited number of times.

Segregation of duties: Management board is actively involved in outlining and delivering strategy and day-to-day management of Bank. High-level functions of oversight for each Director are summarized in the Table below:

Davit Tsaava,
General Director

- Leading the management board
- Strategic development and management
- Marketing and strategic communications
- Business Analytics and Transformation
- Human resources management and administration

Lia Aslanikashvili,
Deputy General Director, Finances

- Accounting and financial reporting
- Strategic planning and budgeting
- Capital and asset-liability management
- Treasury Management
- Global transactions and cash management

Davit Kakabadze,
Deputy General Director, Risks

- Financial and non-financial risk management
- Regulatory and Legal Compliance
- Legal support
- Problem Asset Management and Litigation
- AML and Sanctions Compliance
- Customer experience and quality

Rati Dvaladze,
Deputy General Director, Chief Operating Officer

- Technology leader, IT and software development
- Operations management and centralized back office
- Project management and business analytics
- Product and service support
- Infrastructure support and logistics

Gigi Gabunia
Deputy General Director, Commercial Director

- Corporate financing and strategic business development
- Small and medium business banking
- Private banking
- Trade finance and factoring
- Credit analytics

Hui Lee,
Deputy General Director, Lending

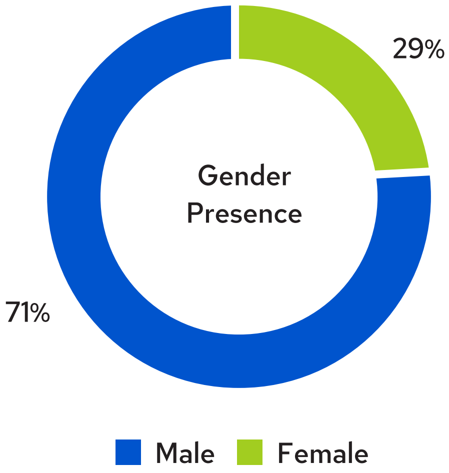
- Member of Credit Committee

Levan Gardapkhadze,
Deputy General Director, Retail Business

- Retail business management
- Premium Banking
- Branch and Service Network Development
- Digital services and transformation
- Product and Service Development
- Sales Network Development

Management Board Diversity: Management Board is diversified in terms of age, sex, nationality, background and expertise. Bank believes, that this diversity brings a balanced expertise and perspectives to the Strategic Direction and day-to-day management of the Bank.

Female representation on the Board is at 29% (Two out of seven members are women).



Changes in Management Board composition: In 2023, there have been no changes of Directors.

Management Board-level committees

Board delegates specific areas of responsibility to its five committees: Credit Committee, Product Development Committee, IT Development Committee, ALCO and Compliance Committee.

Arrangements have been made for creating Sustainability Committee on a management board level.

Credit Committee

Committee evaluates potential clients' financial condition and their ability to repay the loan; makes decision within the authority delegated to the committee in compliance with internal policies and procedures.

Credit Committee has four levels for loan approval, these levels are:

- Credit Department level;
- Risk Management Department level;
- Small committee level;
- Extended committee level.

Product Development Committee

Product Development Committee defines and analyzes feasibility of new products and oversees their development and implementation. It ensures further enhancement and development of the existing products and services as well.

Committee consists of four members. Committee is headed by Deputy General Director, Chief Operating Officer.

Members of Product Development Committee are:
- Deputy General Director, Risk Management;
- Deputy General Director, Retail Business;
- Head of General Risk Department.

IT Development Committee

IT Development Committee sets IT project priorities and ensures alignment of IT projects with the Bank's strategy; Defines and analyzes appropriate IT tasks; Develops new projects and ensures proper progress and implementation of those.

IT Committee consists of three members, Committee is headed by Deputy General Director, Risk Management.

Members of IT Development Committee are:
- Deputy General Director, Risk Management;
- General Director;
- Head of IT Department.

ALCO

Committee reviews current and prospective liquidity positions and monitors alternative funding sources, develops parameters for the pricing and maturity distributions of deposits, loans and investments. Defines and sets limits for currency position, cash limits and limits for other financial products.

ALCO consists of seven members, Committee is headed by Deputy General Director, Finances.

Members of ALCO are:
- Deputy General Director, Finance;
- General Director;
- Head of Treasury Department;
- Deputy General Director, Risk Management;
- Deputy General Director, Commercial Director;
- Head of General Risk Department;
- Head of Asset-Liability Management Department.

Compliance Committee.

The Compliance Committee has been established by the Board of Directors in August 2022 to promote the effective management of compliance risks by the three lines of defense of the bank within its competence.

Main objective of the committee is to support the effective management and mitigation of compliance risks.

Committee consists of seven members and is headed by Deputy General Director, Risk Management.

Members of Compliance Committee:

- General Director;
- Deputy General Director, Risk Management;
- Advisor to Deputy General Director, Risk Management;
- Deputy General Director, Commercial Director;
- Deputy General Director, Finance;
- Head of AML Department;
- Head of Compliance Division.

Further Aspects of Governance

Conflicts of Interests

Based on the Basisbank's Group specifics, the Supervisory Board, the Management Board and other control functions strictly control the possible sources of the conflicts of interest. The bank identifies and records related parties and sets controls on the transactions with those. The Supervisory Board periodically revises the policies developed and approved by it, in order to ensure compliance with the underlying challenges. In addition, the bank closely cooperates with the National Bank of Georgia to take into consideration the regulator's guidance for the establishing and maintaining robust control system.

The transactions with the related parties are subject to mandatory review and approval by the Management Board and/or Supervisory Board. The Bank strictly adheres to the arm's length principle and ensures the coherence of the related party transactions with these principles. A sufficient number of independent members of the Supervisory Board enhances control effectiveness to prevent conflicts of interest.

Management Board remuneration policy

In line with the regulatory requirements, in 2023 the Supervisory Board of the Bank has adopted the Remuneration Policy, to set forth the basic principles governing the remuneration of the top management, other material risk takers, staff with control functions and other staff.

The remuneration policy is based on principles such as justice, equal pay for work of equal value, taking into account the functional load of the position, the competence and experience of the person, inadmissibility of differentiation on discriminatory grounds, motivate and retain employees, paid vacation and rest time, social security guarantees as wells as promoting sound corporate governance and risk management behaviors.

Remuneration includes a fixed component and may also include a variable component. Variable remuneration is not considered for members of the Supervisory Board.

Supervisory Board remuneration policy

The budget for Supervisory Board remuneration is approved by the AGM. It defines the amount of remuneration for

Supervisory Board members. Remuneration for Supervisory Board members has a fixed component only.

Board Agenda for 2023

The Supervisory Board had a busy and comprehensive agenda in 2023, covering a wide range of important issues related to the bank's governance, operations, risk management and strategic direction.

During 2023, the Supervisory Board met 32 times to make decisions and discuss 44 issues, including two meetings held in Georgia, in a physical (attended) format.

During discussions and decision-making on such issues, if any member of the Supervisory Board had a connection with the discussed issue and a conflict of interest might arise, specific members did not participate in the discussion and decision-making of the issue.

Throughout 2023, the Supervisory Board discussed various issues including:

Strategy and Budget	• Basisbank 2023 strategy and budget approval • Basisbank stress scenarios with the recovery plan
Financials	• Basisbank 2022 audited financials • Basisbank results for 6 months
Capital and Funding	• Tier 2 subordinated loan issue • Funding lines approval • Loan and trade finance agreements
Corporate Governance	• Board and board-level committees performance review • Board and board-level committees performance guideline update approval • Audit and risk committee yearly reports review • Audit and risk committee semi-annual reports review • Internal audit budget and working plan approval • Management members fit and proper re-assessment • Collective Suitability of the Supervisory Board and Supervisory board-level committees review • Self-assessment of the compliance with the corporate governance code

Policies Review	• Material risk takers list approval • Administrator list approval • AFC policy approval • ICAAP approval • ILAAP approval • Information security policy approval • Administrator selection and appointment policy approval
Positions Approval	• Authority prolongation for directors • Approval of administrator positions
Remuneration	• Management remuneration • Changes to bonus scheme
Business Operations	• Change of location for service-centers

AGM rights and rules

The General Meeting of Shareholders is the highest governance body of the Bank. It conducts two types of meetings: Annual General Meeting (AGM) and extraordinary General Meeting of Shareholders.

On AGM annual results, as well as other issues stipulated by the law and the agenda are discussed.

Meetings held in addition to the regular AGMs are extraordinary meetings of shareholders.

Convening the General Meeting of Shareholders:

- The General Meeting of shareholders is convened by the Bank's Directorate.
- The AGM shall be convened annually, at least once a year, no later than 3 months after the completion of the annual balance sheet audit.
- An extraordinary meeting of shareholders must be convened based on a written request of the General Director, Deputy General Directors, the Supervisory Board, or a Shareholder (Shareholders) owning at least 5% (five percent) of the Bank's shares. A decision on convening the General Meeting must be published within 10 days of receiving this request.

- The written request of the Shareholder/Shareholders to convene the General Meeting must specify the necessity, purpose and reason for convening the General Meeting, as well as its agenda outlining all the issues requested by the Shareholder/Shareholders.
- The decision to convene the General Meeting must be published on the electronic portal of the registering agency and on the Bank's website at least 21 days prior to the date of the General Meeting. It must contain at least the information defined by the legislation of Georgia.
- Each subsequent General Meeting may be convened earlier than yearly, if the General Meeting is convened due to the absence of the quorum required for convening the first General Meeting, the first General Meeting was convened in accordance with the procedure established by the legislation of Georgia and no issue has been added to its agenda. In this case, there should be at least a 10-day interval between the dates of the last and the next General Meeting.

Competence of the General Meeting of Shareholders:

The General Meeting of Shareholders discusses and makes decisions on the following issues:

- making changes to the bank's Charter, approving a new edition of the Charter;
- amendment of the Constituent Agreement of the Bank;
- reorganization of the Bank;
- dissolution of the Bank, appointment of liquidator, approval of interim and final liquidation balances;
- redemption of own shares by the Bank;
- change of the invested capital;
- defining the composition of the Supervisory Board, the number of members, their election, early recall, the amount of compensation and the structure;
- approval of the Bank's audit report and selection of the entity performing the audit;
- approval of financial report and distribution of dividends;
- determining the procedure for the General Meeting and electing the vote counting committee;
- participation in the ongoing legal proceedings against the Bank's governing body/persons and members of the Bank's Supervisory Board, including the appointment of a representative for these proceedings;
- purchase, alienation, exchange (interrelated transactions) or other encumbrance of the property by the Bank, the value of which is more than half of the balance sheet value of the Bank's total assets, except for those transactions related to the Bank's normal course of business;
- determining the number of shares, nominal value, classes and rights related to them;

The Shareholders' Meeting is authorized to make decisions on other issues provided for by Charter and the law.

Decision-Making Capacity of the General Meeting of Shareholders:

The General Meeting of Shareholders is capable of making decisions and a quorum is present, if more than half of the Shareholders with voting rights are present or represented at the Meeting. If the Meeting is not capable of making decisions, a new meeting with the same agenda will be convened within the time limit approved by the Supervisory Board, following the procedures provided for above. A new meeting has decision-making capacity, if at least 25% (twenty five percent) of Shareholders with voting rights are present or represented at it. If the meeting still does not have decision-making capacity, a new meeting with the same agenda will be convened within the time limit approved by the Supervisory Board. That Meeting is capable of making decisions regardless of the number of Shareholders present or represented.

At the AGM, 1 (one) ordinary share provides 1 (one) voting right. The General Meeting of Shareholders makes decisions by a simple majority of the votes of the present or represented Shareholders, except for the decisions on the issues provided for in clauses "a" - "f" provided above, on which the AGM makes decisions by a majority of of the votes of the Shareholders present or represented.

The cumulative voting is used to elect the members of the Supervisory Board at the Shareholders' Meeting. The cumulative voting method is as follows:

a) the Shareholder distributes all their votes to any number of candidates, so that the total number of their votes does not exceed the total number of votes at their disposal;

b) the Shareholder can only support the candidate with each of their votes (voting against them is not allowed);

c) If the number of candidates is less than or equal to the set number of members/persons to be elected, all those candidates who received at least 1 vote are considered elected. If the number of candidates exceeds the set number of members/persons to be elected, those candidates who received the majority of the votes of the participants in the voting shall be considered elected.

The work of the General Meeting of Shareholders is led by the Chairman of the Supervisory Board. One of the Co-chairmen of the Supervisory Board do so in their absence, and the General Director of the Bank or one of the Deputy General Directors-in the absence of the co-chairman. In their absence, the Chairman of the Meeting is elected at the General Meeting by a simple majority of votes. In the event that the Chairman of the General Meeting has a conflict of interests with an issue brought up for discussion at the General Meeting, another (independent) member of the Supervisory Board chairs the meeting when discussing that issue.

Internal control and risk management systems for drawing up Financial Statements

Financial Statements are prepared by Finance Department and reviewed by Deputy General Director, Finances. Afterwards, it is reviewed and approved by Management Board, Audit Committee and ultimately the Supervisory Board. One of the functions of Audit Committee is to review 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 receives detailed reporting from the Chief Financial Officer and the external auditor including key areas of management's judgements, reporting and audit process during the year. Where necessary, Audit Committee challenges the actions, estimates and judgements of management in relation to the preparation of the financial statements.

Additionally, Bank has drafted Internal Instruction on the preparation of Financial Statements . It defines roles, responsibilities and deadlines for the parties involved, as well as outlines internal controls for the preparation of Financial Statements.

Diversity and Inclusion Policy

The Bank's Diversity and Inclusion Policy applies to all employees of the Bank, all functions, all units in the Bank, and all subsidiaries with regard to age, gender, ethnicity, sexual orientation, disability and socio-economic backgrounds.

It applies to the Board, committees, Management and employees – all levels of Bank. The Diversity and Inclusion Policy commits to ensuring a diverse and inclusive culture within the Bank. 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.

Whistleblowing

Bank ensures there are effective procedures in place relating to whistleblowing. The Whistleblowing Policy allows any person including the employees, trainees, clients, suppliers, vendors and other stakeholders to confidentially raise concerns about unethical business practices such as: fraud, conflict of interests, corruption, money laundering, harassment, blackmail, environmental or social issues etc. The Company has an advanced independent whistleblowing reporting channel in place, including an anonymity option. The Bank has continued to promote the importance of the whistleblowing process and procedures to employees. The Audit Committee continues to monitor the use of the system.

Additionally, any violations of Code of Conduct and Ethics are recorded under the whistleblowing channel and reported to special commission led by Audit Committee Chairman, which also includes Head of HR and Head of Compliance Units.

Policies and procedures

Group has adopted a thorough set of policies to ensure compliance with high Corporate Governance Standards and International Best Practice as well as provide framework for internal procedures and controls.

Policies and Procedures are reviewed annually by Management and Committees for updates. Our compliance with these policies is a process of continuous improvement.

Supervisory Board Members

Zhang Jun

Chairman of the Supervisory Board

Appointed: 2012
Nationality: Chinese

Education
MBA degree from Tianjin University

Career

Zhang Jun has over 30 years of executive positions in various Chinese banks, including 7 years of executive supervisory role at The People's Bank of China, 5 years as Deputy Director of Chengxin Credit Union of Urumqi, as well as 12-years career with Urumqi City Commercial Bank, serving as Sales Department General Manager, HR Director and Assistant of the Chairman of the Board.

He occupied position of Deputy Director in finance and foreign investments in Hualing group. In 2012 he became Executive Chairman of Supervisory Board in Basisbank and in 2015 Chairman of the board.

Zhou Ning

Vice Chairman of the Supervisory Board
Committee Membership: Member of Audit Committee

Appointed: 2012
Nationality: Chinese

Education
MBA degree from Fuqua School of Business in USA,
Master degree in Engineering from Virginia Polytechnic Institute
Bachelor degree from University of Science and Technology of China

Career

Zhou Ning started with a position of Senior Financial Analyst with Ford Motor Co. He moved to J.P. Morgan Hong Kong as an Associate of Investment Banking Division. In 2004 he became Vice President of ABN AMRO Bank, overseeing the Strategic Development Department.

He was invited as an advisory during Basisbank acquisition by Hualing Group and in 2015 he was invited as a Vice-chairman of the Supervisory Board.

Zaza Robakidze

Independent member of Supervisory Board

Committee Membership: Chairman of Audit Committee

Appointed: 2018

Nationality: Georgian

Education

Master's degree of Economics

Career

An expert in banking, Zaza Robakidze, who has over 25 years of experience in the sector, took the position of a member of the Supervisory Board in 2018. Since 2012, he worked as the chairman of the Audit Committee of Basisbank.

For many years he held various positions in the field of supervision of the Central Bank, from an Economist to the Head of Supervisory Department.

Nino Okhanashvili

Independent member of Supervisory Board

Committee Membership: Member of Audit Committee

Appointed: 2023

Nationality: Georgian

Education

MBA from the European School of Management (ESM Tbilisi) and an MA in international economic relations from Tbilisi Ivane Javakhishvili State University

Career

In 1999-2000, she worked at Bank of Georgia. In 2000-2008, she held various positions at TBC Bank including those of Branch Director and Head of HR Division. In 2021-2022, Nino Okhanashvili served as Chief Human Resources Officer and Director of Tegeta Academy at Tegeta Holding. In different years, she was Founder and CEO of ISB International School of Business, and Founding Partner at Insource Recruitment and Advisory. Independent consultant since 2008, Nino Okhanashvili implements organizational development and HRM consulting projects and research assignments.

Sabina Dziurman

Independent member of Supervisory Board
Committee Membership: Chairman of Risk Committee

Appointed: 2023
Nationality: British-Polish

Education
MBA from London Business School

Career

In 2004-2015, she held high-ranking positions in the European Bank for Reconstruction and Development (EBRD) in different countries, including Georgia. In 2015-2019, she was the EBRD Director for Greece and Cyprus. In 2020-2022, Sabina Dziurman was an independent member of the Supervisory Board of Asakabank, Uzbekistan, as well as Chair of the Audit Committee and Member of the Risk Committee.

Mia Mi

Member of the Supervisory Board
Committee Membership: Member of Audit Committee

Appointed: 2018
Nationality: Chinese

Education
Bachelor's Degree in Business Administration from University of Southern California, Los Angeles

Career

Director of International Development at Hualing Group International Special Economic Zone in Georgia. She participated actively in the process of acquisition of Basisbank in 2012.

In 2015-2017, Mi Mia held various positions in key departments at Basisbank, analyzing loan portfolio, communicating with Chinese corporate and retail clients as well as Banks shareholders.

Management Board Members

David Tsaava

General Director

Appointed: 2011

Education

PhD in Business Administration from Technical University Georgia, MiF from Sokhumi State University, Bachelor Degree in Banking and Finance from Tbilisi State University

Career

General Director of Basisbank since 2011. 2015-2018: Member of Basisbank Supervisory Board. Since December 2017 David Tsaava has been serving as Supervisory Board member of BB Leasing and BB Insurance, the subsidiaries of Basisbank Group.

David Tsaava has over 20 years of experience in banking. He started his career at Basisbank as a loan officer in 2004. Later, till 2008, he headed the Corporate Loan Division. In 2008-2010 David Tsaava was appointed as Corporate Director. In 2010-2011 he was an acting General Director.

Lia Aslanikashvili

Deputy General Director, Finances

Appointed: 2008

Education

Master degree in International Economic Relations from Tbilisi State University.

Career

Basisbank's Deputy General Director, Finance since 2012. 2017-2018: General Director of BB Leasing, the subsidiary of Basisbank Group. 2017-present: Deputy General Director, Finance at BB Leasing and BB Insurance, the Basisbank Group member companies.

Lia Aslanikashvili has over 20 years of experience in banking. In 1999-2002, she served as Manager at International Operations Department of Basisbank. In 2002-2005, she headed the same department. In 2005-2008, headed the Settlement Department. In 2007-2008, Lia Aslanikashvili led the Treasury Department. In 2008-2012, she was a CFO of Basisbank.

David Kakabadze

Deputy General Director, Risk Management

Appointed: 2012

Education

Master's Degree in Finance from Caucasus Business School.

Career

Basisbank's Deputy General Director, Risk Management since 2019. 2017-2019: General Director of BB Insurance, the subsidiary of Basisbank Group. 2017-2018: Deputy General Director of BB Leasing, the Basisbank Group member company.

David Kakabadze has over 20 years of experience in banking. He has been with Basisbank since 2003, initially serving as an IT developer/ programmer. In 2005, he was appointed as Head of IT Programming Division. In 2008-2012 David Kakabadze became Director of IT and Risk Management. In 2012-2019 he served as Basisbank's Deputy General Director, Risk and IT Management.

Levan Gardapkhadze

Deputy General Director,
Retail Business

Appointed: 2008

Education

Master's Degree in Business Management from University of Georgia; Master's Degree in law from Tbilisi University of Economics, Law and Information; Bachelor's Degree in International Economics from Technical University of Georgia.

Career

Basisbank's Deputy General Director, Retail Business since 2012. 2017-2018: Deputy General Director of BB Leasing and BB Insurance, the Basisbank Group member companies.

Levan Gardapkhadze has 20 years of experience in banking. He started his career at Basisbank as International Operations Department Manager. In 2005 he was appointed as Head of Plastic Cards Department. In 2007-2008 he chaired the Development and Project Management Committee. In 2008-2012 Levan Gardapkhadze was a Retail Banking Director.

George Gabunia

Deputy General Director,
Commercial Director

Appointed: 2019

Education

Master's Degree in Banking from Tbilisi State University;
Bachelor's Degree in Finance and Banking form Tbilisi State University.

Career

Basisbank's CCO since 2019 has 18 years of experience in the sector. In 2012-2019 George Gabunia headed the bank's commercial department. In 2010-2012 he led the corporate department. In 2008-2010 he headed the Corporate Regional Group, in 2006-2008 George Gabunia was a corporate banker. In earlier years, he worked in Basisbank's marketing and sales areas.

Rati Dvaladze

Deputy General Director,
Chief Operating Officer

Appointed: 2019

Education

Master's Degree in Information Technology Management from Free University; Master's Degree in Physics and Mathematics from Tbilisi State University; Bachelor's Degree in Mathematics.

Career

Basisbank's Chief Operations Officer since 2019. In 2014-2019 he headed Basisbank's Project Management and Business Analysis Division. In 2008-2014 he worked in the areas of credit risk system and analysis.

Rati Dvaladze is also is a lecturer.

Li Hui

Deputy General Director, Lending

Appointed: 2012

Education

Bachelor's Degree in Accounting from Financial University of China.

Career

Basisbank's Deputy General Director, Lending since 2012. 2015-2018: Member of Basisbank's Supervisory Board. Supervisory Board member of BB Leasing and BB Insurance, the Basisbank Group member companies, since 2017.

Li Hui has been working in the financial sector since 1993. In 2005-2012 she was in charge of loan approval in Credit Management Department of Urumqi City Commercial Bank. At different times, she held the position of Deputy Manager of Credit Department and Deputy Director in Urumqi Chengxin Credit Cooperatives.

ESG Overview

ESG Overview

Basisbank has always been committed to sustainability and has always strived to achieve positive impact. This was depicted in its environmental and social risk management, its CSR activities and responsible lending practices. Over years the approach has been developing towards more structured governance system, where sustainable practices are not only part of everyday function of the Bank, but it is also properly planned and analyzed.

The Bank's environmental and social risk management, on the one hand, includes the efficient use of natural resources and responsible waste management by the Bank in its daily operations and, on the other hand, integrates the principles of responsible financing into the Bank's lending activities.

In order to effectively implement and enforce responsible lending principles, Basisbank made significant changes to its environmental and social risk management policy in 2018 and Due Diligence and E&S risk assessment (Environmental and Social Risk Assessment) procedures. The Bank has also compiled an Exclusion List, which lists activities not financed by the Bank; such exclusions include activities that may be in any way related to the production / trade of arms and ammunition, forced and child labor, the production of illegal pharmaceuticals, the production / trade of certain types of pesticides and herbicides, gambling, casinos, etc. The above documents are based on the current legislative framework of Georgia, as well as best practices and recommendations of international financial institutions.

ESG Strategy

In 2023, Basisbank developed and approved a Sustainability Strategy to give structure to its Environmental and Social practices and to monitor progress. This strategy was formulated following a comprehensive materiality assessment, which researched the understanding of sustainability for both the bank and its stakeholders, including clients, partner organizations, management and employees. Within Environmental, Social, Governance and Sustainable Business categories, the Bank has identified a set of material topics and developed specific objectives, relative timeframe and KPIs for each. The objectives the bank has committed to meet for next several years can be summarized in the topics presented.

Environmental

- Increase workplace sustainability
- Offer sustainable and green financial products and services
- Reduce its own carbon emissions
- Support the transition to renewable energy in Georgia
- Manage and separate own waste

Social

- Strengthen the financial education of the Georgian public
- Support culture and education in the community
- Foster employee well-being
- Provide lifelong learning to employees
- Data Protection and Confidentiality
- Transparency and fairness towards customers

Governance

- Corporate culture and professional ethics
- Ensure equal treatment and opportunities for all
- Support the fight against money laundering, tax evasion and other financial crimes
- Digitalization and digital innovation
- Management of ESG risks
- Operate as a sustainable and transparent business

After mapping/aligning ESG strategic objectives to the SDGs, bank believes the strategy contributes to the following Development Goals:

Materiality assessment and elaboration of the strategy is a part of the technical support project provided by the Green Growth Fund, with the support of EU4Energy Initiative. In the framework of the project it is also planned to issue green product and conduct capacity building activities.

In 2023, Basisbank has also started to work on implementing NBG Taxonomy reporting and is planning to start taxonomy reporting from 2024.

Risk Governance

Risk Governance

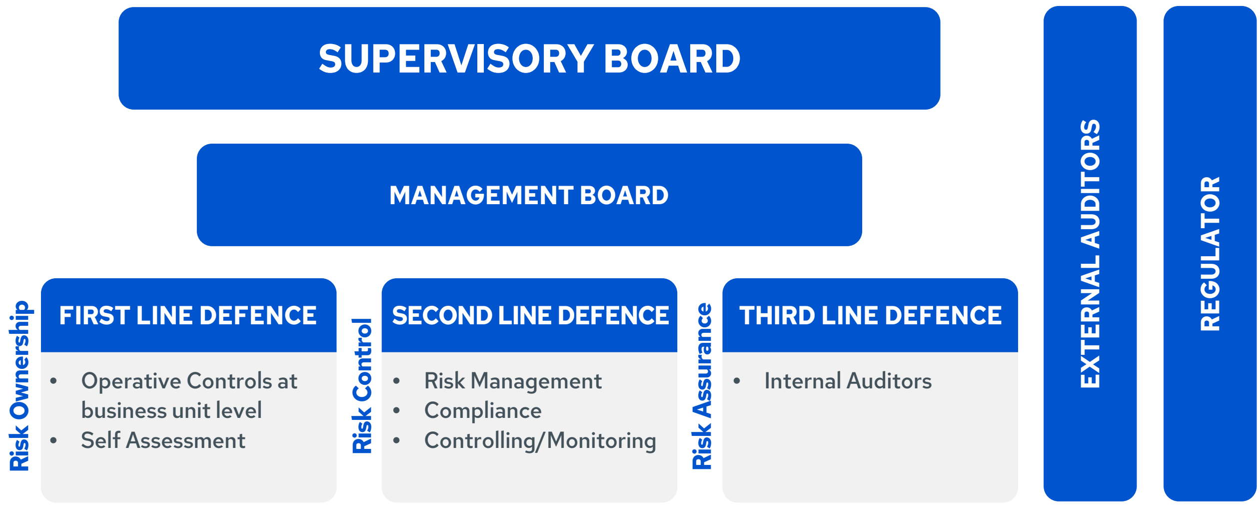
Risk Management Framework

Risk management is key in ensuring stable and robust development of the bank and the group in pursuit of delivering its strategic goals aligning risk, capital and performance targets with interests of customers, shareholders, employees and stakeholders. Material risks and uncertainties are key focus areas for Management Board and Supervisory Board, which is ultimate responsible unit of the Bank's Risk Management and control system.

Basisbank has developed a Risk Governance Framework with the aim to create an image of Basisbank as a stable and reliable bank. The Framework is fully in line with the size, complexity and the risk profile of the Bank. The Framework covers defining Risk Strategy as well as identification, measurement and control of relevant risk types, stress testing and capital planning. Risk Management framework is supported by dedicated Risk Governance Structure with clearly delegated authority levels, which ensures that all material risks are effectively controlled and managed in a proper way within the everyday operations of the Bank.

Risk management framework is integrated into bank's strategy, business planning and day-to-day activities.

The risk is managed by the distribution of roles among the three lines of defense, a robust structure of committees, and risk sharing responsibility from top Management level down through to each structure. By dividing responsibilities among these three lines of defense, Basisbank aims to create a well-structured and comprehensive risk management system that helps mitigate risks, ultimately contributing to the stability and sustainability of the Bank.



First Line of defense (Business Unit Level) involves the daily operational activities of the bank, including front-line staff, business units and processes. First line of defense are risk owners who are primarily responsible to identify, measure and manage respective process related risks. They possess business-specific, insightful and comprehensive knowledge of inherent risks associated to own processes; hence they are accountable to reveal such risk on a regular basis. Risk Owners from the first line of defense are responsible to establish policies/procedures and design respective controls to ensure adequate risk management.

Second Line of defense (Risk Department Level) is responsible for overseeing and supporting the effort taken from the first line of defense. Second line of defense in Basisbank are General Risk Management Department, Non-financial Risk Management Department, AML/CFT Department and Compliance Division. Internal control and compliance oversight is the responsibility of this functions, as well as identification and challenging the risks. These functions ensure that risks are managed in accordance with the risk appetite, fostering a strong risk culture across our organization. They also provide guidance, advise and expert opinion in risk-related matters.

Third Line of defense (Internal Audit) is responsible for independent and objective assurance to senior management and the board on the effectiveness of the first and second lines' processes that their efforts are consistent with expectations. Internal Audit controls and regularly checks that the policies and procedures of risk management are adequate and effectively implemented; controls that all risks are consistent with the bank's risk appetite statement and internal regulations; Verifying compliance with laws, regulations, and internal policies.

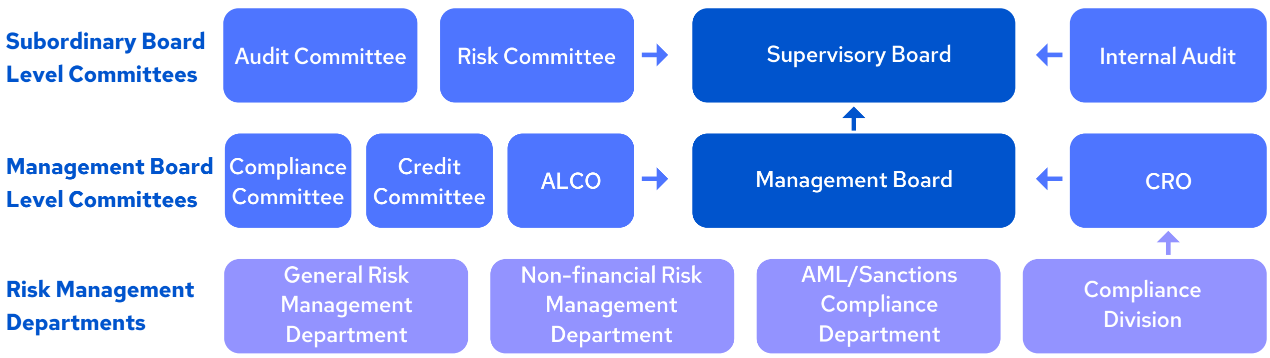
The Bank's governing principles set overall tone at the top on risk taking. The key objectives of governing principles are to (i) ensure risk control, (ii) increase resilience and (iii) control risk-return:

- Risk Culture - foster a strong risk culture in which risk appetite is articulated throughout the Bank and employees take ownership of the risk management with clear understanding of it, resulting in the risk minded decision-making. The risk culture is ever-evolving to adapt to the constantly changing risk environment.
- Profitability - seek to deliver annual target operating metrics consistent with our stakeholders' expectations by maintaining low earnings volatility and sustainable profitability.
- Reputation - have a minimal appetite for damage to Bank's brand reputation and, at all times, treat all stakeholders fairly and act with full integrity. Ensure to have a sound corporate governance and aim to pursue the strategy of good corporate citizenship.

Risk Governance Structure

Risk Governance Structure in the Bank ensures effective segregation of duties from the senior management through managerial units to the front-line personnel. Core risk management responsibilities are embedded in the Management Board responsibilities and delegated to senior risk managers and senior risk management committees responsible for execution and oversight. Cross-risk analysis and regular reviews are conducted across the Group to validate that sound risk management practices and a holistic awareness of risk exist.

Risk Oversight function and risk management system is split between following risk management units:



Risk Management Departments are responsible for the elaboration of Risk Management Framework and are risk owners of the majority of the risk types. Risk Management Departments are: General Risk Management Department, Non-financial Risk Management Department, AML/CFT Department and Compliance Division (hereinafter - ERM Working Group).

Enterprise Risk Management (hereafter - ERM) is essential for the Basisbank to navigate the complex landscape of risks inherent in financial activities. It helps Basisbank to strike a balance between growth and risk, maintain regulatory compliance, and build resilience to external shocks. The role of ERM working group is crucial to foster continuous risk assessment of business processes and strengthen execution of high residual risk mitigation plans. The cross functional nature of the ERM working group facilitates the identification of enterprise-wide issues that should be discussed.

The ERM Working Group supports:

Enhanced Risk Identification and Mitigation:

ERM enables Basisbank to systematically identify and assess a wide range of risks. This comprehensive approach allows to implement targeted strategies to mitigate and manage these risks effectively.

Improved Capital Allocation and Efficiency:

ERM helps optimize the use of capital by aligning it with the level of risk exposure, ensuring that sufficient capital is set aside to cover potential losses.

Strategic Decision-making:

ERM aligns risk considerations with strategic planning, allowing Basisbank to make informed decisions that balance risk and reward. This is crucial for pursuing growth opportunities while maintaining a prudent risk profile.

Regulatory Compliance:

Since the banking sector is heavily regulated ERM assists Basisbank in identifying and addressing compliance risks.

Strengthened Risk Culture:

ERM promotes a strong risk culture within the Basisbank, where employees at all levels are educated about risks and actively contribute to risk management. This helps in early detection and response to emerging risks.

Reputation Management:

ERM assists Basisbank in identifying and managing risks that could harm their reputation, such as unethical behavior, fraud, or data breaches.

Optimized Product and Service Offerings:

ERM helps Basisbank to evaluate the risks associated with new product and service offerings. This ensures that potential risks are properly assessed before launching new initiatives.

Enhanced Customer Confidence:

Demonstrating effective risk management practices through ERM enhances customer confidence in the Basisbank's stability and ability to safeguard their assets.

Long-term Sustainability:

By addressing risks that could threaten the bank's stability and profitability, ERM contributes to the bank's long-term sustainability and success.

ERM working group is responsible for assisting Board of Directors to oversight risk, review the Bank's risk appetite and risk profile in relation to capital and liquidity, reviewing the effectiveness of the Bank's risk management framework, reviewing the methodology used in determining the Bank's capital requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions. Primary responsibility for setting the Bank's risk appetites and overseeing the Bank's profile against it; overseeing the brand and reputation of the Bank and ensuring that the reputational risk is consistent with the risk appetite lies with the ERM working group.

Key functions of each unit of Risk Governance are summarized in the table below:

Unit Name	Risk Function
Supervisory Board	**Description:** Supervisory Board is the ultimate responsible body for the oversight of the risk management framework, which sets general approach to risk management by approving individual risk strategies. **Key Functions:** • Sets tone from top, establishes and foster high ethical standards across bank; • Approves and exercises control over the implementation of the Bank's risk strategies; • Establishes risk appetite in cooperation with the Chief Risk Officer and other members of the Board; Approves risk appetite; • Reviews Bank's risk profile; • Approves risk management framework and ICAAP and ILAAP frameworks; • Reviews the adequacy and effectiveness of Basisbank risk management framework by approving Risk Management Policies and Procedures; • Assess non-financial risks including ESG risks. As a part of the risk management system oversight, the Supervisory Board regularly assesses ESG risks and verifies that these risks are identified, measured, monitored, and their impacts are mitigated appropriately.
Audit Committee	**Description:** Audit Committee is an independent control function established on Supervisory Board level, which supports the Supervisory Board in monitoring the implementation of Risk Strategy. It directly reports to Supervisory Board. **Key Functions:** • Gives unbiased opinion about adequacy of existing policies and procedures, adherence to the group's risk strategy, risk appetite and risk positions, regulatory compliance and other internal and

Unit Name	Risk Function
Audit Committee	external regulations. • Regularly reviews internal controls and processes; • Provides oversight of the bank's internal and external auditors' recommendations; • Approves or recommends to the Board monitoring the financial accounting process; • Provides oversight of the effectiveness of the risk management system, particularly internal control system and the internal audit system; • Monitors the Management Board's measures that promote the company's compliance with legal requirements, regulations and internal policies.
Risk Committee	**Description:** Risk Committee is an independent control function established on Supervisory Board level, which supports the Supervisory Board in monitoring the implementation of Risk Strategy. **Key Functions:** • Ensures oversight of the Bank's risk strategies and policies and their effective implementation • Assesses and oversights the Bank's risk profile, risk appetite and limits • Oversights the subsidiary's risk management function, risk management framework and the proper functioning of internal control systems. • Oversees compliance with regulator and other internal and external regulations.
Internal Audit	**Description:** Internal Audit is a function established under Supervisory Board and directly reports to it. Internal audit supports senior management and Supervisory board by independent and objective assurance that measures of risk identification and mitigation performed by the first and second lines of defense are in line with their expectations. **Key Functions:** • Assesses the adequacy and effectiveness of Basisbank control

<table>
<tr><th>Unit Name</th><th>Risk Function</th></tr>
<tr><td>Internal Audit</td><td>framework and adherence to internal policies and procedures;
• Prepares periodic reports to the Supervisory Board for summarizing audit activities;
• Regularly checks that the policies and procedures of risk management are adequate and effectively implemented;
• Controls that all risks are consistent with the bank's risk appetite statement and internal regulations;
• Verifies compliance with laws, regulations, and internal policies and procedures.</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Management Board</td><td>Description: Management Board is the body which is responsible for effective business organization and adequate segregation of duties to reflect risk and ensuring existence of adequate policies and procedures.

Key Functions:
• Reviewing performance to streamline progress towards strategic goals;
• Controlling activities at division and departmental level;
• Regularly reviewing bank's strategy, risk and capital limits to ensure compliance with exposure and capital limits;
• Following-up on non-compliance;
• Reviewing evaluations of internal controls,
• Ensuring prompt follow-ups on recommendations and concerns expressed by auditors and supervisory authorities related to internal control weaknesses.</td></tr>
<tr><td></td><td></td></tr>
<tr><td>ALCO Committee</td><td>Description: Functional unit established by Management Board to ensure oversight and management of Asset, Liability and Capital Risks

Key Functions:
• Reviews current and prospective liquidity positions and monitors alternative funding sources;
• Reviews maturity and pricing schedules of deposits, loans and investments;
• Develops alternative strategies deemed appropriate, which take into account changes in interest rate levels and trends, relevant products and related regulations;
• Reviews and validates ALM model(s) and procedures;
• Approves limit structure on counterparty risk.</td></tr>
</table>

Unit Name	Risk Function
Credit Committee	**Description:** Functional unit established by Management Board to ensure oversight and management of Credit Risks. **General Functions:** • Evaluation of potential clients' financial condition and their ability to repay the loan; • Review applications for loans and make decision upon such applications within the authority delegated to the committee; • Act in the best interest of the Bank, in compliance with internal policies and procedures; • Reviews credit loan collection practices to improve loan underwriting and collection efforts.
Deputy General Director, CRO	**Description:** Deputy General Director (CRO) is a top-level executive responsible for overall risk management in all financial and non-financial risks, who provides overall leadership, vision, and direction for Enterprise Risk Management (ERM) and develops a framework of management policies, including setting the overall risk appetite of the Bank. **Key Functions:** • Comprehensive control of risk, elaboration and continuous development of risk measurement and mitigation methods; • Setting risk limits and creating risk maps; • Communicating a clear vision of the firm's risk profile to the board and to key stakeholders. • Evaluation and management of credit, market and operational risks and drawing up of suggestions about alteration necessary for structure, procedures and provisions; • Elaboration of ICAAP and ILAAP frameworks • Elaboration and introduction of methods of risk mitigation; • Evaluation of bank's lending performance.
General Risk Management Department	**Description:** General Risk Management Department is a function under CRO, which owns and manages financial risks. **Key Functions:** • Assesses and Manages credit, market and liquidity risks;

Unit Name	Risk Function
General Risk Management Department	• Elaborates, maintains and updates policies and procedures relevant to those risks; • Takes part in elaboration of ICAAP and ILAAP frameworks, as well as resolution plan of the bank and subsequently monitors compliance with the defined risk limits; • Monitors and evaluates portfolio quality, Expected Credit Losses and collateral valuations; Conducts regulatory stress testing of the loan portfolio; • Makes recommendations to Executive Board about changes in lending policies for meeting strategic business objectives; • Participates in developing pricing models; • Evaluates market (interest rate and currency risks) and elaborates measures for hedging those risks together with the Treasury Department; • Assesses liquidity risks and elaborates measures for obtaining and placement of funds in the scope of annual ILAAP review. • Elaborates and introduces methods of risk mitigation; makes assessment of expected credit losses (ECL); elaborates ICAAP (internal capital adequacy assessment process); , evaluates bank's lending performance.
Non-financial Risk Management Department	**Description:** Non-financial Risk Management Department is a function under CRO, which owns and manages non-financial risks and aims to establish sound and effective non-financial risk management practice across the Bank. **Key Functions:** • To ensure enforcement of effective risk identification, assessment, treatment and monitoring/reporting tools and methodologies to minimize non-financial losses while supporting business development and growth; • To minimize internal fraud incidents and establish environment, which aligns with the bank's business objectives. • Continuous improvement of information security and business continuity management processes, in order to minimize risks associated with information security/cybersecurity and ensure security of clients and partners.

Unit Name	Risk Function
AML & Sanctions Compliance Department	**Description:** AML and Sanctions Compliance Department is a function under CRO, which oversees compliance with AML/CFT and International Sanctions. It consists of three divisions: KYC quality control, Transactions monitoring and International sanctions. **Key Functions:** • Managing anti-money laundering and sanctions compliance program, including supervising the development and implementation of and performing ongoing monitoring of the Bank's AML/Sanctions compliance program. • To ensure that the Bank complies with AML rules and regulations and takes the required measures against financial crime.
Compliance Division	**Description:** Compliance Division is a function under CRO, which is responsible for regulatory compliance. **Key Functions:** • Enforcement of the corporate compliance policy; • Effective functioning of compliance risk management; • Evaluate the impact of each legislative and regulatory change as part of its formal risk identification and assessment processes. • Anticipating, detecting, assessing and controlling significant/potential risks related to non-compliance.
Treasury Department	**Description:** Treasury Department is a function under CFO, which owns and manages Treasury operations, liquidity and funding positions, Interest Rate risk and Foreign Exchange risk. It reports to CFO and ALCO Committee. **Key Functions:** • Daily control for liquidity, maturity transformation and structural interest rate exposure; • Controls Basisbank's liquidity and interest rate maturity mismatch; • Controls and manages foreign exchange risk exposure.

Unit Name	Risk Function
Asset-liability Management Department	**Description:** Asset and Liability Management Department is a function under CFO, which owns and manages alignment of assets and liabilities, liquidity and capital management. **Key Functions:** • Alignment of assets and liabilities - reduction of financial risks and increase in profitability; • Pricing of assets and liabilities; • Development and management of transfer pricing system; • Participation in medium and long-term liquidity management; • Participation in capital management.

Risk Management Model

Risk Strategy

The risk strategy derived from the business strategy of the bank contains the risk appetite of the Bank and the Risk Governance Framework which ensures that risks are controlled in a proper way. It defines group's approach and priorities to Risk Management, sets targets, deals with changes in economic, social and regulatory environment, taking into account regulatory expectations and market best practices. A medium-low risk profile is ensured to be maintained across the bank as required by Risk Appetite framework.

Risk strategy is updated at least annually, as well as upon any update of the Bank Strategy and is available for use for all levels of the employees throughout the bank.

Risk strategy defines Basisbank's approach to risk management including general methodologies to identify, assess, control, report and manage / challenge relevant risks and the risk governance structure built to support these activities within the everyday operation of the Bank. Management of each material risk types are described in next section.

Risk Management

Risk management processes have to be constructed in a way to support the execution of the risk strategy in the daily processes of the Bank and management reporting system also has to be built up in a way to serve as a proper tool for risk governance.

Basisbank is committed to mitigate potential risks by the adequate, well-elaborated business strategy and manage inherent risks via developing systems of early risk detection and internal policies and procedures to ensure risk-aware decisions and actions in its day-to-day business activities.

Basisbank sets principles about risk taking and risk management which are reflected in the internal rules and policies and are applied consistently throughout the organization. These general principles are the following:

- prudent risk-taking with comprehensive risk assessment and control environment,
- proper quantification of risks using adequate methodologies in line with the size and complexity of the Bank,
- adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices in compliance with the international standards,
- maintaining proper risk control hierarchy, independent from business activities in order to avoid conflict of interest,
- taking into consideration risk perspective upon the launch of new activities, business lines or products.

Risk Management is a fundamental part of Basisbank business activity and an essential component of its planning process. To keep risk management at the center of the executive agenda, it is embedded in the everyday management of the business.

Basisbank ensures that it has the functional capacity to manage the risk in new and existing businesses. At a strategic level, our risk management objectives are:

- To define Basisbank's strategy;
- To optimize risk/return decisions by taking them as closely as possible to the business;
- To ensure that business growth plans are property supported by effective risk infrastructure.

- To manage risk profile to ensure that financial soundness remain possible under a range of adverse business conditions.

Risk management processes are constructed in a way that they support the execution of the risk strategy in the daily activities, so that risk management becomes a continuous process of creating transparency and risk mitigation. In pursuit of its objectives, risk management is segregated into four discrete processes: identify, assess, mitigate and monitor.

Identify	• Define, compile and classify existing and emerging risks to fulfil Basisbank's strategy
Assess	• Agree and implement measurement standards and methodologies, that includes determining consequences of risks in a quantitatively and qualitatively manner, including but not limited to financial impact of possible risk events over a given time
Mitigate	• Take actions to manage or control identified risks • Implement measures, such as key control processes and practices, to reduce the likelihood of a risk occurring or to minimize its potential impact • Controls include but not limited to limit structures, segregation of duties, impairment allowance criteria and reporting requirements
Monitor	• Interpret and report on risk exposures, concentrations and risk-taking outcomes • Track and evaluate the performance and status of risk management activities • Review and challenge all aspects of the Basisbank risk profile • Assess new risk-return opportunities • Advise on optimizing Basisbank's risk profile

All material risk types, financial, as well as non-financial risks: including credit risk, market risk, operational risk, liquidity risk, regulatory risk and reputational risk, inherent in the financial business, are managed via dedicated risk management processes. Modelling and measurement approaches for quantifying risk and capital demand are implemented across all material risk types.

For each type of risk its relevancy is assessed and the methodological approach to measure and mitigate the risk is outlined in Framework. The Bank considers risk assessment in a systematic way, which is achieved via different stress tests and Internal Capital Adequacy Assessment Process (ICAAP). Capital adequacy ratio, Liquidity Position, market risk are assessed within the regularly performed benchmark analysis and under more severe stress tests conditions.

If the risk is considered significant and it is quantifiable, the Bank has to define internal methodology to calculate the respective capital needed to cover the risk. Other relevant risk types that cannot be quantified are to be treated through appropriate internal processes. Internal processes shall aim to minimize potential losses arising from non-quantified risk types. If the risk is found irrelevant, no special treatment is necessary.

However, the regular review of Risk Management Framework ensures that at least yearly all risk types are assessed, and risk types that were irrelevant and became relevant over time are addressed in an appropriate matter.

Risk Management Policies and Procedures

The Risk Management policies aim to identify, analyze and manage the risks faced by the Group. They assign responsibility to the management for specific risks, set appropriate risk limits, set the requirements for internal control frameworks and continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, emerging best practices, products and services offered.

Risk Appetite

Risk appetite is the amount of risk that an organization is prepared to accept, tolerate, or be exposed to at any point in time. As it is evident that risk inherent in the operations of the Bank cannot be reduced to zero, based on careful cost-benefit analysis, the Bank has to elaborate its risk tolerance framework.

Risk Appetite Framework is the overall approach through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk thresholds, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the risk appetite framework.

- Risk appetite Statement - The articulation of risk appetite in written form. It includes quantitative metrics, qualitative statements and risk Thresholds. RAS is communicated throughout the Bank and is embedded in the daily decision making processes;
- Risk Capacity - The maximum level of risk the Bank is able to assume before breaching constraints determined by regulatory capital and liquidity needs and its obligations to depositors, lenders, shareholders, customers and other stakeholders;
- Risk Thresholds - The restrictions prescribed by the Bank on its business activities, designed to allocate the Bank's risk appetite to specific risk categories, business units and as appropriate, to other levels;
- Risk Profile - Point in time assessment of the Bank's gross and, as appropriate, net risk exposures aggregated within and across each relevant risk category based on forward looking assumptions.

Risk appetite of the Bank has been set as a limit system which enables the Bank to continuously monitor the exposure to the relevant risk factors. The limit system considered all relevant risk types identified during the Risk Assessment processes. Risk Appetite is established by the Supervisory Board, as a result of cooperation with the members of the Board of Directors, including CRO.

Key Risks

Bank differentiates financial and non-financial risks. In financial risk, bank includes credit risk, liquidity risk, market risk, capital risk, maturity risk, foreign currency risk and other financial risks. In non-financial risks bank looks at operational, cyber-security and information security and third party risks. On bank level the group monitors the following risk exposures:

Credit Risk	
Risk Definition	The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet its obligations. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments. Credit risk is obviously the most important type of risk for banks and banks' supervisory authorities. Key Sources of credit risks are: Counterparty Default Risk; Portfolio Concentration Risk and Collateral Devaluation Risk. The Bank's credit strategy is to create a diversified and profitable loan portfolio while maintaining maximum quality.
Risk Identification and Measurement	The estimation of credit risk for risk management purposes is complex and involves use of credit risk assessment models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, associated loss ratios and default correlations between counterparties. Management of Credit Risk in Basisbank includes different activities embedded in the daily activities.
Risk Mitigation	Establishment of an appropriate credit risk management environment in Basisbank is achieved through written Credit Policy and Credit Manual related to target markets. In these formalized documents portfolio mix, price and non-price terms, the structure of limits, approval authorities and processing of exceptions and reporting issues are addressed and outlined. Credit risk, both at portfolio and transactional levels, is managed by a system of Credit Committees to facilitate efficient decision-making. A hierarchy of credit committees is established depending on the type and amount of the exposure. Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. **Sound credit-granting process:** In Basis Bank this involves the consideration of a number of factors in credit granting. Depending on the

Credit Risk	
Risk Mitigation	type of credit exposure and the nature of the credit relationship, these could be the purpose of the credit and sources of repayment, the current risk profile of the borrower or counterparty and collateral and its sensitivity to economic and market developments, the borrower's repayment history and current capacity to repay, historical financial trends and future cash flow projections. During the credit analysis, consideration is given to the borrower's business expertise, the borrower's economic sector and its position within that sector. These elements are part of scoring models developed for both, Retail and Corporate business lines. Corporate and Retail Credit Risk Management Departments (under General Risk Management Division) take part in credit risk assessment of the client. For Individual borrowers the bank has developed scoring model, which enables the Bank to assess the credit repayment capacity of the borrower, based on the analysis of financial standing of the borrowers and their past repayment history. The scoring for retail and corporate is used primarily in the credit approval process for pricing purposes: pricing of each loan is risk adjusted, based on the scoring of the client and riskiness of the product. Maintenance of appropriate credit administration, measurement and monitoring processes involves regular monitoring of a number of key items related to the condition of individual borrowers. These items include the current financial condition of the borrower or counterparty, compliance with existing covenants, collateral coverage and contractual payment delinquencies. Also, it involves the monitoring of share of exposure in the total loan portfolio to specific types of borrowers to avoid risk concentration. Such concentrations occur when there are high levels of direct or indirect loans to a single counterparty, a group of interrelated borrowers, or a particular industry or economic sector. **Credit risk grading system:** For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies an Internal Rating System for legal entities, or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's) for Central Governments, Interbank exposures, International Financial Institutions (IFIs) Securities and other financial assets, when applicable. **Concentration:** The Group structures the levels of credit risk it undertakes by placing concentration limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are

Credit Risk	
Risk Mitigation	monitored on a regular basis and are subject to an annual, or more frequent, review. Credit Policy of the Bank contains the limit system defined by the Bank for the control of concentration risk. Single name concentration risk is limited by the Georgian regulation (Regulation On Credit Concentration and Large Risks in Commercial Banks). According to the Georgian regulation, total amount of loans and others liabilities issued by the bank to a group of interconnected borrowers shall not exceed 25% of the Tier 1 capital. The followings are additional internal rules: 1. total amount of loans and other liabilities issued by the bank to a person shall not exceed 15% of the bank's regulatory capital; 2. total amount of loans and others liabilities issued by the bank to a group of interconnected borrowers shall not exceed 20 % of the bank's regulatory capital; 3. total amount of all large loans and other liabilities issued by the bank shall not exceed 150% amount of the bank's regulatory capital; 4. Exposures to top 20 interconnected group of borrower shouldn't exceed 30% of total portfolio. The limit system reviewed are regularly by Risk Management when economic sectors are analyzed based on portfolio behavior and external information in order to review properly riskiness of the economic sectors. Concentration limits are defined and regulated by the Credit Risk Policy. **Restructuring and recovery actions:** The Bank has set out internal processes for managing the commitments of borrowers experiencing financial difficulties and for delinquent portfolio. The Bank may offer the borrower individual solutions to overcome temporary difficulties. Such cases of restructuring requests may include providing the borrower grace period, or otherwise rescheduling of initial payment schedules. However, the Bank will offer restructuring only to borrowers is the outlook is that the borrower will return to healthy status, otherwise the Bank will initiate recovery proceedings. Preference of the Bank is always to negotiate acceptable payment terms for borrower, but when the borrower and the Bank cannot agree on acceptable terms, collateral repossession or selling the pledged collateral through auctions might be considered as the only remaining possibility for recovery the overdue liability. Performance of delinquent and restructured portfolio is reviewed regularly in order to guarantee the proper classification in risk categories of those loans. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include days past due over 180 days and non-existence of collateral. as of write off day. The Bank will also write off those loans, which were collateralized, but the execution process on overdue

Credit Risk	
Risk Mitigation	liability is finalized and all existing collaterals have been sold on auctions or repossessed. The remaining unsecured liability will be written off, even if there is no overdue portion of the liability at the moment of write off. Based on expert recommendation, the Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery, or the expected recovery is insignificant compared to the remaining liability. **Credit Risk Related to Collateral Devaluation:** Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees to mitigate the credit risks, but on the other hand these collaterals can pose additional risks (legal, documentation and liquidity risks) which may deteriorate the impact of risk mitigation. the liquidation of the collateral is either problematic or time consuming, - collaterals were valued inappropriately (e.g. overvaluation). The Bank may experience credit risk due to large-scale devaluation or limited enforceability of collaterals behind credit exposures. This is the risk that recognized credit risk mitigation techniques used by the credit institution prove less effective. The following types of collaterals are used for the purpose of credit risk mitigation: residential real estate, movable property, guarantee, inventory, cash and other financial collaterals. Movable property and other types of collateral also can be eligible during the lending processes based on the Credit Policy of the Bank, but they cannot be used as eligible collateral for capital calculation and during the ECL assessment process. Processes and requirements of the preparation of appraisals are also regulated by the Bank (format of appraisal, control of appraisals, etc.). To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value / value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. Legal Department regularly (at least yearly) reviews the collateral contract template and modifies, if necessary based on new regulation environment or experiences on the execution of collaterals. Minimum collateral coverage (maximum amount of unsecured portfolio) using discounted values are defined for each customer types by the Credit Policy. The following assessments are made regularly by Credit Risk Management to control residual risks (risks after risk mitigation): - distribution of the collateral portfolio by collateral types (subtypes) and in case of real estate by geographical location regularly analyzed and monitored, - recoveries from collaterals analyzed by collateral types and legal construction, - collateral discounts are regularly back tested and

Credit Risk	
Risk Mitigation	reviewed. Randomly selected collaterals are regularly re-appraised by external appraisal agency and significant differences are reviewed. **Provision assessment:** Starting from 1 January 2018, the Group assess credit risk and allocates provisions for expected losses according to IFRS 9. Loss reserves for asset and other contingent liabilities must be sufficient to cover all expected losses in the Bank's credit portfolio. Key risk parameters, taken into account in the scope of loss allowance calculations are: (a) the probability of default (PD) by the counterparty on its contractual obligations; b) expected losses in case of default of a counterparty (LGD) and Exposure at Default (EAD). Forward-looking information is included in the final ECL (expected credit loss) assessment. IFRS9 allows financial institutions more precise assessment of loan-loss provisions and allowances by means of incorporating forward-looking information obtainable without undue cost or effort. ECL assessment approach under IFRS 9 takes into consideration past events, current conditions and forecasts of future economic conditions in the process of ECL estimation. The bank has incorporated macroeconomic forecasts, published by National Bank of Georgia in the internal impairment models. Governance over the Expected Credit Loss (ECL) calculation process is shared between Financial Reporting and Risk functions. Under IFRS9, validation and back-testing of all applied parameters and significant assumptions is an inherent part of ECL assessment process. The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Under IFRS9, validation and back-testing of all applied parameters and significant assumptions is an inherent part of ECL assessment process. The results of back testing the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorized persons. During 2023 the Group has performed back-tests of the assumptions, thresholds and risk parameters used in IFRS9 impairment model, in order to assess the adequacy of forecasts for financial year 2023 as estimated by the IFRS9 impairment models at the end of previous year. No modifications have been deemed necessary to be made based on the results of performed back-tests: models used by the Bank adequately predict ECL. **Stress testing:** The Bank actively performs stress testing and scenario analysis in order to check the resilience of borrowers under various stress conditions. Stress tests are performed to monitor impact of adverse

Credit Risk	
Risk Mitigation	macroeconomic, as well as bank specific events on regulatory capital buffer and on bank's performance as a whole or at different levels of aggregation. Stress tests are used as an effective tool of risk assessment and management, in order to assess its capital adequacy and in case of need create additional capital buffer for adverse changes. Stress tests amongst others cover events of broad economic crises with recession, impact of currency movements, decrease in employment levels, sector specific stress tests, closing of export markets (political risks), and default of several large exposures.
Risk Monitoring	**Maintenance of appropriate portfolio quality reporting:** Portfolio quality and lending limits determined by Credit Policy are regularly followed by the Credit Risk Management in its control function and presented to the management of the Bank via portfolio reporting. Portfolio report contains information about the distribution of the portfolio over the rating classes, amounts in delays, exposures by sectors and HHI index, dynamics of PD, LGD figures, etc. In order to monitor exposure to credit risk, regular reports are produced by the dedicated staff of Financial Reporting and Risk departments based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness is reported to and reviewed by the Risk Committee, the Management Board and Supervisory Board. Monitoring of credit risk of loan portfolio is performed regularly. The monitoring includes full assessment against risk appetite limits, using key risk and early warning indicators, back-testing, stress testing and other tools to identify portfolio segments with increased credit risk. Board Level Risk Committee is reviews credit risk profile of the Bank's loan portfolio quarterly and portfolio quality review meetings are held at least monthly together with the representatives of commercial directorate and Problem Assets Management and Litigation Department.
Risk Appetite	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.

Market Risks	
Risk Definition	Market risk exposure arises from mismatches of maturity or currency between assets and liabilities, all of which are exposed to market fluctuations, therefore the most likely sources of market risk are interest rate risk and foreign exchange rate risk. Foreign exchange risk rises from an open or imperfectly hedged positions in a particular as a result of unexpected movements in the level of exchange rates, that may lead to losses in the local or reporting currency of the market participant. 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. Interest rate risk is the current or prospective risk to both the earnings and capital of institutions arising from adverse movements in interest rates. From a credit institution's perspective, an interest rate risk may occur for both its trading book portfolio and banking book transactions (traditional credit/deposit and investment transactions). Types of interest rate risks relevant for the Bank are: • Re-pricing risk, i.e. risk deriving from the different maturity structure of receivables and payables and from pricing that is based on different interest rates or different periods. A re-pricing risk is generated when there is a mismatch between the maturity structure of assets and liabilities and if pricing takes place at different intervals or at differently based interest rates (e.g. receivables at a fixed interest rate and liabilities at a variable interest rate). • Yield curve risk, i.e. risk originating in changes of the shape and steepness of the yield curve.
Risk Identification and Measurement	Market risk is managed by Asset and Liability Management Committee (ALCO) in coordination with the Treasury Department and the General Risk Management department. The ALCO sets limits on market risk exposures by currencies and closely monitors compliance with the Bank's risk appetite framework. Exposures and risk metrics are regularly tested for various plausible scenarios. The Treasury Department performs monitoring by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, interest rate exposures, and controls and manages foreign exchange risk exposure. At the core of market risk management lies the concept of Value at Risk (VaR). Given certain market conditions, VaR is the benchmark for

Market Risks	
Risk Identification and Measurement	quantifying potential losses an investment portfolio might incur within a specific timeframe. The VaR approach necessitates breaking down portfolio performance into its constituent risk factors, enabling a comprehensive assessment of potential losses. To measure foreign currency risk the Bank calculaters average bootstrap Value at Risk on any currency (10-day holding period , 99% confidence level) and portfolio 10-day VaR. • To minimize interest rate risk and to assess the impact of interest rate shock scenarios, Interest rate risk is measured separately for NII (net interest income) effect and for EVE (Economic value of equity) effect. NII sensitivity is calculated under interest rates parallel shift assumption. Sensitivity analysis on EVE is being done by 6 different interest rate movement scenarios (parallel up, Parallel down, Steepener, Flattener, Short up, and Short down).
Risk Mitigation	The Bank has established segregated line of duties to measure and manage market risk: Senior management is in charge of oversight of market risk. Involvement of Senior management ensures that the bank's policies and procedures, including Asset and Liability Management Policy (ALM), for managing interest risk on both a long-term and day-to-day basis are adequate and in line with strategic plans of the Business. Effective oversight of market risk requires that Treasury department maintains appropriate limits on risk taking, adequate systems and standards for measuring risk, standards for valuing position and measuring performance, a comprehensive interest rate risk reporting and management review process, as well as effective internal controls. The Bank has elaborated Market risk management policies and procedures. Asset and Liability Management Policy provides identification and definition of particular elements for limiting and controlling market risk. ALM Policy specifies the lines of responsibility and accountability of ALCO, and also provides objectives, limits and criteria in respect to liquidity gap analysis and liquidity risk management, funding and decisions on market risk management. FX management policy contains daily position limits and limit of the aggregated open FX position, which equals to the 5% of the regulatory capital. Since this limit is significantly stricter than NBG limit, the limit management is to be understood as follows: on a daily basis, FX position can be opened up to the 20% NBG limit, but only for a maximum for 8 calendar days, and only if and only bank has sufficient additional capital at transaction date, to cover losses calculated using VaR described below. After 8 days the limit (5%) has to be kept. Calculation of the position is

Market Risks	
Risk Mitigation	executed in line with the Georgian Regulation Setting, Calculating and Maintaining Overall Open Foreign Exchange Position Limit of Commercial Banks.
Risk Monitoring	Oversight and control of market risk is set out to ensure that the bank's policies and procedures for managing interest rate risk and FX risk on both, long-term and day-to-day basis are adequate and that clear lines of authority and responsibility for managing and controlling market risk are maintained. Compliance with these limits is also reported regularly to the Executive Management and periodically to the Supervisory Board and its Risk Committee. Foreign exchange positions are managed according to the FX management policy of the Bank. Monitoring and control of foreign exchange risks by each relevant foreign currency is the responsibility of the Market Risk Management.
Risk Appetite	The Bank maintains a comprehensive interest rate risk and currency risk reporting and review process, as well as effective internal controls, sets appropriate limits on risk taking, establishes adequate systems and standards for measuring risk and performance, valuing position, reprising maturity gap. limits are set within the Risk Appetite framework approved by the Supervisory Board
Liquidity and Funding Risk	
Risk Definition and Key Drivers	Liquidity is the bank's ability to finance the growth of assets and meet its obligations within the stipulated period under normal or stressed conditions. Liquidity is the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, affects markets as a whole. Virtually every financial transaction or commitment has implications for a bank's liquidity. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior. Liquidity risk has two components: • Funding liquidity risk - the risk that the bank will not be able to raise new funding necessary for the timely fulfillment of obligations, • Market liquidity risk - the risk that the bank will not be able to sell assets/monetary transformation without incurring a significant loss.

Liquidity and Funding Risk	
Risk Identification and Measurement	It is obvious from the definition of liquidity risk, it materializes when the liquidity obtained from both assets and liabilities of the balance sheet is less than the need for liquidity. Therefore, the main sources of liquidity risk are: Market risk - the risk of loss of value of the bank's assets due to fluctuations in interest rates, exchange rates, market prices of securities and various commodities, which in turn will lead to less liquidity generation potential from these assets (through sale or repo). Credit risk - the risk that the counterparty will not fully fulfill the financial obligation stipulated by the agreement. Having a direct effect on expected cash flow and hence liquidity, the increased credit risk is an impetus for funding providers to reduce/increase funding, or refuse to provide it altogether. Operational and compliance risks - in addition to the direct effect on cash flows, there is a risk of loss of trust by counterparties (elements of reputational risk) with consequences. The Bank relies on a number of regulatory and internal metrics to measure liquidity/funding risk and has developed Internal Liquidity Adequacy Assessment Process framework, with detailed definition of processes and limit systems connected to liquidity and funding management.
Risk Mitigation	Basisbank manages liquidity and funding risks according to the ALM Policy and Regulation of Liquidity Management, where detailed processes and limit system connected to liquidity management is defined. The daily management of liquidity is the responsibility of Treasury, control and reporting to ALCO is the responsibility of Asset-Liability Management. Assessment of Liquidity risk is done under ILAAP. Liquidity management process includes establishment and regular re-assessment of liquidity requirements based on the bank's asset and liability structure and general market conditions; development and control of corresponding liquidity risk limits; addressing funding structure and mismatch volume, fund raising capacity, etc.; developing and monitoring liquidity and fund management principles; liquidity forecasting under normal business conditions and for stressed scenarios; developing contingency plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations. The Bank strives for continuous optimization of liabilities by balancing the stability and cost of different funding sources. To achieve this goal, the bank's strategy is to have effectively diversified funding sources and

Liquidity and Funding Risk	
Risk Mitigation	funding maturities. The Bank maintains strong relationships with all of its key funding providers (both wholesale and retail) to ensure that additional funds are raised when needed, preventing/reducing outflows under stress. The main funding sources of the bank are unsecured retail and unsecured wholesale funding. In addition to the main sources of funding, the bank uses/may use alternative sources of funding, such as funding from the parent company, issuance of debt instruments, sale of assets. The Bank relies on a number of regulatory and internal metrics to measure liquidity/funding risk: Projected Cash flow Statement, Contractual/ behavioral/ Stress Gap scenarios, Utilization of off-balance sheet liabilities, (cumulative maturity mismatch limit, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR)). The liquidity risk control system in the bank is based on the segregation of powers and the system of limits. The control system is built on the principle of three lines of defense. Frontline departments act as the first line of defense, managing risks within the limits and powers set for them. The risk management function, IT resources and reporting as the second line of defense is responsible for creating/implementing the risk management and control framework, monitoring compliance with established limits, procedures and policies. Internal Audit, as the third line of defense, is accountable to the Audit Committee and conducts an independent assessment of the risk management and control system.
Risk Monitoring	To manage funding liquidity risk, the Bank currently monitors the following Basel III-based parameters: • Liquidity coverage ratio (LCR) - a regulatory metric, the purpose of which is to strengthen the bank's short-term resilience to stress, in particular, the bank must own a sufficient volume of high-quality liquid assets to be able to overcome a 30-day stress. • Net Stable Funding Ratio (NSFR: It is a regulatory metric aimed at assessing mid- and long-term liquidity risk. The ratio is calculated as the ratio of available stable funding to the need for stable funding. The bank additionally calculates and monitors internal buffer requirement for Liquidity coverage ratio, which is added to the LCR regulatory minimum requirement. The purpose of the buffer is to ensure protection of the LCR ratio against unexpected fluctuations, which is also in line with the bank's risk appetite requirements. The liquidity buffer is the

Liquidity and Funding Risk	
Risk Monitoring	realization of the short-term part of this strategy. A liquidity buffer is a direct hedge against short-term liquidity shortfalls. In a short-term response to potential liquidity shortfalls under stress, there may be no option but to convert liquid assets into cash. Liquid buffer consists of high quality liquid assets. The definition of high-quality liquid assets is the same as in the NBG's liquidity coverage ratio statement. The liquidity buffer is calibrated according to the results of the stress test and its volume should be sufficient to ensure the minimum survival period of the bank determined by the risk appetite under the given stress scenarios. The overall ability to fill the liquidity gap should ensure the bank's solvency beyond the minimum survival period. A number of additional early warning signs for increased liquidity risk are monitored to timely detect potential weaknesses in liquidity and funding positions that could threaten the performance of a strategy defined by risk appetite. The identification of such weaknesses leads to the escalation of the issue, which should be followed, if necessary, by the implementation of appropriate corrective actions (within the contingency/recovery plan). In the scope of ILAAP, in order to assess Funding profile stability risks, caused by concentration of the funding sources, the Bank makes assessment of Stability of Funding Profile, assessment of market access Risks, assessment of potential change in funding risk profile based on the funding plan. Risk of access to wholesale funding for the bank are strongly related to issues such as excessive short-term liquidity risks, portfolio with high/uncertain credit risk, materialized or perceived high operational risk, legal risk, unclear strategy, possibility of credit rating deterioration. The Bank has outlined an appropriate escalation procedure for each limit/target violation. The ability to fill the bank's liquidity deficit can be interpreted as the bank's plan to respond to potential stress scenarios by having access to excess liquidity for the normal business environment in the short, medium and long-term periods. Gap-filling opportunities, in addition to liquid assets, may include the bank's plan to generate projected liquidity, either through raising new funds, making changes to existing businesses, or other more fundamental measures. First of all, the ability to fill the gap is a strategy to be implemented by the bank in the short, medium and long-term periods, which should ensure the fulfillment of its payment obligations by the bank.

Liquidity and Funding Risk	
Risk Appetite	The Bank has developed a framework of liquidity limits/targets that adequately reflects the Bank's business model, complexity and various material risk factors. The objective of this framework is to ensure a diversified funding structure and sufficient available liquidity buffer. The limits are determined by the Asset and Liability Management Committee upon presentation of the risks unit. Calibration of risk limits and compliance with risk appetite is monitored regularly considering the results of stress tests.

Capital Risk	
Risk Definition and Key Drivers	Capital risk is the risk of failure to meet business objectives or regulatory requirements due to insufficient Capital under normal or stressed scenarios. The management's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements. The Bank undertakes stress testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Capital forecasts, as well as the results of the stress testing and what-if scenarios, are actively monitored with the involvement of the Bank's management to ensure prudent capital management and timely actions when needed. In 2023, the Group and the Bank complied with all regulatory capital requirements.
Risk Identification and Measurement	The Bank has developed Internal Capital Adequacy Assessment Process (ICAAP) framework, as part of Pillar 2 within the Basel Framework. ICAAP represents a financial institution's own assessment of the capital needed to run the business. The ICAAP framework of the Bank is fully in line with the size, complexity and the risk profile of its activity and consists of the following elements: **Definition of risk strategy:** the risk strategy is derived from the business strategy of the bank contains the risk appetite of the Bank and the risk governance framework which ensures that risks are controlled in a proper way. **Identification, measurement, and control of relevant risk types:** under the ICAAP framework, the Bank identifies all the relevant risk types and defines quantitative and qualitative tools to measure its exposure to those risks. The aim is to assess based on the institutions' own calculations

Capital Risk	
Risk Identification and Measurement	the adequate level of capital (or liquidity) necessary to cover the risks of the Bank is exposed to. This level of capital (and liquidity need) can be different from the one calculated under pillar1 capital calculation. **Stress testing:** stress testing framework is developed to assess the vulnerability of the Bank to impacts which are exceptional but possible. **Capital planning:** capital planning is part of strategic planning and contains the projection of capital requirements based on ICAAP framework, including the possible effects of external events internal governance framework / internal safety lines: ICAAP also consists of guidelines on proper internal and risk governance framework.
Risk Monitoring	The Bank is subject to the NBG's capital adequacy regulation, which is based on Basel III guidelines. Current capital requirements include Pillar I requirements, Combined buffer (conservation Buffer) and Pillar 2 buffers (Concentration, General Risk Assessment Program (GRAPE), The currency induced credit risk (CICR), Credit Risk Adjustment (CRA) and Stress test buffer- currently zero). The Bank maintains an actively managed, robust capital base to cover the risks inherent in its business. A part of the internal capital adequacy management framework, the bank continuously monitors market conditions and performs stress testing to test its position under adverse economic conditions and market and regulatory developments. The Banks ability to comply with existing or amended NBG requirements may be affected by, internal as well external factors, including those outside of Bank's control, for example: an increase in risk-weighted assets, losses resulting from the deterioration of asset quality, our ability to raise capital, reduction in and/or an increase in expenses and local currency depreciation. Therefore, throughout analysis of capital structure and capital planning is priority for the Bank to support business plan.
Risk Appetite	Capital planning is performed as a part of the business planning which is executed based on the Procedure of Business Plan and Budget preparation. Capital planning for each material risk type is prepared by the risk owners and summed up by Risk Management, Capital planning is also prepared using stress scenarios defined by Risk Management. Enterprise Risk Management function of the Bank is involved in the decision-making process about capital allocation to guarantee efficiency, optimize the use of capital by aligning it with the level of risk exposure, ensuring that sufficient capital is set aside to cover potential losses.

Financial Crime Risk	
Risk Definition	Financial crime risk refers to the risk of knowingly or unknowingly facilitating unlawful activity, such as money laundering, terrorism financing, sanctions evasion, bribery, and corruption.
Key Drivers of the Risk	The main sources of financial crime risks are: • Inherent risk related to products, services, and delivery channels. • Business activities of the clients with an unacceptable level of risk exposure. • Inadequate processes and controls to identify and mitigate the risks.
Risk Identification and Assessment	The risk management process involves risk identification, which is performed regularly, incorporating input from a joint effort of the first and the second lines of defense. The assessment of risks is based on the quantitative and qualitative data and control adequacy assessment. The results of identified and assessed risks are regularly reported to senior management.
Risk Mitigation	Combatting financial crime and complying with applicable laws and regulations is vital to ensuring the stability and the integrity of the international financial system. In order to satisfy the requirements of increasingly complex national and international legislation and regulations, the Bank is continually developing its financial crime risk management and bringing this in line with current developments and challenges. The fight against financial crime is at the core of the Bank's strategy and risk appetite. BasisBank is committed to fight against financial crime, to set up and to implement Anti-Financial Crime risk management programme (or AFC programme) to identify, understand and mitigate the financial crime risks. The AFC Policy establishes the requirements set out by the Bank, to mitigate potential compliance, regulatory and reputational risks associated with violations of Anti-Money Laundering and Counter Terrorism Financing (AML/CTF), International Sanctions and Anti-Bribery and Corruption (ABC) laws, regulations and international standards. The core statements of AGC programme are:

Financial Crime Risk	

Risk Mitigation	• The Bank develops and maintains a thorough AFC risk assessment to identify, understand, manage and mitigate inherent AFC risks. Risk mitigation measures are designed and implemented to control adequately and effectively those inherent risks. Residual risks are managed in line with the Bank's risk appetite.
	• In line with the AFC risk assessment and risk appetite, the Bank defines and implements a customer acceptance policy outlining prohibited and restricted customer types and activities.
	• The Supervisory Board has a clear understanding of the AFC risks, oversights the AFC risk management programme and its effectiveness; and is responsible for setting the proper tone from the top.
	• The Supervisory Board allocates explicit roles and responsibilities in the Executive Board, Senior Management and AFC decision making bodies. The Executive Board appoints dedicated staff members with appropriate level of responsibilities and authorities in relation to the AFC programme management and ensures that sufficient resources are provided.
	• The Bank defines and implements an AFC operating model including the internal organisation with roles and responsibilities across the three lines of defence to ensure an effective AFC risk management.
	• The Bank ensures that a robust and effective AFC programme is in place, covering:
	  ◦ Regulatory surveillance on new or updated regulations, industry standards and trends;
	  ◦ Documented and duly approved policies, procedures and methodologies;
	  ◦ Effective control processes on each key requirements, with the adequate internal control systems;
	  ◦ Strong company culture, constant communication from the Board, AML& Sanctions Compliance department and Compliance Unit on AFC topics, and a regular training program on all AFC risks and requirements;
	  ◦ Monitoring via quality assurance and testing performed by the second line of defence on key processes and controls;
	  ◦ Reporting and escalation to relevant functions and committees, to ensure oversight by the Executive Board and Supervisory Board;
	  ◦ Regular audit by the third line of defence, considering all AFC inherent risks; and
	  ◦ Adequate record-keeping processes, in line with local requirements.

Financial Crime Risk	
Risk Monitoring	The Bank has internal organisation and systems that are adequate with respect to its size, activities and complexity as well as with the AFC risks. Internal control system includes at least the following: • Systems to record and maintain Know Your Customer (KYC) information for all relevant parties; • Systems to perform and maintain the Customer Risk Assessment; • Systems to screen clients and relevant parties from AML/CTF and international sanctions standpoints; • Systems to screen deals and transactions from AML/CTF and international sanctions standpoints, including sanctions circumvention; • Systems to monitor customer activity from AML/CTF and international sanctions circumvention standpoints (monitoring of the activity a-priori or post-factum); • Systems to report and manage cases between the first and second line defences and the AML/CTF Compliance department, and between the AML Compliance Head and the relevant authorities; • System to assess the Enterprise Wide Business Risk Assessment; • System(s) to collect and maintain quality assurance and testing.
Risk Appetite	Basisbank has adopted a holistic approach to Financial Crime and created Anti-Financial Crime (AFC) framework, to prevent and set appropriate controls in the following key risk areas: Money Laundering (ML) and Terrorism Financing (TF); non-compliance with International Sanctions and Embargoes, and circumvention attempts; Bribery and Corruption; Fraud and Conflict of Interest. The Bank's Risk Appetite comprises continuous processes of developing, updating and implementing internal controls and measures to detect, prevent and mitigate the possibility of mentioned Financial Crime risk types, applying greater control over high-risk customers and transactions. This combined approach allows the Bank to better understand their risk exposure and prioritize the management focus. In line with its AFC framework, Basisbank takes a zero-tolerance approach to facilitation of money laundering and terrorism financing, including tax crimes, bribery, corruption, serious fraud, and all predicate offences as defined by the local regulation and FATF. We are committed to comply with the sanctions of the United Nations, the European Union, the United Kingdom and the United States. The Bank maintains zero tolerance for establishing or maintaining a client or counterparty relationship with an entity or individual designated by on any

Financial Crime Risk	
Risk Appetite	of the further mentioned lists or where otherwise prohibited by local law or regulation. Bank also has no appetite to execute transactions or any other type of business relationships with any such entity or individual. In line with above the Bank implemented an automated tool to screen customers and transactions in real time mode against the international sanctions lists: OFAC, UN, EU, UK and other applicable lists.

Compliance Risk	
Risk Definition	Compliance Risk is a risk of non-compliance with regulatory requirements.
Risk Identification	BasisBank, as a commercial bank, is subject to a complex and evolving regulatory environment, and compliance risk arises from the challenges of ensuring that the bank's activities align with all respective legal and regulatory requirements. The Bank identifies the following risks arising from denial/failure of compliance: • Risk of Legal and Regulatory Penalties Non-compliance may result in fines, sanctions, and legal actions imposed by regulatory authorities, such as: restrictions, special arrangements, suspend authority of signature etc. • Financial Losses Penalties, legal fees, and the costs associated with correcting non-compliance issues can lead to substantial financial losses for the Bank. Additionally, non-compliance may result in disruptions to business operations, impacting revenue. • Reputational Damage Non-compliance can tarnish Bank's reputation. Negative publicity, loss of customer trust, and damage to the brand image can have long-lasting consequences and affect customer loyalty. • Increased Scrutiny Non-compliance may trigger heightened regulatory scrutiny and monitoring, increasing the regulatory burden on the Bank and requiring additional resources for compliance efforts. **How often risks are identified:** Identifying compliance risks is a critical aspect of effective risk management for the Bank. To accomplish the

Compliance Risk	
Risk Identification	above mentioned duty, first of all, the respective function identifies and catalogs all applicable laws and regulations that the Bank must adhere to. On the basis of the catalog, Bank recognizes potential areas of non-compliance within the business operations, processes, and functions. Compliance function conducts regular internal assessments of business operations, policies, and practices to ensure they align with relevant laws and regulations. Compliance Division as well as Legal Support functions monitor regulatory changes regularly and review updates from relevant regulatory bodies.
Risk Assessment and Measurement	The goal of the compliance risk assessment is to identify, evaluate, and quantify the potential risks associated with non-compliance with laws and regulations. Compliance risks are categorized as high, medium or low, based on their nature, impact, and likelihood. Risks are prioritized according to their significance and potential consequences of non-compliance. If possible, the bank utilizes quantitative methods for risk measurement to assign monetary values to potential fines or losses. Qualitative methods include expert judgment and scenario analysis.
Risk Mitigation	In order to reduce potential impact of identified and measured compliance risks, BasisBank considers steps such as: • Avoid engaging in activities or operations that pose high compliance risks; • mplement measures to reduce the likelihood or severity of compliance risks; Enhance internal controls, improve processes, and implement additional safeguards to minimize exposure.

Compliance Risk	
Risk Monitoring	To systematically review key areas of compliance and track both newly identified and previously recognized risks, the Compliance Function has developed checklists and conducts periodic compliance gap assessments. The division maintains thorough documentation of compliance monitoring activities and keeps records of legal opinions, assessments, and any actions taken to address compliance issues. We are committed to comply with the sanctions of the United Nations, the European Union, the United Kingdom and the United States. The Bank maintains zero tolerance for establishing or maintaining a client or counterparty relationship with an entity or individual designated by on any of the further mentioned lists or where otherwise prohibited by local law or regulation. Bank also has no appetite to execute transactions or any other type of business relationships with any such entity or individual. In line with above the Bank implemented an automated tool to screen customers and transactions in real time mode against the international sanctions lists: OFAC, UN, EU, UK and other applicable lists.
Risk Appetite	The risk appetite is to keep Compliance risk at minimum and to stay compliant with all regulatory requirements.
ESG Risk	
Risk Definition and Key Drivers of the Risk	ESG is the broad term that refers to the inclusion of environmental (E), social (S) and governance (G) criteria into investment decisions taken by the Bank as a manifestation of responsible or sustainable investment practices. ESG (risks for the Bank refer to the potential negative impacts that environmental, social, and governance factors may have on clients, borrowers, other counterparties, and the Bank itself. The Bank may face risks related to climate change, including exposure to industries vulnerable to environmental regulations, physical risks from extreme weather events, and transitioning risks associated with the shift to a low-carbon economy. The Bank may also be exposed to risks related to human rights violations, particularly when financing projects or companies operating in regions with poor human rights records, as well as risks

ESG Risk	
Risk Definition and Key Drivers of the Risk	associated with financing businesses that engage in unethical labor practices, including poor working conditions, child labor, or inadequate worker rights. Governance Risks refer to regulatory and compliance risks, including ESG compliance, corporate governance, and corporate ethics, supporting the fight against money laundering, tax evasion, and other financial crimes. Risks arising from failure to comply with evolving ESG regulations and standards can lead to legal consequences, fines, and regulatory actions. ESG noncompliance can lead to reputational damage, as stakeholders, including customers, investors, and the public, may perceive the organization as irresponsible or unethical. In order to effectively implement ESG risk management, in 2018 Basisbank made significant changes in its environmental and social risk management policy by developing the Due Diligence and E&S Risk Assessment procedures. The bank also introduced the exclusion list. It specifies the types of activities that the bank does not finance. The activities on the exclusion list can be, in some way, linked to production/trade of weapons and military materials, forced and child labor, illegal pharmaceuticals, production/trade of certain pesticides and herbicides, gambling and casinos, etc. These documents are based on the active Georgian legislative framework, best practice and recommendations of the partner international financial institutions. As part of the environmental and social risk assessment process, all business loans are subject to standard procedure of verifying the project in the exclusion list. At a later stage, based on the data and documents provided by the client, assessments after the onsite visit, and information received from independent sources, the responsibility of the potential client is assessed, along with the client's degree of environmental and social risk management. The Year 2023 with the support of its partner IFI, the Bank initiated Technical Assistance Program, labeling the project as "Mainstreaming Green Lending at Basisbank". The Technical Assistance project will redefine ESG ecosystem of the Bank to the core and produce a new environment, which will be compliant to the highest ESG standards of the contemporary banking system. The project is estimated to last around one year and after completion, the Bank will benefit from refined ESG strategy, including key priorities and targets and set of KPIs, sustainability roadmap and refined sustainability governance structure, with more polished, sustainability-centered lending framework and policies, as well as designated Green product/s to further contribute to environmentally-friendly development of the market.

ESG Risk	
Risk Identification and Measurement	Identifying ESG risks starts with understanding ESG factors relevant to the bank. These factors include climate change, labor practices, supply chain management, diversity and inclusion, data security, corporate governance, etc. The bank has conducted a materiality assessment to identify the ESG issues most significant to the bank and its stakeholders, including employees, customers, investors, etc. Following that, the bank has established the aforementioned ESG strategy. ESG risk identification and measurement have been integrated into the bank's risk framework and ESG risk is considered alongside traditional financial and non-financial risks. However, the bank is working on improving existing ESG risk management, including adjustment with regulatory requirements, no later than the end of 2024.
Risk Mitigation	The bank has integrated thorough due diligence processes into its business operations when entering into new investments or business relationships to assess ESG risks and ensure alignment with the bank's Environmental and Social Management System (ESMS).

Operational Risk	
Risk Definition	Operational risk is defined as the risk of financial loss resulting from inadequate internal policies, system and control failures, human errors, fraud or management failure, external events and natural disasters.
Key Sources of Risk	The bank is exposed to number of operational risks, including internal and external fraudulent activities, breakdowns in processes, procedures or controls; and system failures from an external party with the intention of making the bank's supporting infrastructure unavailable to its intended users, which in turn may jeopardize sensitive information and the financial transactions of the bank, its clients, counterparties or customers. Further, the bank is subject to risks that cause disruption to systems performing critical functions arising from events beyond its control, that may result in losses or reductions in service to customers and/or financial losses to the bank.

Operational Risk	
Key Sources of Risk	The risks discussed above are also relevant where the bank relies on outside suppliers of services, because the bank may not have direct control of the activity performed by the third party.
Risk Identification	The bank systematically identifies, analyzes, and documents potential operational risks that could affect the achievement of the banks objectives. It involves identifying both internal and external factors that may threaten the successful completion of business goals and the execution of operational activities. The bank uses different identification tools: New products/processes - Analyzing and mapping out products and internal processes can reveal potential points of failure or vulnerabilities where operational risks may occur. This method helps in understanding dependencies, bottlenecks, and potential areas for improvement. Third-Party Risks - the risks associated with suppliers, vendors, and partners involved in the development and implementation process. Dependencies on external parties can introduce vulnerabilities that need to be managed, thus the bank maps all the processes dependent on third parties that can reveal potential failures. Root Cause Analysis - When incidents or near-misses occur, conducting root cause analysis helps in identifying the underlying causes of the problem. This method helps in uncovering systemic issues that may lead to operational risks. RCSA – Risk and Control Self-assessment involves self-assessment by first line of defense to evaluate the effectiveness of existing controls in mitigating operational risks. This method helps in identifying control weaknesses and areas for improvement. Loss Data Analysis - Analyzing historical loss data and incidents can provide valuable insights into recurring operational risks and their root causes. This data-driven approach helps in prioritizing risk mitigation efforts. By using a combination of these tools and methods the bank makes informed decisions to achieve objectives while managing uncertainty. It forms the foundation of the broader risk management process, which encompasses risk assessment, mitigation, monitoring, and control.
Risk Assessment	Considering the extent and complexity of the fast-changing environment of both banking services and associated possible operational risks, the importance of improving processes, procedures, controls and systems is

Operational Risk	
Risk Assessment	crucial to ensure risk prevention. To oversee and mitigate operational risk, the bank established the operational risk management on three levels in the Bank: business units/departments level, Operational Risk Management level and Internal Audit level. The operational risk management division acts as second line of defense. The Bank's Operational Risk Methodology is an overarching document that outlines the general principles for effective operational risk principles. It has been developed in accordance with Basel Committee "Principals for Sound Management of Operational Risks", issued in July 2011, and the overall risk strategy of the bank. The policy also considers requirements of the National Bank of Georgia ("Regulation of Operational Risks Management by Commercial Banks issued in June 13, 2014). It is an integrated part of the Bank's overall risk management activities, defines major risk management principles and tools for how operational risk is to be identified, assessed, monitored, and controlled or mitigated, that should be reflected in respective risk management policy and methodology of the bank. It aims to establish sound and effective operational risk management practice across the bank activities. The methodology is responsible for implementing the operational risk policy and appropriate procedures to enable the bank to manage operational risks, as well as monitoring operational risk events, risk exposures against risk appetite and material control issues. Although the Bank calculates capital requirement for operational risk using the Basic Indicators Approach (BIA approach), some qualitative elements of more advanced risk quantification are used, which serve as a basis of more comprehensive operational risk management.
Risk Mitigation	Corresponding policies and procedures enabling effective management of operational risks are an integral part of the operational risk management policy, including a system of checks to identify strengths and weaknesses of the operational risk environment is defined and contingency and business continuity plans are in place to ensure the ability to operate as going concern and minimize losses in the event of severe business disruption. The bank identifies, assesses and treats risks arising from operational risk events and has permanent, cyclical monitoring process in place to detect unusual activities in a timely manner. The Bank exercises the risk and control self-assessment (RCSA) process, which enables to identify, analyze, assess and examine different mitigation plans for operational risks and the corresponding controls, providing reasonable assurance that all business objectives will be met. RCSA focuses on identifying and

Operational Risk	
Risk Mitigation	assessing residual risks in key business processes that are subject to corrective action plans. Moreover, enacting an outsourcing risk management policy, which enables the Bank to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor; Further, involving the operational risk management function in the approval process for new products and services to minimize risks relating thereto. The Operational risk is also responsible for the day-to-day management of operational risks using various techniques. It identifies potential breaches of PDP law via analyzing customer complaints, the operational risk event databases and introduces changes in operational practices to improve personal data protection and avoid leakage of personal information in the environment of rapidly increasing automation. In order to effectively measure and manage operational risk, appropriate operational risk management environment is developed through internal reporting of operational risk as a distinct risk category related to the bank's safety and soundness on one hand, and by effective and comprehensive internal audit function, carried out by operationally independent, appropriately trained and competent staff, on the other hand. To further mitigate operational risks driven by fraudulent activities, the bank has introduced sophisticated and real time digital fraud prevention system, which analyses client behavior to further minimize external fraud threats. During the unprecedented spread of covid-19, Basisbank developed a business continuity plan to ensure proper response to health issues and operational risks. The Bank has taken precautionary measures to protect the health and safety of both employees and customers, to ensure the continuity of necessary services, and to reduce all operational and financial risks. All business continuity measures are coordinated with Government of Georgia and the NBG and are based on their guidelines and instructions. Bank offices and branches operate in compliance with additional safety standards, including strict hygiene standards. The bank will continue to follow the instructions of local and international health organizations and make informed decisions.
Risk Appetite	The Bank is subject to the risk of incurring losses or undue costs due to the inadequacies or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations. The Bank's complex operations also expose it to the risk of external and internal frauds. External fraud events may arise from the actions of third

Operational Risk	
Risk Appetite	parties against the Bank and, most frequently, this involves events related to plastic cards and cash. Internal frauds arise from actions committed by the Bank's employees and such events happen less frequently. Nonetheless, fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain and exploit the Bank's assets. It is therefore important for the Bank to manage operational risks and minimize their negative effect on the financial standing. According to the operational risk appetite statement, the bank has to have an adequate operational risk tolerance to maintain low costs while fostering business growth and development efficiently, has to have a low tolerance for internal fraud and has to aim to maintain vigorous operational systems with high resilience in stressed conditions.

Information Security/cybersecurity Risks	
Risk Definition	Information security/Cybersecurity Risk is an effect of uncertainty on information security objectives. Information security risk is associated with the potential that threats will exploit vulnerabilities of an information asset or group of information assets and thereby cause harm to the bank. It is the risk resulting from unauthorized utilization of personal data or other sensitive information, cyber-attacks, phishing and other forms of data breach. Information security, therefore, is one of BasisBank's material non-financial topics. Preserving the confidentiality, integrity, and availability of our clients' & partners' data and the bank's information assets is essential for upholding the trust placed in BasisBank by our clients, employees and stakeholders.
Risk Identification	Information Security/Cybersecurity function is in charge of continuous improvement of information security processes, in order to minimize risks associated with information security/cybersecurity and ensure security of clients and partners.
Risk Assessment	Information Security framework is established to ensure that security policies and standards mirror evolving business requirements, regulatory guidance, and emerging cyber threats. Information security/ cybersecurity corresponding policies support the bank in complying with these parameters and build the foundation for actively managing and governing information security-related implementation processes. International standards and best practices are used to structure the bank's comprehensive information security policy landscape.

Information Security/cybersecurity Risks	
Risk Assessment	Information Security/Cybersecurity function is mandated to ensure that the appropriate governance framework, policies, processes, and technical capabilities are in place to manage the related information security/ cybersecurity risk within the bank. Information Security/ CyberSecurity function works with every business division/unit and all employees of the bank to ensure the bank's systems are protected as well as used safely and securely to achieve the banks business objectives.
Risk Mitigation and Monitoring	At least once a year, a full information security and cyber security audit as well as cyber security framework analysis is performed by an external consultant to assess the efficiency of the bank's capabilities against industry best practices and real world cyber-attack scenarios, taking into consideration the relevant regional and sector specific perspectives. The audit gives the bank a broad review as well as a detailed insight, which helps to further enhance the information and cyber security systems. In addition, penetration test exercises are performed on a regular basis. Bank employees play a crucial role in information security. As a result, regular training sessions are conducted for employees, which are comprised of remote learning courses on security issues, fraud and phishing simulations as well as informative emails to further assist our employees with information security matters. These measures ensure that employees are fully aware of their responsibilities and are prepared for various security threats. As a result of the COVID-19 pandemic, the Bank activated secure remote working policies, which ensure that homeworking environments are protected against relevant cyber-threats and IT team provides effective oversight of teleworking channels.
Risk Appetite	The threat posed by cyber-attacks has increased in recent years and it continues to grow. The risk of potential cyber-attacks, which have become more sophisticated and complex, may lead to significant security breaches. Such risks change rapidly and require continued focus and implementation of best practices. No major cyber-attack attempt has targeted BasisBank in recent years. However, the banks growing dependency on complex IT systems increases its vulnerability and exposure to cyberattacks. According to the cybersecurity risk appetite statement the bank has to have a very low tolerance for disclosure of customer data, has to have a low tolerance for financial loss from cyber-attacks and has to have a zero tolerance for cyber-security related regulatory actions while aim to strengthen defence in depth strategy and work on continuous improvement.

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BASISBANK

- **Statement of Management's Responsibilities for the Preparation of the Management Report**

- **Responsibility Statement for the Compliance with Applicable Laws and Regulations**

- **Report in accordance with the requirements of Article 7, Paragraph 10 of the Law of Georgia on Accounting, Reporting and Auditing**

BasisBank JSC

Statement of Management's Responsibilities for the Preparation of the Management Report for the Year Ended 31 December 2023

Management of BasisBank JSC (hereinafter referred to as the "Bank") and its subsidiaries (together referred to as the "Group") is responsible for the preparation of the Management Report for the year ended 31 December 2023 in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the Management Report that is free from material misstatement, whether due to fraud or error.

Management is responsible for:

- Preparing the Management Report for the year ended 31 December 2023 in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing;
- Inclusion of the information required by the Law of Georgia on Accounting, Reporting and Auditing in the Management Report for the year ended 31 December 2023;
- Providing information in the Management Report for the year ended 31 December 2023, which is consistent, in all material respects, with the audited consolidated and separate financial statements for the year ended 31 December 2023.

The Management Report for the year ended 31 December 2023 was approved by the Management Board of the Bank and the Group on 9 August 2024.

On behalf of the Management Board:

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

BasisBank JSC

Responsibility Statement for the Compliance with Applicable Laws and Regulations

We confirm that:

- The Management Report and separate and consolidated financial statements of BasisBank JSC (the "Bank") and its subsidiaries (the "Group") for the year ended 31 December 2023 have been prepared in accordance with applicable laws and regulations.
- The consolidated and separate financial statements for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS) and fully, accurately, and fairly reflect the assets, liabilities, income and expenses, financial position, financial performance and cash flows of the Bank and the Group.
- The Management Report for the year ended 31 December 2023 includes a fair and comprehensive review of the business development, performance and position of the Bank and the Group and the principal risks they face.

The responsibility statement was approved by the Supervisory Board and Management Board of the Bank and the Group on 9 August 2024.

Zhang Jun
Chairman of the Supervisory Board

David Tsaava
General Director

Deloitte & Touche LLC
Tax ID: 204422240
City Tower Business Center,
70 Vazha-Pshavela Ave., 16th floor,
Tbilisi, 0186, Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69
deloitte.ge

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

To the Shareholders and Management Board of BasisBank JSC

We expressed an unmodified audit opinion on the audited separate and consolidated financial statements of BasisBank JSC (the "Bank") and its subsidiaries (collectively – the "Group") in our auditor's report dated 20 March 2024. The audited separate and consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our auditor's report on the separate and consolidated financial statements. The effects of the events described in the Management Report that occurred after the date of our auditor's report on the separate and consolidated financial statements were not audited by us.

Management of the Group is responsible for the preparation and presentation of this Management Report. Our responsibility in connection with the audit of the separate and consolidated financial statements is to read the Management Report after it becomes available to us and, in doing so, consider whether the information in the Management Report is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We do not give any assurance about the Management Report.

We have read the Management Report and based on the work done we have concluded that:

- The information given in the Management Report for the year ended 31 December 2023 is materially consistent with the separate and consolidated financial statements for the year ended 31 December 2023 or our knowledge obtained in the audit; and
- The Management Report includes the Information required by Article 7 of the Law of Georgia on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Jamal Hasanov (Reg. # SARAS-A-844170)
On behalf of Deloitte & Touche LLC (Reg. # SARAS-F-107265)

12 August 2024
Tbilisi, Georgia

Audit Report

BasisBank Group

Consolidated and Separate Financial Statements and
Independent Auditor's Report
for the Year Ended 31 December 2023

BasisBank Group

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BasisBank Group

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated and Separate Financial Statements for the Year Ended 31 December 2023

Management of JSC BasisBank (the "Bank") and its subsidiaries (Collectively - the "Group") is responsible for the preparation of the consolidated and separate financial statements that present fairly the financial position of the Group and the Bank as at 31 December 2023, and the related consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and significant accounting policies and notes to the consolidated and separate financial statements (the "consolidated and separate financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated and separate financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and the Bank's financial position and financial performance; and
- Making an assessment of the Group's and the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's and the Bank's transactions and disclose with reasonable accuracy at any time the consolidated and separate financial position of the Group and the Bank, and which enable them to ensure that the consolidated and separate financial statements comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated and separate financial statements for the year ended 31 December 2023 were approved by the Management Board of the Group on 20 March 2024.

On behalf of the Management Board:

_____________________________ _____________________________

David Tsaava	**Lia Aslanikashvili**
General Director	Deputy General Director, Finances
Tbilisi Georgia	Tbilisi Georgia

BasisBank Group

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated and Separate Financial Statements for the Year Ended 31 December 2023

Management of JSC BasisBank (the "Bank") and its subsidiaries (Collectively - the "Group") is responsible for the preparation of the consolidated and separate financial statements that present fairly the financial position of the Group and the Bank as at 31 December 2023, and the related consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and significant accounting policies and notes to the consolidated and separate financial statements (the "consolidated and separate financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated and separate financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and the Bank's financial position and financial performance; and
- Making an assessment of the Group's and the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's and the Bank's transactions and disclose with reasonable accuracy at any time the consolidated and separate financial position of the Group and the Bank, and which enable them to ensure that the consolidated and separate financial statements comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated and separate financial statements for the year ended 31 December 2023 were approved by the Management Board of the Group on 20 March 2024.

On behalf of the Management Board:

David Tsaava
General Director
Tbilisi Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi Georgia

Deloitte.

Deloitte & Touche LLC
Tax ID: 204422240
City Tower Business Center,
70 Vazha-Pshavela Ave.,
16th floor, Tbilisi, 0186, Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69
deloitte.ge

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC BasisBank

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 5 to the consolidated and separate financial statements which describes the restatement of corresponding figures for the year ended 31 December 2022. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Report prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, but does not include the consolidated and separate financial statements and our auditor's report thereon. The Management Report is expected to be made available to us after the date of this auditor's report.

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Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Jamal Hasanov

On Behalf of Deloitte & Touche LLC

20 March 2024
Tbilisi, Georgia

Deloitte.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Jamal Hasanov

On Behalf of Deloitte & Touche LLC

20 March 2024
Tbilisi, Georgia

Consolidated and Separate Statements of Financial Position
As at 31 December 2023

In thousands of Georgian Lari	Note	31 December 2023 Bank Separate	31 December 2023 Consolidated	31 December 2022 Bank Separate	31 December 2022 Consolidated (restated)*
ASSETS					
Cash and cash equivalents	7	282,582	284,010	277,659	278,068
Mandatory cash balances with the NBG	8	184,600	184,600	218,587	218,587
Due from other banks	9	-	15,426	-	12,593
Investments in debt securities	10	378,159	378,461	394,063	394,362
Investment in subsidiaries	1	24,797	-	20,797	-
Loans and advances to customers	11	2,493,970	2,493,970	2,086,777	2,086,777
Finance lease receivables	12	-	26,136	-	17,680
Reinsurance contract assets	13	-	74,974	-	2,474
Investment properties		-	1,299	-	1,657
Other financial assets		2,269	2,269	3,486	3,486
Other assets	14	28,574	33,065	30,932	34,616
Premises, equipment and intangible assets	15	107,079	107,375	105,081	105,223
Right-of-use assets	16	17,364	17,364	21,582	21,582
TOTAL ASSETS		**3,519,394**	**3,618,949**	**3,158,964**	**3,177,105**
LIABILITIES					
Due to other banks	17	277,084	284,866	303,462	310,707
Customer accounts	18	2,199,455	2,192,372	1,965,810	1,960,740
Borrowed funds	19	379,621	382,344	342,937	342,937
Lease liabilities	16	15,970	15,970	18,576	18,576
Insurance contract liabilities	13	-	77,101	-	3,192
Other financial liabilities		3,961	3,961	5,858	5,858
Current income tax liability	29	13,518	13,518	913	913
Deferred income tax liability	29	1,996	1,996	11,449	11,449
Provisions for liabilities and charges	33	1,655	1,655	1,297	1,297
Other liabilities	20	16,903	18,041	9,478	10,622
Subordinated debts	21	106,383	106,383	56,933	56,933
TOTAL LIABILITIES		**3,016,546**	**3,098,207**	**2,716,713**	**2,723,224**
EQUITY					
Share capital	22	17,319	17,319	17,091	17,091
Share premium	22	104,498	104,498	101,066	101,066
Share-based payment reserve	24	-	-	2,606	2,606
Revaluation reserve for premises		10,870	11,708	10,870	11,708
Revaluation reserve for debt securities carried at FVOCI		(201)	(201)	3,472	3,472
Retained earnings		370,362	387,418	307,146	317,938
TOTAL EQUITY		**502,848**	**520,742**	**442,251**	**453,881**
TOTAL LIABILITIES AND EQUITY		**3,519,394**	**3,618,949**	**3,158,964**	**3,177,105**

** Refer to Note 5 for details regarding the restatement.*

Approved for issue and signed on 20 March 2024.

______________________________ ______________________________

David Tsaava
General Director
Tbilisi, Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi, Georgia

The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Statements of Financial Position
As at 31 December 2023

In thousands of Georgian Lari	Note	31 December 2023 Bank Separate	31 December 2023 Consolidated	31 December 2022 Bank Separate	31 December 2022 Consolidated (restated)*
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Loans and advances to customers	11	2,493,970	2,493,970	2,086,777	2,086,777
Finance lease receivables	12	-	26,136	-	17,680
Reinsurance contract assets	13	-	74,974	-	2,474
Investment properties		-	1,299	-	1,657
Other financial assets		2,269	2,269	3,486	3,486
Other assets	14	28,574	33,065	30,932	34,616
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TOTAL ASSETS		**3,519,394**	**3,618,949**	**3,158,964**	**3,177,105**
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TOTAL LIABILITIES		**3,016,546**	**3,098,207**	**2,716,713**	**2,723,224**
EQUITY					
Share capital	22	17,319	17,319	17,091	17,091
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Share-based payment reserve	24	-	-	2,606	2,606
Revaluation reserve for premises		10,870	11,708	10,870	11,708
Revaluation reserve for debt securities carried at FVOCI		(201)	(201)	3,472	3,472
Retained earnings		370,362	387,418	307,146	317,938
TOTAL EQUITY		**502,848**	**520,742**	**442,251**	**453,881**
TOTAL LIABILITIES AND EQUITY		**3,519,394**	**3,618,949**	**3,158,964**	**3,177,105**

** Refer to Note 5 for details regarding the restatement.*

Approved for issue and signed on 20 March 2024.

David Tsaava
General Director
Tbilisi, Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi, Georgia

The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income
As at 31 December 2023

		2023		2022	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Consolidated**	**Bank Separate**	**Consolidated (restated)***
Interest income calculated using the effective interest method	25	308,198	310,310	256,269	258,167
Interest expense	25	(173,227)	(173,696)	(132,431)	(132,326)
Net margin on interest and similar income		**134,971**	**136,614**	**123,838**	**125,841**
Credit loss allowance for financial assets	7, 8, 9, 10, 11	(4,290)	(4,355)	(50,174)	(50,087)
Net margin on interest and similar income after credit loss allowance		**130,681**	**132,259**	**73,664**	**75,754**
Fee and commission income	26	19,058	19,052	13,269	13,226
Fee and commission expense	26	(6,195)	(6,195)	(5,051)	(5,051)
Insurance service result		-	(97,209)	-	9,755
Reinsurance service result		-	98,058	-	(6,273)
Finance income from leases		-	6,107	-	3,352
Gains less losses from financial derivatives		(2,216)	(2,216)	(1,558)	(1,558)
Gains less losses from trading in foreign currencies		11,225	11,233	18,498	18,441
Foreign exchange translation gains less losses		(452)	(452)	(9,002)	(9,002)
Expected credit loss for credit related commitments		(356)	(356)	(161)	(161)
Gain from the acquisition of loan portfolio		-	-	57,774	57,774
Other operating income, net		8,366	8,542	4,036	4,101
Administrative and other operating expenses	28	(80,719)	(82,652)	(69,630)	(73,793)
Profit before tax		**79,392**	**86,171**	**81,839**	**86,565**
Income tax expense	29	(8,771)	(9,286)	(12,202)	(12,673)
PROFIT FOR THE YEAR		**70,621**	**76,885**	**69,637**	**73,892**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Gains less losses arising during the year on debt securities carried at FVOCI		(3,673)	(3,673)	4,390	4,390
Items that will not be reclassified to profit or loss:					
Change in revaluation reserve for premises	29	-	-	(2,718)	(2,718)
Other comprehensive income for the year		**(3,673)**	**(3,673)**	**1,672**	**1,672**
Total comprehensive income for the year		**66,948**	**73,212**	**71,309**	**75,564**

** Refer to Note 5 for details regarding the restatement.*

Approved for issue and signed on 20 March 2024.

______________________________ ________________________________

David Tsaava
General Director
Tbilisi, Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi, Georgia

The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income
As at 31 December 2023

		2023		2022	
In thousands of Georgian Lari	Note	Bank Separate	Consolidated	Bank Separate	Consolidated (restated)*
Interest income calculated using the effective interest method	25	308,198	310,310	256,269	258,167
Interest expense	25	(173,227)	(173,696)	(132,431)	(132,326)
Net margin on interest and similar income		**134,971**	**136,614**	**123,838**	**125,841**
Credit loss allowance for financial assets	7, 8, 9, 10, 11	(4,290)	(4,355)	(50,174)	(50,087)
Net margin on interest and similar income after credit loss allowance		**130,681**	**132,259**	**73,664**	**75,754**
Fee and commission income	26	19,058	19,052	13,269	13,226
Fee and commission expense	26	(6,195)	(6,195)	(5,051)	(5,051)
Insurance service result		-	(97,209)	-	9,755
Reinsurance service result		-	98,058	-	(6,273)
Finance income from leases		-	6,107	-	3,352
Gains less losses from financial derivatives		(2,216)	(2,216)	(1,558)	(1,558)
Gains less losses from trading in foreign currencies		11,225	11,233	18,498	18,441
Foreign exchange translation gains less losses		(452)	(452)	(9,002)	(9,002)
Expected credit loss for credit related commitments		(356)	(356)	(161)	(161)
Gain from the acquisition of loan portfolio		-	-	57,774	57,774
Other operating income, net		8,366	8,542	4,036	4,101
Administrative and other operating expenses	28	(80,719)	(82,652)	(69,630)	(73,793)
Profit before tax		**79,392**	**86,171**	**81,839**	**86,565**
Income tax expense	29	(8,771)	(9,286)	(12,202)	(12,673)
PROFIT FOR THE YEAR		**70,621**	**76,885**	**69,637**	**73,892**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Gains less losses arising during the year on debt securities carried at FVOCI		(3,673)	(3,673)	4,390	4,390
Items that will not be reclassified to profit or loss:					
Change in revaluation reserve for premises	29	-	-	(2,718)	(2,718)
Other comprehensive income for the year		**(3,673)**	**(3,673)**	**1,672**	**1,672**
Total comprehensive income for the year		**66,948**	**73,212**	**71,309**	**75,564**

** Refer to Note 5 for details regarding the restatement.*

Approved for issue and signed on 20 March 2024.

David Tsaava
General Director
Tbilisi, Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi, Georgia

The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

BasisBank Group

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2023

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Retained earnings	Total Equity
Balance at 31 December 2021 as previously reported		**16,057**	**74,923**	**2,440**	**(918)**	**14,426**	**244,477**	**351,405**
Impact of initial application of IFRS 17*		-	-	-	-	-	(431)	(431)
Restated balance as at 1 January 2022		**16,057**	**74,923**	**2,440**	**(918)**	**14,426**	**244,046**	**350,974**
Profit for the year (restated)*		-	-	-	-	-	73,892	73,892
Other comprehensive income		-	-	-	4,390	(2,718)	-	1,672
Total comprehensive income for 2022 (restated)*		-	-	-	4,390	(2,718)	73,892	75,564
Share issue	22	1,034	26,143	-	-	-	-	27,177
Share-based payment accruals	24	-		166	-	-	-	166
Balance at 31 December 2022		**17,091**	**101,066**	**2,606**	**3,472**	**11,708**	**317,938**	**453,881**
Profit for the year		-	-	-	-	-	76,885	76,885
Other comprehensive income		-	-	-	(3,673)	-	-	(3,673)
Total comprehensive income for 2023		-	-	-	(3,673)	-	76,885	73,212
Share-based payment accruals	24	-	-	160	-	-	-	160
Share issue	22	228	3,432	(2,766)	-	-	-	894
Dividends declared	23	-	-	-	-	-	(7,405)	(7,405)
Balance at 31 December 2023		**17,319**	**104,498**	**-**	**(201)**	**11,708**	**387,418**	**520,742**

** Refer to Note 5 for details regarding the restatement.*

Approved for issue and signed on 20 March 2024.

______________________________ ______________________________

David Tsaava
General Director
Tbilisi, Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi, Georgia

The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2023

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Retained earnings	Total Equity
Balance at 31 December 2021 as previously reported		**16,057**	**74,923**	**2,440**	**(918)**	**14,426**	**244,477**	**351,405**
Impact of initial application of IFRS 17*		-	-	-	-	-	(431)	(431)
Restated balance as at 1 January 2022		**16,057**	**74,923**	**2,440**	**(918)**	**14,426**	**244,046**	**350,974**
Profit for the year (restated)*		-	-	-	-	-	73,892	73,892
Other comprehensive income		-	-	-	4,390	(2,718)	-	1,672
Total comprehensive income for 2022 (restated)*		-	-	-	4,390	(2,718)	73,892	75,564
Share issue	22	1,034	26,143	-	-	-	-	27,177
Share-based payment accruals	24	-		166	-	-	-	166
Balance at 31 December 2022		**17,091**	**101,066**	**2,606**	**3,472**	**11,708**	**317,938**	**453,881**
Profit for the year		-	-	-	-	-	76,885	76,885
Other comprehensive income		-	-	-	(3,673)	-	-	(3,673)
Total comprehensive income for 2023		-	-	-	(3,673)	-	76,885	73,212
Share-based payment accruals	24	-	-	160	-	-	-	160
Share issue	22	228	3,432	(2,766)	-	-	-	894
Dividends declared	23	-	-	-	-	-	(7,405)	(7,405)
Balance at 31 December 2023		**17,319**	**104,498**	-	**(201)**	**11,708**	**387,418**	**520,742**

** Refer to Note 5 for details regarding the restatement.*

Approved for issue and signed on 20 March 2024.

David Tsaava
General Director
Tbilisi, Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi, Georgia

The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

Separate Statements of Changes in Equity
As at 31 December 2023

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Retained earnings	Total Equity
Balance as at 1 January 2022		**16,057**	**74,923**	**2,440**	**(918)**	**13,588**	**237,509**	**343,599**
Profit for the year		-	-	-	-	-	69,637	69,637
Other comprehensive income		-	-	-	4,390	(2,718)	-	1,672
Total comprehensive income for 2022		-	-	-	4,390	(2,718)	69,637	71,309
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Balance at 31 December 2022		**17,091**	**101,066**	**2,606**	**3,472**	**10,870**	**307,146**	**442,251**
Profit for the year		-	-	-	-	-	70,621	70,621
Other comprehensive income		-	-	-	(3,673)	-	-	(3,673)
Total comprehensive income for 2023		-	-	-	(3,673)	-	70,621	66,948
Share-based payment accruals	24	-	-	160	-	-	-	160
Share issue	22	228	3,432	(2,766)	-	-	-	894
Dividends declared	23	-	-	-	-	-	(7,405)	(7,405)
Balance at 31 December 2023		**17,319**	**104,498**	**-**	**(201)**	**10,870**	**370,362**	**502,848**

Approved for issue and signed on 20 March 2024.

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David Tsaava
General Director
Tbilisi, Georgia

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Deputy General Director, Finances
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In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Retained earnings	Total Equity
Balance as at 1 January 2022		**16,057**	**74,923**	**2,440**	**(918)**	**13,588**	**237,509**	**343,599**
Profit for the year		-	-	-	-	-	69,637	69,637
Other comprehensive income		-	-	-	4,390	(2,718)	-	1,672
Total comprehensive income for 2022		-	-	-	4,390	(2,718)	69,637	71,309
Share issue	22	1,034	26,143	-	-	-	-	27,177
Share-based payment accruals	24	-	-	166	-	-	-	166
Balance at 31 December 2022		**17,091**	**101,066**	**2,606**	**3,472**	**10,870**	**307,146**	**442,251**
Profit for the year		-	-	-	-	-	70,621	70,621
Other comprehensive income		-	-	-	(3,673)	-	-	(3,673)
Total comprehensive income for 2023		-	-	-	(3,673)	-	70,621	66,948
Share-based payment accruals	24	-	-	160	-	-	-	160
Share issue	22	228	3,432	(2,766)	-	-	-	894
Dividends declared	23	-	-	-	-	-	(7,405)	(7,405)
Balance at 31 December 2023		**17,319**	**104,498**	-	**(201)**	**10,870**	**370,362**	**502,848**

Approved for issue and signed on 20 March 2024.

David Tsaava
General Director
Tbilisi, Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi, Georgia

The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Statements of Cash Flows for the Year Ended 31 December 2023

		2023		2022	
In thousands of Georgian Lari	Note	Bank Separate	Consolidated	Bank Separate	Consolidated
Cash flows from operating activities					
Interest income received		304,385	306,497	239,559	241,457
Interest paid		(170,061)	(170,530)	(121,474)	(121,369)
Fees and commissions received	26	19,058	19,052	13,269	13,226
Fees and commissions paid	26	(6,195)	(6,195)	(5,051)	(5,051)
Income received from financial derivatives		(2,216)	(2,216)	(987)	(987)
Income received from trading in foreign currencies		11,225	11,233	18,498	18,441
Other operating income received		7,175	7,351	3,971	4,036
Cash inflow from insurance		-	12,317	-	8,587
Cash outflow from insurance		-	(6,485)	-	(4,280)
Income received from leases		-	6,107	-	3,352
Proceeds from disposal of foreclosed properties		10,822	10,822	4,945	4,945
Staff costs paid		(42,386)	(45,470)	(35,293)	(37,846)
Administrative and other operating expenses paid		(33,706)	(36,299)	(19,055)	(18,982)
Income tax paid		(4,315)	(4,885)	(6,871)	(7,137)
Cash flows from operating activities before changes in operating assets and liabilities		**93,786**	**101,299**	**91,511**	**98,392**
Net (increase)/decrease in:					
- Due from other banks and mandatory cash balances with NBG		32,673	29,840	(73,939)	(73,658)
- Loans and advances to customers		(397,803)	(400,992)	(263,262)	(256,679)
- Insurance assets		-	(2,915)	-	(9,180)
- Finance lease receivables		-	3,125	-	(6,496)
- Other financial assets		1,353	(7,103)	(2,189)	(12,136)
- Other assets		(67,443)	(68,294)	(10,836)	(9,783)
Net increase/(decrease) in:					
- Due to other banks		(26,562)	(26,025)	87,932	92,870
- Customer accounts		234,756	232,743	560,256	556,813
- Other financial liabilities		(1,897)	(1,897)	4,547	4,620
- Insurance liabilities		-	-	-	6,988
- Other liabilities		5,607	8,778	2,486	2,694
Net cash used in/(from) operating activities		**(125,530)**	**(131,441)**	**396,506**	**394,445**
Cash flows from investing activities					
Proceeds on disposal of debt securities held at FVOCI		71,899	72,198	-	-
Proceeds from disposal/redemption of debt securities		96,822	96,822	86,879	86,879
Acquisition of loan and deposit portfolios from JSC VTB Bank Georgia		-	-	(63,359)	(63,359)
Acquisition of debt securities		(93,857)	(93,857)	(262,804)	(262,804)
Acquisition of premises and equipment		(2,067)	(2,125)	(68,501)	(68,512)
Proceeds from disposal of premises and equipment		70	70	3	3
Acquisition of intangible assets		(3,270)	(3,270)	(2,635)	(2,635)
Investment in subsidiary		(4,000)	-	-	-
Net cash from/(used in) investing activities		**65,597**	**69,838**	**(310,417)**	**(310,428)**

Consolidated and Separate Statements of Cash Flows for the Year Ended 31 December 2023 (continued)

		2023		2022	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Consolidated**	**Bank Separate**	**Consolidated**
Cash flows from financing activities					
Proceeds from borrowed funds	30	244,778	247,467	217,368	217,368
Repayment of borrowed funds	30	(215,905)	(215,905)	(252,315)	(252,315)
Proceeds from subordinated debts	29	46,357	46,357	46,232	46,232
Repayment of principal of lease liabilities	16	(3,335)	(3,335)	(4,701)	(4,701)
Issuance of ordinary shares	22	3,660	3,660	27,177	27,177
Dividends paid	23	(7,405)	(7,405)	-	-
Net cash from financing activities		**68,150**	**70,839**	**33,761**	**33,761**
Effect of exchange rate changes on cash and cash equivalents		**(3,294)**	**(3,294)**	**(31,502)**	**(31,503)**
Net increase in cash and cash equivalents		**4,923**	**5,942**	**88,348**	**86,275**
Cash and cash equivalents at the beginning of the year	7	**277,659**	**278,068**	**189,311**	**191,793**
Cash and cash equivalents at the end of the year	7	**282,582**	**284,010**	**277,659**	**278,068**

During the years ended December 31, 2023 and December 31, 2022 the Group performed the following non-cash transactions:

- In 2023, loans to customers were settled by means of collateral repossession in the amount of GEL 4,281 thousand (2022: GEL 9,097 thousand);
- In 2022, loan portfolio with net carrying value of GEL 755,688 thousand was acquired from JSC VTB Bank Georgia in exchange for its deposit portfolio with carrying value of GEL 665,148 thousand and additional cash consideration of GEL 63,359 thousand. In 2023, no similar transactions were made.

Approved for issue and signed on 20 March 2024.

_____________________________ _____________________________

David Tsaava
General Director
Tbilisi, Georgia

Lia Aslanikashvili
Deputy General Director, Finances
Tbilisi, Georgia

The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Statements of Cash Flows for the Year Ended 31 December 2023 (continued)

		2023		2022	
In thousands of Georgian Lari	Note	Bank Separate	Consolidated	Bank Separate	Consolidated
Cash flows from financing activities					
Proceeds from borrowed funds	30	244,778	247,467	217,368	217,368
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Repayment of principal of lease liabilities	16	(3,335)	(3,335)	(4,701)	(4,701)
Issuance of ordinary shares	22	3,660	3,660	27,177	27,177
Dividends paid	23	(7,405)	(7,405)	-	-
Net cash from financing activities		**68,150**	**70,839**	**33,761**	**33,761**
Effect of exchange rate changes on cash and cash equivalents		**(3,294)**	**(3,294)**	**(31,502)**	**(31,503)**
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The notes set out on the pages 11-121 form an integral part of these consolidated and separate financial statements.

1 Introduction

The BasisBank JSC (hereinafter – the “Bank”) was incorporated and is domiciled in Georgia, registered at Krtsanisi Mtatsminda court and registration number is 4/5-44, Tax code 203841833. The Bank is a joint stock company and was set up in accordance with Georgian regulations. As of 31 December 2023 and 2022 the Bank’s immediate and ultimate parent company was Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People’s Republic of China, and the Bank was ultimately controlled by Mr. Mi Enhua.

	% of ownership interest held as at 31 December	
Shareholders	**2023**	**2022**
Xinjiang Hualing Industry & Trade (Group) Co Ltd	91.548%	92.770%
Mr. Mi Zaiqi	6.461%	6.547%
Other minority shareholders	1.991%	0.682%

Principal activity. The Group’s principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia (“NBG”) since 1993.

The Bank participates in the state deposit insurance scheme, which was introduced by the Law of Georgia on “Deposits insurance system” dated 17 May 2017. Staritng from January 1, 2022 the legal entities were added to insurance system. The Deposit Insurance Agency guarantees repayment of 100% of individual and legal deposits amounts up to GEL 15,000 per depositor in both lari and foreign currency on occurrence of insurance case – liquidation, insolvency or bankruptcy process in accordance with the law of Georgia on Commercial Banks.

The Group had 926 employees as at 31 December 2023 (2022: 911 employees), of which 881 are the Bank’s employees and 45 of the subsidiaries (2022: 867 related to the Bank and 42 to the subsidiaries).

Registered address and place of business. The Bank’s registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia.

Presentation currency. These consolidated and separate financial statements are presented in Georgian lari ("GEL"), unless otherwise stated.

Subsidiaries. These consolidated financial statements include the following principal subsidiaries:

			Ownership % at 31 December	
Name	**Country of incorporation**	**Principal activities**	**2023**	**2022**
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
BB Insurance JSC	Georgia	Insurance	100%	100%
BB Leasing JSC	Georgia	Leasing	100%	100%

Basis Asset Management – Holding LLC. The Company was incorporated and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 404417984. The Company is Limited Liability Company and was set up in accordance with Georgian regulations. The company’s principal business activity is holding property for lease. The registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia. The share capital of Basis Asset Management – Holding LLC as at 31 December 2023 was GEL 3.8 million (2022 GEL 3.8 million).

BB Insurance JSC (former Hualing Insurance JSC) was incorporated in December 2017 and is domiciled in Georgia. The Company is a joint stock company limited by shares and was set up in accordance with Georgian regulations. Registering body is Revenue Service of Georgia, Tax code 406232214. The Company’s principal business activity is insurance business operations within Georgia. The share capital of BB Insurance as at 31 December 2023 was GEL 6 million (2022: GEL 6 million).

The Company has life and non-life licenses issued by the Insurance State Supervision Service of Georgia since 27 December 2017.

The registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia.

BB Leasing JSC (former BHL Leasing JSC) was incorporated and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 406233534. The Company is Limited Liability Company and was set up in accordance with Georgian regulations. The registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia. The Bank established the leasing subsidiary in December 2018. In 2023 the share capital of BB Leasing increased to GEL 15 million (2022: GEL 11 million). The offers the customers financial leasing products in:

- Vehicle leasing
- Leasing of fixed assets (equipment, technic etc.)
- Preferential agricultural leasing (APMA)
- Leasing provided under the program “Produce in Georgia”
- Sale-and-leaseback

Abbreviations. A glossary of various abbreviations used in this document is included in Note 37.

2 Operating Environment of the Group

The Group carries out its operations in Georgia. Consequently, the Group is exposed to the changes in economic and business environment and challenges prevailing on the Georgian financial market, which displays the characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated and separate financial statements reflect the management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from the management’s assessment.

As per preliminary estimates Georgia reached 7% growth of GDP in 2023. Considering the base effect of double-digit growth in 2021 and 2022, Georgia macroeconomic indicators remain strong, supported by strong government and fiscal policies, increased consumption, and strong financial sector.

Despite stability risks, increased against the backdrop of the Russia-Ukraine war, the positive spillovers on economic activity from the massive migration is pushing consumption and is expected to continue in mid-term. IMF estimates growth of 4.7% in 2024 and 5.2% in 2025.

The annual inflation in Georgia stands below the target of 3% since April 2023 and amounted to 0.4% in December 2023. While the average annual inflation of 2023 amounted to 2.6%. This has been the result of lower commodity prices as well as decreased international shipping costs on the international markets and appreciated Lari against the main trading partners’ currencies. The sanctions imposed on Russia create main risks to the disruptions in supply chain, affecting food and energy product prices globally.

Inflation is expected to remain around 3% targeted by central bank. To contribute to the stabilization of inflation around its target rate in the medium term, NBG has gradually decreased the Monetary Policy Rate in from 11% 2023 down to 9% in December 2023. The factors contributing to the decline in inflation are expected to remain over the short term but subsequently stabilize which would push inflation close to the target by the end of the year. This is expected to be coupled with the normalization of aggregate demand accompanied by gradually reduction in monetary policy rate.

The Georgian banking sector is stable, with strong asset quality, high profitability, and high capitalisation. High Dollarisation and weaker external finances remain the key factors which may detriment Georgia's macroeconomic stability. Macroprudential measures introduced by the NBG are intended to gradually reduce the level of FX lending growth, but this will take time to achieve.

Geopolitical risks with regards to Russia remain high, more in the context of international scrutiny with regard to sanction enforcements, but the Government and the National bank are committed to mitigate these risks and number of measures had been taken in order to protect the market.

In December 2023, the European Council granted Georgia EU candidate country status, representing an important step in the accession process. The candidate status improves the prospects of Georgias economic growth and investments.

3 Summary of Accounting Policies

Basis of preparation. These consolidated and separate financial statements (hereafter the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of premises, financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Management have, at the time of approving these consolidated and separate financial statements, a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future.

The Bank's and the Group's ability to continue as a going concern has been reviewed by the Management. In adopting the going concern basis for preparing the consolidated and separate financial statements, the Management have considered the Group's and the Bank's business activities, strategy, principal risks and uncertainties in achieving its objectives, and performance. The Management have performed an assessment of the Group's and the Bank's financial forecasts and testing of key positions including financial plan and strategy implementation, profitability, capital and solvency, liquidity.

Based on this, the Management confirm that they have a reasonable expectation that the Bank and the Group have adequate resources to continue in operational existence for the 12 months from the date the approval of these financial statements. The management is not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Bank's and the Group's ability to continue as a going concern.

Thus they continue to adopt the going concern basis of accounting in preparing the consolidated and separate financial statements.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is applied if the acquired entity represents a business: it has inputs and a substantive process that together significantly contribute to the ability to create outputs. This definition is also applied to early stage companies that have not yet generated outputs. When assessing whether the acquired entity is a business, the Group may apply a 'concentration test' whereby the acquired assets are not considered a business if substantially all of the fair value of gross assets is concentrated in a single asset or a group of similar assets

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Investments in subsidiaries. Investments in subsidiaries are accounted for under the cost method in the separate financial statements of the Bank. When there is objective evidence that the carrying amount of the investment in subsidiary has impaired the impairment loss is calculated as a difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods can be reversed only if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

Financial instruments – key measurement terms. *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the Group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the Group's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 34.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated and separate statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the foreign exchange forwards. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Group in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Group in performing the SPPI test for its financial assets.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the seprate and consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated and separate statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 31 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The

Group's definition of credit impaired assets and definition of default is explained in Note 31. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 31.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by GEL 2,663 thousand as of 31 December 2023 (31 December 2022: higher by GEL 4,481 thousand).

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate.

The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The time value of money element may be modified. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The instruments that failed the SPPI test are measured at FVTPL.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. Indicators that there is no reasonable expectation of recovery include days past due over 180 days and non-existence of collateral as of write off day. The Bank will also write off those loans, which were collateralized, but the execution process on overdue liability is finalized and all existing collaterals have been sold on auctions or repossessed. The remaining unsecured liability will be written off, even if there is no overdue portion of the liability at the moment of write off.

Based on expert recommendation, the Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery, or the expected recovery is insignificant compared to the remaining liability.

For finance lease receivables determining that there are no reasonable expectation of recovery through cash flows are based on management judgment considering the characteristics of individual customers.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets.

When financial assets are contractually modified (e.g. renegotiated), the Group assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Group applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications.

When as a result of qualitative analysis, the Bank did not identify any criteria that leads to derecognition, additional quantitative test needs to be performed. Doing so, a modification is generally deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is at least 10 per cent different from the net present value of the remaining cash flows of the financial asset prior to the modification, both discounted at the original effective interest rate of the financial asset prior to the modification.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred.

Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change considerably, the modified asset is not substantially different from the original asset and the modification does not result in derecognition.

The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in consolidated and separate statements of profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the consolidated and separate statement of financial position and for the purposes of the consolidated and separate statement of cash flows. Cash and cash equivalents are carried at AC.

Mandatory cash balances with the NBG. Mandatory cash balances with the NBG are carried at AC and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated and separate statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks or places deposits with other banks. Amounts due from other banks are carried at AC.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at cost when acquired and included in premises and equipment, investment properties, assets held for sale or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realizable value. The Group applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee.

At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the consolidated and separate statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of impairment amount. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required.

Premises and equipment. Premises and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

If there is no market based evidence of fair value, fair value is estimated using an income approach.
Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

Leasehold improvements are alterations made to rented properties by the Group to customise it to its particular business needs and preferences. Office equipment, vehicles, leasehold improvements stated are at cost, net of accumulated depreciation and accumulated impairment losses, if any.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income, net).

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software and licences. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceed costs is probable. Capitalised costs include costs for the software development service provided by external contractors and payrolls to employees involved in the development. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences is amortised on a straight line basis over expected useful lives as determined by internal judgment.

Depreciation. Land and construction in progress are not depreciated. Depreciation of other items of premises and equipment and right-of-use assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Office and computer equipment	5
ATM	10
Leasehold improvements	1 to 5
Motor vehicles	5
Right-of-use assets	1 to 10
Computer software without functional maturity	10
Licenses without functional maturity	8

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Accounting for leases by the Group as a lessee. The Group leases office and premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Group as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from lease is recorded as a separate line in the consolidated profit or loss and other comprehensive income statement.

Credit loss allowance is recognised in accordance with the general ECL model using a simplified approach at lifetime ECL. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases.

The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks for a short period of time. Due to other banks are carried at AC.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Borrowed funds. Borrowed funds include long-term lending from international and other financial institutions that are carried at AC.

Subordinated debts. Subordinated debts include debts and issued securities. No prepayment of the subordinated debts can be made except in the case of the occurrence of bankruptcy and/or liquidation proceedings. In such instances, repayment of the subordinated debts will be made only after covering depositors and unsecured creditors obligations. Subordinated debts are carried at AC

Debt securities in issue. Debt securities in issue include bonds issued by the Group. Debt securities are stated at AC. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Accounting for subordinated loans from Shareholder. The shareholder ("Xinjiang Hualing Industry & Trade (Group) Co Ltd') provided two subordinated loans to the group of USD 4,900 thousand and USD 2,588 thousand respectively, both bearing a fixed interest rate of 7%, maturing August 2026 and September 2030 respectively.

The loans were originally recognised and is subsequently carried on the consolidated and separate statements of financial position at amortised contractual value. Terms and conditions of related party balances are disclosed in Note 35.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, currency and interest rate swaps, are carried at their fair value.

The Group may also enters into offsetting loans with its counterparty banks to exchange currencies. Such loans, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the loans are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Fair value of derivatives and certain other instruments. Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 34.

Income taxes. Income taxes have been provided for in the consolidated and separate financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

On January 1, 2023, important changes in the Tax Code of Georgia came into force. Certain changes were made to the regime of taxation of banking institutions, credit unions, microfinance organizations, lending entities, including determining of the standards of accounting of the interest income and reserves for the potential losses. According to other important changes:

- The object of profit tax for commercial banks, credit unions, microfinance organizations, and loan issuers is the difference between gross income received during the calendar year and deductions stipulated under the Tax Code.
- Commercial banks, credit unions and microfinance organizations will recognize interest accrued on loans as income and deduct reserves for possible loan losses from gross income according to IFRS.
- The corporate income tax rate for commercial banks, credit unions, microfinance organizations, and loan issuers is 20%.
- Dividends issued by commercial banks, credit unions, insurance organizations, microfinance organizations, and loan issuers from 2023 profits and subsequent periods are not taxed at the source of payment and should not be included in the gross income of the recipient of dividends.
- Until January 2024, the object of profit tax for insurance organizations will be the difference between gross income received during the calendar year and deductions stipulated under the Tax Code.

Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Tax deduction for lease payments is allocated to depreciation of right of use asset and interest cost on the lease liability. As a result, no temporary differences arise upon initial recognition of a new lease where the Group is a lessee.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Any dividends declared after the end of the reporting period and before the consolidated and separate financial statements are authorised for issue. Refer Note 23.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in P&L due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account maintenance, account servicing fees, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses.

Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Sales and purchases of foreign currencies and currency conversion. The Group sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Group, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Group rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of Georgia, Georgian Lari ("GEL").

Monetary assets and liabilities are translated into each the Group's functional currency at the official exchange rate of the NBG at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Group's each functional currency at year-end official exchange rates of the NBG, are recognised in profit or loss for the year (as foreign exchange translation gains less losses).

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation.

At 31 December 2023 and 2022, the principal rate of exchange used for translating foreign currency balances were:

	December 31, 2023	**December 31, 2022**
USD 1 = GEL	2.6894	2.7020
EUR 1 = GEL	2.9753	2.8844

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated and separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Staff costs and related contributions. Wages, salaries, contributions to the Pension scheme, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Share based payments. Under share-based compensation plan the Group receives services from management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled schemes is accounted for under share based payment reserve. Upon meeting vesting conditions, share based payment reserve attributable to the vested shares is transferred to share capital and share premium.

Insurance and reinsurance contracts classification and accounting treatment: The Group issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. The Group also issues reinsurance contracts in the normal course of business to compensate other entities for claims arising from one or more insurance contracts issued by those entities. The Group does not issue any contracts with direct participating features.

Separating components from insurance and reinsurance contracts: Currently, the Group's products do not include any distinct components that require separation under IFRS 17.

Aggregation of contracts: The level of aggregation for the Group is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. The portfolios are further divided by year of issue and profitability for recognition and measurement purposes.

The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. The Group assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise.

The Group divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition.
Recognition and derecognition: A group of insurance contracts (or reinsurance contracts issued) is recognised from the earliest of the following dates: the beginning of the period of coverage of the group of contracts, the date on which the first payment of a policyholder in the group becomes due (or, in the absence of such a date, when the first payment is received) and, in the case of a group of onerous contracts, the date on which the group becomes onerous.

A group of reinsurance contracts held is recognised from the beginning of the period of coverage of the group of reinsurance contracts held or, if the reinsurance was contracted in anticipation of the coverage of an underlying group of onerous insurance contracts, on the first recognition of that onerous group.
The Group adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

An insurance contract shall be derecognised when the obligation it covers is extinguished, by payment or maturity, or if the terms of the contract are amended in such a way that the accounting treatment of the contract would have been substantially different if those amendments had originally existed. The derecognition of a contract entails the adjustment of the fulfilment cash flows, the contractual services margin and the coverage units of the group in which it was included

Premium Allocation Model ("PAA"): The Group applies PAA to all the insurance contracts that it issues and reinsurance contracts that it holds, as the eligibility criteria set out in IFRS 17 have been met.
For a group of contracts that is not onerous at initial recognition, the Group measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition

- Minus any insurance acquisition cash flows at that date, with the exception of contracts which are one year or less where this is expensed,
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows and
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Group pays or receives before the group of insurance contracts is recognised.

The Group measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.
The Group measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows, with the exception of property insurance product line for which the Group chooses to expense insurance acquisition cash flows as they occur
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group
- Plus any adjustment to the financing component, where applicable
- Minus the amount recognised as insurance revenue for the services provided in the period
- Minus any investment component paid or transferred to the liability for incurred claims

The Group estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Group, and include an explicit adjustment for non-financial risk (the risk adjustment).

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Group recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Group for the liability for remaining coverage for such onerous group depicting the losses recognised.

Insurance acquisition cash flows are allocated on a straight-line basis as a portion of premium to profit or loss (through insurance revenue).

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Group allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses. The Group changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate.

The Group presents separately on the face of the statement of profit or loss and other comprehensive income, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Group treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values.

Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions.

The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 35.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in accordance with contractual maturity. Refer to Note 31 for analysis of financial instruments by their maturity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items of the consolidated statement of financial position that are not analysed in Note 31.

	December 31, 2023			December 31, 2022		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
In thousands of Georgian Lari	Within 2 months after the reporting period	After 12 months after the reporting period	Total	Vithin 12 months after the reporting period	After 12 months after the reporting period	Total
ASSETS						
Cash and cash equivalents	284,010	-	284,010	278,068	-	278,068
Mandatory cash balances with the NBG	184,600	-	184,600	218,587	-	218,587
Due from other banks	6,342	9,084	15,426	12,593	-	12,593
Investments in debt securities	136,143	242,318	378,461	351,902	42,460	394,362
Loans and advances to customers	829,803	1,664,167	2,493,970	997,402	1,089,375	2,086,777
Finance leases to customers	2,559	23,577	26,136	4,595	13,085	17,680
Reinsurance contract assets	74,974	-	74,974	2,474	-	2,474
Investment properties	-	1,299	1,299	-	1,657	1,657
Other financial assets	2,269	-	2,269	3,351	135	3,486
Other assets	6,651	26,414	33,065	6,651	27,965	34,616
Premises and equipment	-	107,375	107,375	-	105,223	105,223
Right of use assets	-	17,364	17,364	-	21,582	21,582
TOTAL ASSETS	**1,527,351**	**2,091,598**	**3,618,949**	**1,875,623**	**1,301,482**	**3,177,105**
LIABILITIES						
Due to other banks	284,866	-	284,866	310,707	-	310,707
Customer accounts	1,780,439	411,933	2,192,372	1,873,209	87,531	1,960,740
Other borrowed funds	224,975	157,369	382,344	242,099	100,838	342,937
Lease Liabilities	3,559	12,411	15,970	3,251	15,325	18,576
Insurance contract liabilities	77,101	-	77,101	3,192	-	3,192
Other financial liabilities	3,961	-	3,961	5,858	-	5,858
Current income tax liability	13,518	-	13,518	913	-	913
Deferred income tax liability	-	1,996	1,996	-	11,449	11,449
Provisions for liabilities and charges	1,655	-	1,655	1,297	-	1,297
Other liabilities	18,041	-	18,041	10,622	-	10,622
Subordinated debts	-	106,383	106,383	-	56,933	56,933
TOTAL LIABILITIES	**2,408,115**	**690,092**	**3,098,207**	**2,451,148**	**272,076**	**2,723,224**

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement and incorporation of forward-looking information in ECL models. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 31. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. It is worth noting that macro-economic parameters are very volatile, thus their impact on ECL might change significantly depending on the given situation and specific macroeconomic forecasts. The group incorporates forward-looking macroeconomic information two most critical components for ECL estimation: PD and LGD. Note 31 provides information about inputs, assumptions and estimation techniques used in PD and LGD models for ECL estimation, including an explanation of how the Group incorporates forward-looking information in the ECL models.

The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. Forecasts of economic variables (the "base economic scenario", "Upside economic scenario" and "downside economic scenario") are published by the National Bank of Georgia and provide the best estimate of the expected macro-economic development. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates. Final PD models have been adjusted with relevant macroeconomic variables, with significant impact on Default rates GDP Growth for Retail PD Models and Unemployment for Corporate PD Models).

The Group has incorporated macroeconomic variables in the formulas for LGD, in particular in LGD2 formulas, via incorporating adjustment by real estate price index on the collateral value. In 2023 no adjustment is done for EAD, as the impact has been assessed as insignificant.

Currently the Group uses only scenarios published by the National Bank of Georgia for macroeconomic adjustment in impairment model. In the final model, Scenario weights are according to the weights determined in the NBG's publication: 50% for baseline scenario, 25%-25% for upside and downside scenarios.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected.

The most significant forward looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2023:

		Assigned	Assumption for:		
Variable	**Scenario**	**weight**	**2024**	**2025**	**2026**
Real GDP Growth rate %	Base	50%	5.00%	4.50%	5.00%
	Upside	25%	6.50%	5.50%	5.00%
	Downside	25%	3.00%	4.00%	5.00%
Real Estate price index in GEL (YoY	Base	50%	106.00	105.50	105.50
	Upside	25%	106.50	105.75	105.50
	Downside	25%	106.00	105.75	105.50
GEL/USD Nominal Exchange Rate (YoY)	Base	50%	100.00	100.00	100.00
	Upside	25%	97.00	98.00	100.00
	Downside	25%	115.00	100.00	95.00
Unemployment (%)	Base	50%	16.71	16.71	16.46
	Upside	25%	16.46	16.21	15.96
	Downside	25%	17.96	18.46	17.96

CPI inflation which has been found to be a significant macroeconomic variable affecting ECL for individually assessed Stage 1 and Stage 2 loans, is not used in 2023. In 2023 the Group assesses ECL individually for Stage 3 loans, taking into consideration expected cash flows from selling of underlying collaterals, hence Real Estate price index in GEL and GEL/USD Nominal Exchange Rate are relevant macroeconomic variables with high statistical significance. In previous years Nominal Effective Exchange Rate has been found to have high statistical significance on PD in retail Segment, while in 2023 GDP is the macroeconomic variable with the highest statistical significance on PD in retail Segment.

The assumptions and assigned weights were as follows at 31 December 2022:

		Assigned	Assumption for:		
Variable	**Scenario**	**weight**	**2023**	**2024**	**2025**
Real GDP Growth rate %	Base	50%	4.00%	5.50%	5.00%
	Upside	25%	6.00%	5.00%	5.00%
	Downside	25%	2.00%	4.00%	5.00%
Real Estate price index in GEL (YoY	Base	50%	107.00	105.50	105.50
	Upside	25%	108.00	105.50	105.50
	Downside	25%	110.00	108.00	105.50
GEL/USD Nominal Exchange Rate (YoY)	Base	50%	100.00	100.00	100.00
	Upside	25%	98.00	100.00	100.00
	Downside	25%	115.00	95.00	95.00
Unemployment (%)	Base	50%	16.04	15.79	15.79
	Upside	25%	15.04	15.04	15.04
	Downside	25%	17.04	17.29	17.04

A change in the weight assigned to base forward looking macro-economic set of assumptions by 10% towards the immediate downside level assumptions would result in an increase in ECL by GEL 23 thousand at 31 December 2023 (31 December 2022: by GEL 203 thousand). A corresponding change towards the upside assumptions would result in a decrease in ECL by GEL 35 thousand at 31 December 2023 (31 December 2022: by GEL 79 thousand).

A 10% increase in PD estimates would result in an increase in total expected credit loss allowances of GEL 347 thousand at 31 December 2023 (31 December 2022: GEL 582 thousand). A 10% decrease in PD estimates would result in an decrease in total expected credit loss allowances of GEL 358 thousand at 31 December 2023 (31 December 2022: GEL 581 thousand).

A 10% increase in LGD estimates would result in an increase in total expected credit loss allowances of GEL 4,316 thousand at 31 December 2023 (31 December 2022: GEL 2,0373 thousand). A 10% decrease in LGD estimates would result in a decrease in total expected credit loss allowances of GEL thousand at 3,985 at 31 December 2023 (31 December 2022: GEL 2,369 thousand).

The Bank applies LGD floor to estimated LGD value. A 10% increase or decrease in LGD floor value would result in an increase or decrease in total expected credit loss allowances of GEL 326 thousand at 31 December 2023 (31 December 2022: increase or decrease by GEL 232 thousand).

Premises valuation. Premises are stated revalued amounts and are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Premises have been revalued at fair value in December 2021 by an independent firm of valuers. The fair value of premises were estimated based on comparable sales approach.

Repossessed assets valuation. All repossessed assets is measured at the lower of cost or net realisable value. The Group performs regular internal and external valuations to make sure that the carrying amount is not higher than the net realisable value. Valuations are based on available information on market prices, for repossessed real estate on market prices per square meter.

5 Adoption of New or Revised Standards and Interpretations

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after January 1, 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated and separate financial statements, except for IFRS 17, as discussed below.

IFRS 17 Insurance Contracts* and related restatements*: IFRS 17 replaces IFRS 4 *Insurance Contracts* for annual periods on or after 1 January 2023.

IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Group. Under IFRS 17, the Group's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach ("PAA").

The measurement principles of the PAA differ from the 'earned premium approach' used by the Group under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart

- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision)
- Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not-reported (IBNR) claims) is determined on a discounted probability-weighted expected value basis, and includes an explicit risk adjustment for non-financial risk. The liability includes the Group's obligation to pay other incurred insurance expenses.
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

The Group applied the full retrospective approach when adopting IFRS 17. Differences arising from the adoption of IFRS 17 were recognised in retained earnings as of 1 January 2022 (the transition date). The consolidated statement of financial position at the transition date has not been presented, as the adoption did not have a material impact at that date. The Group has restated comparative information for 2022 applying the transitional provisions in Appendix C to IFRS 17. The financial impacts of transition to IFRS 17 and prior period corrections are summarised in the table below:

In thousands of Georgian Lari	**As previously reported as at or for the year ended 31 December 2022**	**Effect of adoption of IFRS 17**	**Correction of errors**	**As restated as at or for the year ended 31 December 2022**
Consolidated Statement of Financial Position				
Assets				
Insurance assets	15,460	(15,460)	-	-
Other financial assets	3,761	(275)	-	3,486
Reinsurance contract assets	-	2,474	-	2,474
Due from other banks	12,618	-	(25)	12,593
Other assets	34,586	-	30	34,616
TOTAL ASSETS	**3,190,361**	**(13,261)**	**5**	**3,177,105**
Liabilities				
Insurance liabilities	15,381	(15,381)	-	-
Other financial liabilities	6,402	(544)	-	5,858
Insurance contract liabilities	-	3,192	-	3,192
Other liabilities	10,552	-	70	10,622
TOTAL LIABILITIES	**2,735,887**	**(12,733)**	**70**	**2,723,224**
Equity				
Retained earnings	318,531	(528)	(65)	317,938
TOTAL EQUITY	**454,474**	**(528)**	**(65)**	**453,881**
Consolidated Statement of Profit or Loss and Other Comprehensive Income				
Net insurance revenue	3,050	(3,050)	-	-
Net insurance claims incurred	(1,114)	1,114	-	-
Administrative and other	(72,110)	(1,643)	(40)	(73,793)
Insurance service result	-	9,755	-	9,755
Reinsurance service result	-	(6,273)	-	(6,273)
Income tax expense	(12,648)	-	(25)	(12,673)
Profit for the year	**454,474**	**(97)**	**(65)**	**453,881**

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*— Disclosure of Accounting Policies: The Group has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

Amendments to IAS 12 *Income Taxes*—Deferred Tax related to Assets and Liabilities arising from a Single Transaction: The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

Amendments to IAS 12 *Income Taxes*— International Tax Reform—Pillar Two Model Rules: In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates*: The Group has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted.

6 New Accounting Pronouncements

At the date of authorisation of these financial statements, the Group and the Bank have not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-curren
Amendments to IAS 1	Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group and the Bank in future periods, unless such transactions arise in future periods.

7 Cash and Cash Equivalents

In thousands of Georgian Lari	December 31, 2023	December 31, 2022
Cash on hand	58,337	76,580
Cash balances with the NBG (other than mandatory reserve deposits)	57,122	107,632
Correspondent accounts and overnight placements with other banks	167,762	93,938
Placements with other banks with original maturities of less than three months	1,134	388
Less: credit loss allowance	(345)	(470)
Total cash and cash equivalents	**284,010**	**278,068**

The cash balances with the NBG (other than mandatory reserve deposits) represent balances with the NBG related to settlement activity and were available for withdrawal at year end.

The cash and cash equivalent balances under the Bank's separate financial statement as at 31 December 2023 amount GEL 282,582 thousand (2022: GEL 277,659 thousand). Subsidiaries attributed GEL 1,428 thousand to the Group's balance at 31 December 2023 (2022: GEL 409 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2023. Refer to Note 31 for the description of the Group's credit risk grading system. Amounts are presented net of credit loss allowance:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks, with maturity of less than three months	Total
- Excellent	-	152,198	-	152,198
- Good	57,001	13,405	1,132	71,538
- Satisfactory	-	730	-	730
- Special monitoring	-	1,207	-	1,207
- Unrated	-	-	-	-
Total cash and cash equivalents, excluding cash on hand	**57,001**	**167,540**	**1,132**	**225,673**

The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2022 is as follows:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks, with maturity of less than three months	Total
- Excellent	-	28,378	-	28,378
- Good	107,400	62,811	109	170,320
- Satisfactory	-	840	-	840
- Special monitoring	-	161	-	161
- Unrated	-	1,511	278	1,789
Total cash and cash equivalents, excluding cash on hand	**107,400**	**93,701**	**387**	**201,488**

7 Cash and Cash Equivalents (Continued)

At 31 December 2023 the Group had 1 counterparty bank (2022: no counterparty bank) with aggregated cash and cash equivalent balance above 10% of equity with aggregate amount of GEL 149,456 thousand or 66.1% of the cash and cash equivalents).

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 31 for the ECL measurement approach.

Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances is disclosed in Note 35.

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia (“NBG”) represent amounts deposited with the NBG. Georgian financial institutions are required to maintain an obligatory reserve with the NBG, availability of these funds are restricted and the amount depends on the level of funds attracted by a financial institution.

On January 12, 2024 Fitch Ratings has affirmed Georgia's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB' with a Positive Outlook.

Interest rate analysis of Mandatory cash balances with the NBG is in Note 31.

For the purpose of ECL measurement Mandatory cash balances with the NBG are included in Stage 1. As at 31 December 2023, ECL for the Mandatory cash balances with the NBG amounts to GEL 392 thousand (2022: GEL 476 thousand). Refer to Note 31 for the ECL measurement approach.

9 Due from Other Banks

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Placements with other banks with original maturities of more than three months	15,470	12,618
Less: credit loss allowance	(44)	(25)
Total due from other banks	**15,426**	**12,593**

Due from Other Banks represent term placements of the Bank’s subsidiaries with other Georgian banks.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. Refer to Note 31 for the ECL measurement approach.

The credit quality of due from other bank balances based on credit risk grades are as follows:

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
- Excellent	-	-
- Good	15,426	-
- Not rated	-	12,593
Total due from other banks	**15,426**	**12,593**

10 Investments in Debt Securities

In thousands of Georgian Lari	December 31, 2023	December 31, 2022
Debt securities at AC	220,735	248,127
Debt securities at FVOCI	157,726	146,235
Total investments in debt securities	**378,461**	**394,362**

The table below discloses investments in debt securities at 31 December 2023 by measurement categories and classes:

In thousands of Georgian Lari	Debt securities at FVOCI	Debt securities at AC	Total
Georgian government treasury bonds	157,726	109,515	267,241
Georgian government treasury bills	-	52,373	52,373
Corporate bonds	-	59,321	59,321
Total investments in debt securities at 31 December 2023 (fair value or gross carrying value)	**157,726**	**221,209**	**378,935**
Credit loss allowance	-	(474)	(474)
Total investments in debt securities at 31 December 2023 (carrying value)	**157,726**	**220,735**	**378,461**

The table below discloses investments in debt securities at 31 December 2022 by measurement categories and classes:

In thousands of Georgian Lari	Debt securities at FVOCI	Debt securities at AC	Total
Georgian government treasury bonds	146,235	175,587	321,822
Georgian government treasury bills	-	39,537	39,537
Corporate bonds	-	33,512	33,512
Total investments in debt securities at 31 December 2022 (fair value or gross carrying value)	**146,235**	**248,636**	**394,871**
Credit loss allowance	-	(509)	(509)
Total investments in debt securities at 31 December 2022 (carrying value)	**146,235**	**248,127**	**394,362**

For the purpose of ECL measurement as at 31 December 2023 and 2022 the securities at FVOCI and AC belong to stage 1. Refer to Note 31 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI and AC. Total allowance for ECL recognized for debt securities at FVOCI amounted to GEL 334 thousand as at 31 December 2023 (2022: GEL 304 thousand).

The credit quality of debt securities at FVOCI and AC at 31 December 2023 and 2022 is classified as Good. The debt securities at FVOCI and AC as at 31 December 2023 are not collateralised (2022: not collateralised).

At 31 December 2023 debt securities with a gross carrying value of GEL 126,662 thousand have been pledged for the short-term loans received NBG as collateral (2022: GEL 192,306 thousand). Refer to Notes 17 and 19. The counterparty is not allowed to sell further or repledge the investments.

11 Loans and Advances to Customers

In thousands of Georgian Lari	December 31, 2023	December 31, 2022
Gross carrying amount of loans and advances to customers at AC	2,527,164	2,121,190
Less: credit loss allowance	(33,194)	(34,413)
Total carrying amount of loans and advances to customers at AC	**2,493,970**	**2,086,777**

As at 31 December 2023 and 2022 the Group identified 100% of portfolio of loans and advances to customers to meet the SPPI requirement for AC classification under IFRS 9.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2023 and 31 December 2022 are disclosed in the table below:

	December 31, 2023			December 31, 2022		
In thousands of Georgian Lari	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Standard lending	**1,718,340**	**(14,887)**	**1,703,453**	**1,361,003**	**(10,776)**	**1,350,227**
Loans to Large entities	1,260,692	(5,124)	1,255,568	1,028,382	(4,903)	1,023,479
Loans to SME	457,648	(9,763)	447,885	332,621	(5,873)	326,748
Retail Lonas	**808,824**	**(18,307)**	**790,517**	**760,187**	**(23,637)**	**736,550**
Mortgage loans	512,847	(8,774)	504,073	506,736	(11,063)	495,673
Consumer loans	268,522	(8,596)	259,926	222,175	(9,373)	212,802
Credit cards	27,455	(937)	26,518	31,276	(3,201)	28,075
Total loans and advances to customers at AC	**2,527,164**	**(33,194)**	**2,493,970**	**2,121,190**	**(34,413)**	**2,086,777**

The explanation of classes of standard loans to legal entities is provided below:

- Loans issued to large business entities under the standard terms, mainly for working capital financing and investment projects; and
- Loans to SME – loans issued to small and medium-sized enterprises, where the Group defines such as loans issued to a client up to USD 2 million;

Mortgage loans with outstanding principal of GEL 88,066 thousand are pledged for the short term loan from NBG at 31 December 2023 (2022: mortgage loans GEL 109,739 thousand and SME loans GEL 28,246 thousand). Refer to Note 17.

11 Loans and Advances to Customers (Continued)

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods:

	December 31, 2023			December 31, 2022		
In thousands of Georgian Lari	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Standard lending	**1,593,898**	**80,511**	**43,931**	**1,260,305**	**66,698**	**34,000**
Loans to Retail Sector	**734,522**	**24,689**	**49,613**	**677,203**	**34,008**	**48,976**
Mortgage loans	459,726	19,267	33,854	449,356	22,038	35,342
Consumer loans	248,347	4,831	15,344	199,580	9,900	12,695
Credit cards	26,449	591	415	28,267	2,070	939
Less: Provision for loan	(6.002)	(739)	(26.453)	(6.933)	(1.179)	(26.301)
Total loans and advances to customers at AC	**2,322,418**	**104,461**	**67,091**	**1,930,575**	**99,527**	**56,675**

11 Loans and Advances to Customers (Continued)

The following tables tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods:

	Credit loss allowance				**Gross carrying amount**			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans to Legal entities								
At 31 December, 2022	**(2,253)**	**(432)**	**(8,091)**	**(10,776)**	**1,260,305**	**66,696**	**34,002**	**1,361,003**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	110	(110)	-	-	(75,615)	75,615	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1,261	369	(1,630)	-	(9,102)	(18,025)	27,127	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(184)	174	10	-	38,750	(38,750)	-	-
-to lifetime (from Stage 3 credit impaired to Stage 2)	-	(1,373)	1,373	-	-	10,256	(10,256)	-
New originated or purchased	(3,406)	-	-	(3,406)	1,026,840	-	-	1,026,840
Net Repayments	1,013	227	976	2,216	(653,958)	(15,231)	(7,538)	(676,727)
Other movements	380	98	(1,408)	(930)	(698)	(511)	763	(446)
Net remeasurement due to change in credit risk	106	484	(2,629)	(2,039)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(720)**	**(131)**	**(3,308)**	**(4,159)**	**326,217**	**13,354**	**10,096**	**349,667**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	16	16	-	-	(16)	(16)
Foreign exchange gains and losses and other movements	5	2	25	32	7,376	461	(151)	7,686
At 31 December, 2023	**(2,968)**	**(561)**	**(11,358)**	**(14,887)**	**1,593,898**	**80,511**	**43,931**	**1,718,340**

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans to Legal entities								
At 31 December, 2021	**(3,954)**	**(3,858)**	**(11,719)**	**(19,531)**	**930,402**	**42,790**	**44,670**	**1,017,862**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	860	(860)	-	-	(84,310)	84,310	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	5,099	503	(5,602)	-	(19,029)	(15,855)	34,884	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(4,243)	4,243	-	-	39,664	(39,652)	(12)	-
-to lifetime (from Stage 3 credit impaired to Stage 2)	-	(1,616)	1,616	-	-	5,434	(5,434)	-
New originated or purchased	(10,741)	(245)	(88)	(11,074)	1,144,622	14,932	182	1,159,736
Net Repayments and other movements*	7,021	868	3,596	11,485	(638,210)	(15,183)	(30,966)	(684,359)
Net remeasurement due to change in credit risk	2,973	(567)	(2,137)	269	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**969**	**2,326**	**(2,615)**	**680**	**442,737**	**33,986**	**(1,346)**	**475,377**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	5,493	5,493	-	-	(5,493)	(5,493)
Foreign exchange gains and losses and other movements	732	1,100	750	2,582	(112,834)	(10,080)	(3,829)	(126,743)
At 31 December, 2022	**(2,253)**	**(432)**	**(8,091)**	**(10,776)**	**1,260,305**	**66,696**	**34,002**	**1,361,003**

** Net Repayments and other movements include additional disbursements on earlier originated loans and utilisation of credit lines reflecting the increase in exposure, as well, as payments. ECL rate change is also reflected in other movements, were there is no change in an exposure stage.*

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Mortgage loans								
At 31 December, 2022	**(996)**	**(98)**	**(9,969)**	**(11,063)**	**449,355**	**22,037**	**35,344**	**506,736**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	126	(126)	-	-	(44,864)	44,864	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	211	469	(680)	-	(2,118)	(23,577)	25,695	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(739)	259	480	-	38,586	(36,753)	(1,833)	-
-to lifetime (from Stage 3 credit impaired to Stage 2)	-	(3,591)	3,591	-	-	17,583	(17,583)	-
New originated or purchased	(816)	-	-	(816)	156,460	-	-	156,460
Net Repayments	235	37	2,171	2,443	(139,752)	(5,255)	(7,828)	(152,835)
other movements	810	138	2,490	3,438	379	174	85	638
Net remeasurement due to change in credit risk	558	2,864	(6,202)	(2,780)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**385**	**50**	**1,850**	**2,285**	**8,691**	**(2,964)**	**(1,464)**	**4,263**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	1	1	-	-	(1)	(1)
Foreign exchange gains and losses and other movements	9	-	(6)	3	1,680	194	(25)	1,849
At 31 December, 2023	**(602)**	**(48)**	**(8,124)**	**(8,774)**	**459,726**	**19,267**	**33,854**	**512,847**

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Mortgage loans								
At 31 December, 2021	**(169)**	**(14)**	**(1,995)**	**(2,178)**	**159,115**	**3,543**	**11,533**	**174,191**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	233	(233)	-	-	(43,230)	43,230	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	310	993	(1,303)	-	(3,960)	(29,690)	33,650	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(168)	168	-	-	7,747	(7,747)	-	-
-to lifetime (from Stage 3 credit impaired to Stage 2)	-	(616)	616	-	-	4,261	(4,261)	-
New originated or purchased	(1,402)	(383)	(583)	(2,368)	485,508	16,157	2,787	504,452
Net Repayments and other movements*	(47)	(144)	(1,230)	(1,421)	(123,667)	(6,386)	(5,919)	(135,972)
Net remeasurement due to change in credit risk	148	67	(7,198)	(6,983)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(926)**	**(148)**	**(9,698)**	**(10,772)**	**322,398**	**19,825**	**26,257**	**368,480**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	14	1,532	1,546	-	(14)	(1,530)	(1,544)
Foreign exchange gains and losses and other movements	99	50	192	341	(32,158)	(1,317)	(916)	(34,391)
At 31 December, 2022	**(996)**	**(98)**	**(9,969)**	**(11,063)**	**449,355**	**22,037**	**35,344**	**506,736**

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				**Gross carrying amount**			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 31 December, 2022	**(1,621)**	**(146)**	**(7,606)**	**(9,373)**	**199,579**	**9,901**	**12,695**	**222,175**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	176	(176)	-	-	(25,998)	25,998	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1,201	249	(1,450)	-	(5,368)	(16,697)	22,065	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	2,986	218	(3,204)	-	17,253	(16,991)	(262)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	67	(67)	-	-	6,141	(6,141)	-
New originated or purchased	(2,553)	-	-	(2,553)	238,261	-	-	238,261
Net Repayments	1,054	56	8,168	9,278	(173,599)	(4,025)	(11,212)	(188,836)
Other movements	(3)	126	(7,676)	(7,553)	(2,068)	450	10,813	9,195
Net remeasurement due to change in credit risk	(3,104)	(447)	(7,432)	(10,983)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(243)**	**93**	**(11,661)**	**(11,811)**	**48,481**	**(5,124)**	**15,263**	**58,620**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	7	(1)	12,593	12,599	(7)	1	(12,593)	(12,599)
Foreign exchange gains and losses and other movements	-	-	(11)	(11)	294	53	(21)	326
At 31 December, 2023	**(1,857)**	**(54)**	**(6,685)**	**(8,596)**	**248,347**	**4,831**	**15,344**	**268,522**

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 31 December, 2021	**(392)**	**(18)**	**(933)**	**(1,343)**	**62,758**	**2,965**	**2,942**	**68,665**
Changes in Assumptions								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	936	(936)	-	-	(29,255)	29,255	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	431	3,471	(3,902)	-	(1,053)	(25,334)	26,387	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(229)	224	5	-	2,855	(2,841)	(14)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(263)	263	-	-	948	(948)	-
New originated or purchased	(4,539)	(1,698)	(18,602)	(24,839)	289,328	8,989	21,144	319,461
Net Repayments and other movements*	1,983	674	(471)	2,186	(122,812)	(4,031)	(6,676)	(133,519)
Net remeasurement due to change in credit risk	154	(1,605)	(14,076)	(15,527)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(1,264)**	**(133)**	**(36,783)**	**(38,180)**	**139,063**	**6,986**	**39,893**	**185,942**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	5	30,097	30,102	-	(5)	(30,097)	(30,102)
Foreign exchange gains and losses and other movements	35	-	13	48	(2,242)	(45)	(43)	(2,330)
At 31 December, 2022	**(1,621)**	**(146)**	**(7,606)**	**(9,373)**	**199,579**	**9,901**	**12,695**	**222,175**

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit cards								
At 31 December, 2022	**(2,066)**	**(506)**	**(629)**	**(3,201)**	**28,267**	**2,068**	**941**	**31,276**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	301	(301)	-	-	(5,498)	5,498	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	82	276	(358)	-	(620)	(1,404)	2,024	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(716)	989	(273)	-	5,676	(5,331)	(345)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	158	(158)	-	-	392	(392)	-
New originated or purchased	(663)	-	-	(663)	28,889	-	-	28,889
Net Repayments	848	126	1,081	2,055	(30,405)	(610)	(1,624)	(32,639)
Other movements	1,124	(29)	(870)	225	177	38	1,408	1,623
Net remeasurement due to change in credit risk	480	(848)	(677)	(1,045)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**1,456**	**371**	**(1,255)**	**572**	**(1,781)**	**(1,417)**	**1,071**	**(2,127)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	35	59	1,600	1,694	(35)	(59)	(1,600)	(1,694)
Foreign exchange gains and losses and other movements	-	-	(2)	(2)	(2)	(1)	3	-
At 31 December, 2023	**(575)**	**(76)**	**(286)**	**(937)**	**26,449**	**591**	**415**	**27,455**

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit cards								
At 31 December, 2021	**(12)**	**(7)**	**(514)**	**(533)**	**1,364**	**465**	**772**	**2,601**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	247	(247)	-	-	(7,300)	7,300	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	270	1,603	(1,873)	-	(896)	(4,653)	5,549	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(276)	164	112	-	1,524	(1,335)	(189)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(336)	336	-	-	476	(476)	-
New originated or purchased	(1,820)	(163)	(2,546)	(4,529)	50,973	452	2,921	54,346
Net Repayments and other movements*	(708)	265	81	(362)	(17,390)	(635)	(1,984)	(20,009)
Net remeasurement due to change in credit risk	233	(1,785)	(1,875)	(3,427)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(2,054)**	**(499)**	**(5,765)**	**(8,318)**	**26,911**	**1,605**	**5,821**	**34,337**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	5,630	5,630	-	-	(5,630)	(5,630)
Foreign exchange gains and losses and other movements	-	-	20	20	(8)	(2)	(22)	(32)
At 31 December, 2022	**(2,066)**	**(506)**	**(629)**	**(3,201)**	**28,267**	**2,068**	**941**	**31,276**

11 Loans and Advances to Customers (Continued)

Movements in provision for impairment in 2023 were as follows:

In thousands of Georgian Lari	Loans to legal entities	Mortgage loans	Consumer loans	Credit cards	Total
Provision for loans as at 1 January 2023	**10,776**	**11,063**	**9,373**	**3,201**	**34,413**
Total movements with impact on credit loss allowance charge for the period	904	(3,075)	6,914	(672)	4,071
Foreign exchange gains and losses and other movements	(32)	(3)	11	2	(22)
Write-offs	(16)	(1)	(12,599)	(1,694)	(14,310)
Recovery	3,255	790	4,897	100	9,042
Provision for loans as at 31 December 2023	**14,887**	**8,774**	**8,596**	**937**	**33,194**

Significant changes that contributed to the changes in loss allowance charges were:

- The write-off of unsecured consumer loans in the amount of GEL 14,310 thousand. Out of total write-off amount, GEL 6,530 thousand were attributed to loans originated by the Group and GEL 7,780 thousand to loans acquired from JSC "VTB Bank Georgia" in 2022; These loans were written off throughout the year based on the management quarterly assessment and in line with Bank's write-off policy.
- Recovery of loans previously written-off in the total amount of GEL 9,042 thousand. Out of the total recovery amount,GEL 5,130 thousand was attributed to loans originated by the Group and GEL 3,912 thousand to loans acquired from JSC "VTB Bank Georgia" in 2022.

Movements in provision for impairment in 2022 were as follows:

In thousands of Georgian Lari	Loans to legal entities	Mortgage loans	Consumer loans	Credit cards	Total
Provision for loans as at 1 January 2022	**19,531**	**2,180**	**1,343**	**533**	**23,587**
Total movements with impact on credit loss allowance charge for the period	(1,636)	10,377	36,279	8,225	53,245
Foreign exchange gains and losses and other movements	(2,582)	(343)	(48)	(20)	(2,993)
Write-offs	(5,493)	(1,545)	(30,102)	(5,630)	(42,770)
Recovery	956	394	1,901	93	3,344
Provision for loans as at 31 December 2022	**10,776**	**11,063**	**9,373**	**3,201**	**34,413**

11 Loans and Advances to Customers (Continued)

The credit loss allowance for loans and advances to customers recognised in the period 2022 is impacted by a variety of factors:

- The acquisition of loan portfolio from JCS “VTB Bank Georgia” contributed to the increase in loss allowance measured on a 12-month basis by GEL 16,909 thousand;
- Excluding the acquisition, the portfolio originated by the Group led to the decrease of loss allowance by GEL 6,082 thousand;
- The Group wrote off significant amount of migrated unsecured loans aged for more than 360 days in 2022 in order to align the migrated portfolio to the write off policy of the Group. Out of the total write-off amount of GEL 42,770 thousand, GEL 9,210 thousand was attributed to loans originated by the Group and GEL 33,560 thousand to loans acquired from JSC “VTB Bank Georgia”. However, this was the one-time effect after migration which was neutralized in 2023, via adapting internal processes and the Group continues to write off unsecured loans after reaching 180 days past due according to the internal write off policy. These loans were written-off throughout the year based on the management quarterly assessment and in line with Bank’s write off policy.

The details of ECL measurement are provided in Note 31.

The following tables contain analyses of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans.

The credit quality of loans to Legal entities carried at amortised cost is as follows at 31 December 2023:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending				
- Excellent	44,554	-	-	44,554
- Good	1,549,344	-	-	1,549,344
- Satisfactory	-	78,692	-	78,692
- Special monitoring	-	1,819	-	1,819
- Default	-	-	43,931	43,931
Gross carrying amount	**1,593,898**	**80,511**	**43,931**	**1,718,340**
Credit loss allowance	(2,968)	(561)	(11,358)	(14,887)
Carrying amount	**1,590,930**	**79,950**	**32,573**	**1,703,453**

11 Loans and Advances to Customers (Continued)

The credit quality of Legal entities carried at amortised cost is as follows at 31 December 2022:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Standard lending				
- Excellent	367,391	-	-	367,391
- Good	892,914	-	-	892,914
- Satisfactory	-	59,304	-	59,304
- Special monitoring	-	7,394	-	7,394
- Default	-	-	34,000	34,000
Gross carrying amount	**1,260,305**	**66,698**	**34,000**	**1,361,003**
Credit loss allowance	(2,253)	(434)	(8,089)	(10,776)
Carrying amount	**1,258,052**	**66,264**	**25,911**	**1,350,227**

11 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2023:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Mortgage loans				
- Excellent	726	-	-	726
- Good	459,000	-	-	459,000
- Satisfactory	-	15,570	-	15,570
- Special monitoring	-	3,697	-	3,697
- Default	-	-	33,854	33,854
Gross carrying amount	**459,726**	**19,267**	**33,854**	**512,847**
Credit loss allowance	(602)	(48)	(8,124)	(8,774)
Carrying amount	**459,124**	**19,219**	**25,730**	**504,073**
Consumer loans				
- Excellent	23,465	-	-	23,465
- Good	224,882	-	-	224,882
- Satisfactory	-	3,548	-	3,548
- Special monitoring	-	1,283	-	1,283
- Default	-	-	15,344	15,344
Gross carrying amount	**248,347**	**4,831**	**15,344**	**268,522**
Credit loss allowance	(1,857)	(54)	(6,685)	(8,596)
Carrying amount	**246,490**	**4,777**	**8,659**	**259,926**
Credit cards				
- Satisfactory	26,449	575	-	27,024
- Special monitoring	-	16	-	16
- Default	-	-	415	415
Gross carrying amount	**26,449**	**591**	**415**	**27,455**
Credit loss allowance	(575)	(76)	(286)	(937)
Carrying amount	**25,874**	**515**	**129**	**26,518**

11 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2022:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Mortgage loans				
- Excellent	425,244	-	-	425,244
- Good	24,111	-	-	24,111
- Satisfactory	-	20,024	-	20,024
- Special monitoring	-	2,013	-	2,013
- Default	-	-	35,344	35,344
Gross carrying amount	**449,355**	**22,037**	**35,344**	**506,736**
Credit loss allowance	(996)	(98)	(9,969)	(11,063)
Carrying amount	**448,359**	**21,939**	**25,375**	**495,673**
Consumer loans				
- Excellent	75,931	-	-	75,931
- Good	123,648	-	-	123,648
- Satisfactory	-	7,505	-	7,505
- Special monitoring	-	2,395	-	2,395
- Default	-	-	12,696	12,696
Gross carrying amount	**199,579**	**9,900**	**12,696**	**222,175**
Credit loss allowance	(1,621)	(145)	(7,607)	(9,373)
Carrying amount	**197,958**	**9,755**	**5,089**	**212,802**
Credit cards				
- Excellent	37	-	-	37
- Good	28,230	-	-	28,230
- Satisfactory	-	1,965	-	1,965
- Special monitoring	-	103	-	103
- Default	-	-	941	941
Gross carrying amount	**28,267**	**2,068**	**941**	**31,276**
Credit loss allowance	(2,066)	(506)	(629)	(3,201)
Carrying amount	**26,201**	**1,562**	**312**	**28,075**

11 Loans and Advances to Customers (Continued)

For description of the credit risk grading used in the tables above refer to Note 31.

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

	December 31, 2023		December 31, 2022	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	808,823	32.00%	760,186	35.84%
Real Estate Management	174,332	6.90%	167,391	7.89%
Construction Development, Land Developme	168,115	6.65%	93,274	4.40%
Hotels, Tourism	159,184	6.30%	106,323	5.01%
Service	156,348	6.19%	107,869	5.09%
Energy	147,758	5.85%	95,506	4.50%
Agro	134,539	5.32%	103,104	4.86%
Construction Companies	118,763	4.70%	93,773	4.42%
Health Care	108,340	4.29%	83,488	3.94%
Trade of Consumer Foods and Goods	106,596	4.22%	77,990	3.68%
Production of Consumer Foods and Goods	87,180	3.45%	69,577	3.28%
Financial Institutions	79,679	3.15%	92,234	4.35%
Production &Trade of Construct Materia	74,743	2.96%	65,210	3.07%
Trade (Other)	40,230	1.59%	44,249	2.09%
Restaurants	38,509	1.52%	34,510	1.63%
State	28,507	1.13%	38,411	1.81%
Other	95,518	3.78%	88,095	4.15%
Total loans and advances to customers carried at AC	**2,527,164**	**100%**	**2,121,190**	**100%**

At 31 December 2023 the Group had 5 borrowers' groups (2022: 6 borrowers) with aggregated loan amounts above 5% of the Bank's regulatory capital. The total aggregate amount of these loans was GEL 166,191 thousand (2022: GEL 168,885 thousand) or 7% of the gross loan portfolio (2022: 8%).

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

11 Loans and Advances to Customers (Continued)

The table below summarises carrying value of loans to customers analysed by type of collateral obtained by the Group as at 31 December 2023:

In thousands of Georgian Lari	Loans to legal entities	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:					
- real estate	1,199,393	493,422	121,315	435	1,814,565
- cash deposits	29,680	767	24,155	-	54,602
- Transport and equipment	78,833	-	6,419	-	85,252
- other assets	86,281	4,649	744	-	91,674
Total	1,394,187	498,838	152,633	435	2,046,093
Unsecured exposures	324,153	14,009	115,889	27,020	481,071
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,718,340**	**512,847**	**268,522**	**27,455**	**2,527,164**

Information about collateral for loans to customers is as follows at 31 December 2022:

In thousands of Georgian Lari	Loans to legal entities	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:					
- real estate	970,420	491,876	69,937	39	1,532,272
- cash deposits	30,810	2,433	17,449	-	50,692
- Transport and equipment	78,413	-	11,891	-	90,304
- other assets	64,379	4,638	1,549	-	70,566
Total	1,144,022	498,947	100,826	39	1,743,834
Unsecured exposures	216,981	7,789	121,349	31,237	377,356
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,361,003**	**506,736**	**222,175**	**31,276**	**2,121,190**

The carrying value of loans was allocated based on the type of collateral taken in following order: cash deposit, real estate, transport and equipment, other assets. Other assets mainly include securities and inventory. Part of mortgage loans issued for purchases of real estate with status of construction in progress is not secured with real estate before completion of legal registration procedures by the construction company. Until completion of these legal procedures the loans are secured by the construction company's guarantee. After completion of the registration procedures, the collateral will be replaced with real estate.

The disclosure above represents the lower of the carrying value of the loan or fair value collateral taken; the remaining part is disclosed within the unsecured exposures.

11 Loans and Advances to Customers (Continued)

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral on credit impaired assets at 31 December 2023 is as follows.

	Under-collateralised Loans		**Over-collateralised Loans**	
In thousands of Georgian Lari	Carrying value of the loans	Value of collateral	Carrying value of the loans	Value of collateral
Credit impaired assets:				
Loans to legal entities carried at AC	2,206	1,684	41,727	131,488
Loans to individuals carried at AC				
Mortgage loans	5,423	4,645	28,430	51,601
Consumer loans	7,050	296	8,290	21,206
Credit cards	415	-	-	-

The effect of collateral on credit impaired assets at 31 December 2022 is as follows.

	Under-collateralised Loans		**Over-collateralised Loans**	
In thousands of Georgian Lari	Carrying value of the loans	Value of collateral	Carrying value of the loans	Value of collateral
Credit impaired assets:				
Loans to legal entities carried at AC	70	11	33,929	118,898
Loans to individuals carried at AC				
Mortgage loans	5,488	4,815	29,854	63,610
Consumer loans	6,871	659	5,823	16,430
Credit cards	939	-	-	49

The Group obtains collateral valuation at the time of granting loans and at any significant event or modification occurring after loan origination, i.e. the Group requests re-evaluation of the pledged real-estate collaterals if a new loan is disbursed under the pledge of the given collateral or in case of restructuring of the given commitment in case the last valuation is more than 1 year ago. Where there are indications that the carrying value of the loan might exceed fair value of collateral, the Group discretionally obtains valuations for collateral for the affected properties.

The Group usually re-evaluates real estate properties pledged for the loans which are included in top 100 borrower group list by carrying amount as at reporting date. For financial reporting year 2023 the Group performed internal analysis of the Real Estate Market transactions available through public sources, with the result that there is a significant increase of market prices to be observed in 2023. The findings are in line with the Real-Estate Market Researches published for Georgian Real Estate Market. The increasing trend of real estate market values is still persistent in 2023, but unlike sharp increase seen in 2022, the tempo is moderate in 2023. With the realistic possibility that demand will shrink after the current spike, the Group has refrained to re-evaluating underlying collaterals for the loans of top-100 borrower groups, in order to avoid over-valuation of collaterals in the light of current significant increase of real estate prices in the country. It is to note that, the Group has continued to re-evaluate properties for all borrowers according to internal valuation policy in case of a new loan was issued or modification of initial contractual terms was requested by the Commercial Department, the Group has re-evaluated all the real-estate collaterals for all borrowers with significant exposure, for which ECL was assessed individually.

11 Loans and Advances to Customers (Continued)

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 31. Information on related party balances is disclosed in Note 35.

Analysis by credit quality of loans to standard lending as at December 31, 2023 is presented as follows:

Standard lending As at December 31, 2023	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	1,674,060	(5,801)	1,668,259	0.3%
Overdue:				
up to 30 days	9,239	(130)	9,109	1.4%
31 to 60 days	2,012	(64)	1,948	3.2%
61 to 90 days	2,185	(378)	1,807	17.3%
91 to 180 days	4,013	(760)	3,253	18.9%
over 180 days	4,607	(951)	3,656	20.6%
Total collectively assessed loans	**1,696,116**	**(8,084)**	**1,688,032**	**0.5%**
Individually assessed				
Not past due	13,733	(4,645)	9,088	33.8%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	1,944	(618)	1,326	31.8%
61 to 90 days	-	-	-	-
91 to 180 days	3,574	(1,175)	2,399	32.9%
over 180 days	2,973	(365)	2,608	12.3%
Total individually assessed loans	**22,224**	**(6,803)**	**15,421**	**30.6%**
Total Standard Lending	**1,718,340**	**(14,887)**	**1,703,453**	**0.9%**

11 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to standard lending as at December 31, 2022 is presented as follows:

Standard lending As at December 31, 2022	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	1,329,045	(3,618)	1,325,427	0.3%
Overdue:				
up to 30 days	6,381	(141)	6,240	2.2%
31 to 60 days	275	(10)	265	3.6%
61 to 90 days	213	(18)	195	8.5%
91 to 180 days	1,114	(61)	1,053	5.5%
over 180 days	3,409	(209)	3,200	6.1%
Total collectively assessed loans	**1,340,437**	**(4,057)**	**1,336,380**	**0.3%**
Individually assessed				
Not past due	18,215	(6,038)	12,177	33.1%
Overdue:				
up to 30 days	1,335	(387)	948	29.0%
31 to 60 days	1,016	(294)	722	28.9%
61 to 90 days	-	-	-	0.0%
91 to 180 days	-	-	-	0.0%
over 180 days	-	-	-	0.0%
Total individually assessed loans	**20,566**	**(6,719)**	**13,847**	**32.7%**
Total Standard Lending	**1,361,003**	**(10,776)**	**1,350,227**	**0.8%**

Analysis by credit quality of loans to mortgage loans as at December 31, 2023 is presented as follows:

Mortgage loans As at December 31, 2023	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	470,616	(2,106)	468,510	0.4%
Overdue:				
up to 30 days	13,411	(577)	12,834	4.3%
31 to 60 days	6,665	(295)	6,370	4.4%
61 to 90 days	1,436	(138)	1,298	9.6%
91 to 180 days	3,468	(826)	2,642	23.8%
over 180 days	17,251	(4,832)	12,419	28.0%
Total collectively assessed loans	**512,847**	**(8,774)**	**504,073**	**1.7%**
Total mortgage loans	**512,847**	**(8,774)**	**504,073**	**1.7%**

11 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to mortgage loans as at December 31, 2022 is presented as follows:

Mortgage loans As at December 31, 2022	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	464,088	(3,178)	460,910	0.7%
Overdue:				
up to 30 days	19,148	(1,776)	17,372	9.3%
31 to 60 days	5,640	(890)	4,750	15.8%
61 to 90 days	3,212	(511)	2,701	15.9%
91 to 180 days	3,338	(998)	2,340	29.9%
over 180 days	11,310	(3,710)	7,600	32.8%
Total collectively assessed loans	**506,736**	**(11,063)**	**495,673**	**2.2%**
Total mortgage loans	**506,736**	**(11,063)**	**495,673**	**2.2%**

Analysis by credit quality of loans to consumer loans as at December 31, 2023 is presented as follows:

Consumer loans As at December 31, 2023	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	252,391	(4,372)	248,019	1.7%
Overdue:				
up to 30 days	5,426	(467)	4,959	8.6%
31 to 60 days	1,594	(320)	1,274	20.1%
61 to 90 days	1,261	(290)	971	23.0%
91 to 180 days	3,778	(1,621)	2,157	42.9%
over 180 days	4,072	(1,526)	2,546	37.5%
Total collectively assessed loans	**268,522**	**(8,596)**	**259,926**	**3.2%**
Total consumer loans	**268,522**	**(8,596)**	**259,926**	**3.2%**

11 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to consumer loans as at December 31, 2022 is presented as follows:

Consumer loans As at December 31, 2022	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	204,179	(3,175)	201,004	1.6%
Overdue:				
up to 30 days	6,095	(508)	5,587	8.3%
31 to 60 days	1,980	(228)	1,752	11.5%
61 to 90 days	1,636	(173)	1,463	10.6%
91 to 180 days	3,868	(2,613)	1,255	67.6%
over 180 days	4,417	(2,676)	1,741	60.6%
Total collectively assessed loans	**222,175**	**(9,373)**	**212,802**	**4.2%**
Total consumer loans	**222,175**	**(9,373)**	**212,802**	**4.2%**

Analysis by credit quality of loans to credit cards as at December 31, 2023 is presented as follows:

Credit cards As at December 31, 2023	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	26,446	(573)	25,873	2.2%
Overdue:				
up to 30 days	523	(57)	466	10.9%
31 to 60 days	70	(18)	52	25.7%
61 to 90 days	190	(132)	58	69.5%
91 to 180 days	178	(123)	55	69.1%
over 180 days	48	(34)	14	70.8%
Total collectively assessed loans	**27,455**	**(937)**	**26,518**	**3.4%**
Total credit cards	**27,455**	**(937)**	**26,518**	**3.4%**

11 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to credit cards as at December 31, 2022 is presented as follows:

Credit cards As at December 31, 2022	**Gross loans**	**Provision for expected credit losses**	**Net loans**	**Provision for expected credit losses to gross loans**
Collectively assessed				
Not past due	28,266	(2,066)	26,200	7.3%
Overdue:				
up to 30 days	1,946	(462)	1,484	23.7%
31 to 60 days	124	(43)	81	34.7%
61 to 90 days	211	(141)	70	66.8%
91 to 180 days	631	(423)	208	67.0%
over 180 days	98	(66)	32	67.3%
Total collectively assessed loans	**31,276**	**(3,201)**	**28,075**	**10.2%**
Total credit cards	**31,276**	**(3,201)**	**28,075**	**10.2%**

12 Finance Lease Receivables

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Present value of lease payments receivable	26,345	17,834
Impairment loss allowance	(209)	(154)
Net investment in the lease	**26,136**	**17,680**
Amounts receivable under finance leases		
Year 1	15,166	8,697
Year 2	10,483	7,074
Year 3	7,054	4,013
Year 4	3,204	2,507
Year 5	695	1,118
Onwards	-	4
Total undiscounted lease payments	**36,602**	**23,413**
Undiscounted lease payments analysed as:		
Recoverable within 12 months	21,436	8,697
Recoverable after 12 months	15,166	14,716
Less: unearned finance income	(10,257)	(5,579)
Total	**26,345**	**17,834**
Net investment in the lease analysed as:		
Recoverable within 12 months	13,422	7,019
Recoverable after 12 months	12,714	10,661
Total	**26,136**	**17,680**

12 Finance Lease Receivables (Continued)

Finance lease receivables relate to leases of car and equipment. Estimated collateral held as at 31 December 2023 amount to GEL 38,832 thousand (2022: GEL 25,539 thousand).

Estimates of collateral value are based on the value of collateral assessed at the time of lease origination. Risks related to the leased asset such as damage caused by various reasons and theft in majority cases are insured.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for finance lease receivables.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for finance lease receivables carried at amortised cost between the beginning and the end of the reporting and comparative periods:

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Finance lease receivables before credit loss allowance	**26,345**	**17,834**
- Stage 1	19,627	12,648
- Stage 2	6,582	4,885
- Stage 3	136	301
Less: credit loss allowance	**(209)**	**(154)**
- Stage 1	(137)	(38)
- Stage 2	(61)	(10)
- Stage 3	(11)	(106)
Total finance lease receivables	**26,136**	**17,680**

13 Insurance and Reinsurance Contracts

The roll-forward between the beginning and the end of the reporting and comparative periods of the net asset or liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims is disclosed in the table below:

	Liabilities for remaining coverage		Liabilities for incurred claims			
In thousands of Georgian Lari	**Excluding loss component**	**Loss Component**	**Estimates of value of future cash flows**	**Risk Adjustment**	**Assets for insurance acquisition cash flows**	**Total**
Insurance contract liabilities as at 1 January 2023	1,277	56	1,859	-	-	3,192
Insurance contract assets as at 1 January 2023	-	-	-	-	-	-
Net insurance contract (assets)/liabilities as at 1 January 2023	**1,277**	**56**	**1,859**	**-**	**-**	**3,192**
Insurance revenue	**(15,674)**	**-**	**-**	**-**	**-**	**(15,674)**
Insurance service expenses	**1,337**	**35,861**	**75,685**	**-**	**-**	**112,883**
- Incurred claims and other expenses	-	-	35,291	-	-	35,291
- Amortisation of insurance acquisition cash flows	1,337	-	-	-	-	1,337
- Losses on onerous contracts and reversals of those losses	-	35,861	-	-	-	35,861
- Changes to liabilities for incurred claims	-	-	40,394	-	-	40,394
Insurance service result	**(14,337)**	**35,861**	**75,685**	**-**	**-**	**97,209**
Effect of movements in exchange rates	(33)	-	-	-	-	(33)
Total changes in the statement of comprehensive income	**(14,370)**	**35,861**	**75,685**	**-**	**-**	**97,176**
Cash flows						
Premiums received	15,547	-	-	-	-	15,547
Claims and other expenses paid	-	-	(37,659)	-	-	(37,659)
Total cash flows	**15,547**	**-**	**(37,659)**	**-**	**-**	**(22,112)**
Allocation from assets for insurance acquisition cash flows to groups of insurance contracts	(1,155)	-	-	-	-	(1,155)
Net insurance contract (assets)/liabilities as at 31 December 2023	**1,299**	**35,917**	**39,885**	**-**	**-**	**77,101**
Insurance contract liabilities as at 31 December 2023	1,299	35,917	39,885	-	-	77,101
Insurance contract assets as at 31 December 2023	-	-	-	-	-	-

13 Insurance and Reinsurance Contracts (Continued)

	Liabilities for remaining coverage		Liabilities for incurred claims			
In thousands of Georgian Lari	Excluding loss component	Loss Component	Estimates of value of future cash flows	Risk Adjustment	Assets for insurance acquisition cash flows	Total
Insurance contract liabilities as at 1 January 2022	666	-	894	-	-	1,560
Insurance contract assets as at 1 January 2022	-	-	-	-	-	-
Net insurance contract (assets)/liabilities as at 1 January 2022	**666**	**-**	**894**	**-**	**-**	**1,560**
Insurance revenue	**(13,855)**	**-**	**-**	**-**	**-**	**(13,855)**
Insurance service expenses	**544**	**56**	**3,500**	**-**	**-**	**4,100**
- Incurred claims and other expenses	-	-	1,350	-	-	1,350
- Amortisation of insurance acquisition cash flows	544	-	-	-	-	544
- Losses on onerous contracts and reversals of those losses	-	56	-	-	-	56
- Changes to liabilities for incurred claims	-	-	2,150	-	-	2,150
Insurance service result	**(13,311)**	**56**	**3,500**	**-**	**-**	**(9,755)**
Effect of movements in exchange rates	519	-	-	-	-	519
Total changes in the statement of comprehensive income	(12,792)	56	3,500	-	-	(9,236)
Cash flows						
Premiums received	13,930	-	-	-	-	13,930
Claims and other expenses paid	-	-	(2,535)	-	-	(2,535)
Total cash flows	**13,930**	**-**	**(2,535)**	**-**	**-**	**11,395**
Allocation from assets for insurance acquisition cash flows to groups of insurance contracts	(527)	-	-	-	-	(527)
Net insurance contract (assets)/liabilities as at 31 December 2022	**1,277**	**56**	**1,859**	**-**	**-**	**3,192**
Insurance contract liabilities as at 31 December 2022	1,277	56	1,859	-	-	3,192
Insurance contract assets as at 31 December 2022	-	-	-	-	-	-

13 Insurance and Reinsurance Contracts (Continued)

The roll-forward between the beginning and the end of the reporting and comparative periods of the net asset or liability for reinsurance contracts held showing assets for remaining coverage and amounts recoverable on incurred claims is disclosed in the table below:

	Liabilities for remaining coverage		Amounts recoverable on incurred claims			
In thousands of Georgian Lari	**Excluding loss-recovery component**	**Loss-recovery component**	**Estimates of the present value of future cash flows**	**Risk Adjustment**	**Assets for insurance acquisition cash flows**	**Total**
Reinsurance contract assets as at 1 January 2023	269	11	2,194	-	-	2,474
Reinsurance contract liabilities as at 1 January 2023	-	-	-	-	-	-
Net reinsurance contract assets/(liabilities) as at 1 January 2023	**269**	**11**	**2,194**	**-**	**-**	**2,474**
An allocation of reinsurance premiums	**(13,144)**	**-**	**-**	**-**	**-**	**(13,144)**
Amounts recoverable from reinsurers for incurred claims	**1,382**	**35,780**	**74,040**	**-**	**-**	**111,202**
- Amounts recoverable for incurred claims and other expenses	-	-	34,717	-	-	34,717
- Other incurred directly attributable expenses	1,382	-	-	-	-	1,382
- Loss-recovery on onerous underlying contracts and adjustments	-	35,780	-	-	-	35,780
- Changes to amounts recoverable for incurred claims	-	-	39,323	-	-	39,323
Net income or expense from reinsurance contracts held	**(11,762)**	**35,780**	**74,040**	**-**	**-**	**98,058**
Effect of changes in non-performance risk of reinsurers	(32)	-	-	-	-	(32)
Total changes in the statement of comprehensive income	**(11,794)**	**35,780**	**74,040**	**-**	**-**	**98,026**
Cash flows						
Premiums received	12,265	-	-	-	-	12,265
Amounts received	-	-	(36,614)	-	-	(36,614)
Total cash flows	**12,265**	**-**	**(36,614)**	**-**	**-**	**(24,349)**
Ceding commissions and other directly attributable expenses	(1,177)	-	-	-	-	(1,177)
Net reinsurance contract assets/(liabilities)as at 31 December 2023	**(437)**	**35,791**	**39,620**	**-**	**-**	**74,974**
Reinsurance contract assets as at 31 December 2023	(437)	35,791	39,620	-	-	74,974
Reinsurance contract liabilities as at 31 December 2023	-	-	-	-	-	-

13 Insurance and Reinsurance Contracts (Continued)

In thousands of Georgian Lari	Liabilities for remaining coverage: Excluding loss-recovery component	Liabilities for remaining coverage: Loss-recovery component	Amounts recoverable on incurred claims: Estimates of the present value of future cash flows	Amounts recoverable on incurred claims: Risk Adjustment	Assets for insurance acquisition cash flows	Total
Reinsurance contract assets as at 1 January 2022	-	-	-	-	-	-
Reinsurance contract liabilities as at 1 January 2022	**(2,159)**	**-**	**1,240**	**-**	-	**(919)**
Net reinsurance contract assets/(liabilities) as at 1 January 2022	**(2,159)**	**-**	**1,240**	**-**	**-**	**(919)**
An allocation of reinsurance premiums	**(11,394)**	**-**	**-**	**-**	**-**	**(11,394)**
Amounts recoverable from reinsurers for incurred claims	**2,699**	**11**	**2,411**	**-**	**-**	**5,121**
- Amounts recoverable for incurred claims and other expenses	**-**	**-**	**1,194**	**-**	**-**	**1,194**
- Other incurred directly attributable expenses	**2,699**	**-**	**-**	-	**-**	**2,699**
- Loss-recovery on onerous underlying contracts and adjustments	**-**	**11**	**-**	**-**	**-**	**11**
- Changes to amounts recoverable for incurred claims	**-**	**-**	**1,217**	**-**	**-**	**1,217**
Net income or expense from reinsurance contracts held	**(8,695)**	**11**	**2,411**	**-**	**-**	**(6,273)**
Effect of changes in non-performance risk of reinsurers	635	-	-	-	-	635
Total changes in the statement of comprehensive income	**(8,060)**	**11**	**2,411**	**-**	**-**	**(5,638)**
Cash flows						
Premiums received	11,375	-	-	-	-	11,375
Amounts received	-	-	(1,457)	-	-	(1,457)
Total cash flows	**11,375**	**-**	**(1,457)**	**-**	**-**	**9,918**
Ceding commissions and other directly attributable expenses	(887)	-	-	-	-	(887)
Net reinsurance contract assets/(liabilities) as at 31 December 2022	**269**	**11**	**2,194**	**-**	**-**	**2,474**
Reinsurance contract assets as at 31 December 2022	269	11	2,194	-	-	2,474
Reinsurance contract liabilities as at 31 December 2022						

14 Other Assets

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Repossessed collateral	22,041	28,776
Prepayments for litigations	1,855	1,509
Input and withholding taxes	1,034	888
Prepayments for services	4,748	987
Other	3,387	2,456
Total other assets	**33,065**	**34,616**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the future. The Bank initiates special offers and marketing actions to sell collateral, including brokers' services and advertising on locations (such as lands, offices, etc.)

As of 31 December 2023 the value of repossessed collateral attributable to the Bank was GEL 18,839 thousand (2022: GEL 25,831).

15 Premises, Equipment and Intangible Assets

In thousands of Georgian Lari	Note	Premises	Office and computer Equipment	Vehicles	Leasehold improvements	Construction in progress	Total premises and equipment	Computer software licences	Total
As at 31 December 2021									
Cost or valuation		26,494	13,540	300	3,292	-	43,626	9,681	53,307
Accumulated depreciation/amortization		-	(10,465)	(235)	(1,655)	-	(12,355)	(2,597)	(14,952)
Carrying amount at 31 December 2021		**26,494**	**3,075**	**65**	**1,637**	**-**	**31,271**	**7,084**	**38,355**
Additions		33,279	5,630	275	2,015	28,042	69,241	3,527	72,768
Disposals			(241)		(422)	-	(663)	(1,612)	(2,275)
Depreciation									
Depreciation charge	28	(510)	(1,858)	(53)	(1,098)	-	(3,519)	(1,647)	(5,166)
Disposals		-	67	-	242	-	309	1,232	1,541
As at 31 December 2022									
Cost or valuation		59,773	18,929	575	4,885	28,042	112,204	11,596	123,800
Accumulated depreciation/amortization		(510)	(12,256)	(288)	(2,511)	-	(15,565)	(3,012)	(18,577)
Carrying amount at 31 December 2022		**59,263**	**6,673**	**287**	**2,374**	**28,042**	**96,639**	**8,584**	**105,223**
Additions		169	1,347	54	326	333	2,229	5,232	7,461
Disposals		-	(98)	(37)	(85)	-	(220)	(961)	(1,181)
Depreciation									
Depreciation charge	28	(558)	(2,206)	(71)	(680)	-	(3,515)	(1,742)	(5,257)
Disposals		-	44	37	85	-	166	963	1,129
As at 31 December 2023									
Cost or valuation		59,942	20,178	592	5,126	28,375	114,213	15,867	130,080
Accumulated depreciation/amortization		(1,068)	(14,418)	(322)	(3,106)	-	(18,914)	(3,791)	(22,705)
Carrying amount at 31 December 2023		**58,874**	**5,760**	**270**	**2,020**	**28,375**	**95,299**	**12,076**	**107,375**

15 Premises, Equipment and intaginble Assets (Continued)

Premises have been valued at fair value in December 2021 by an independent firm of valuers. In 2022 the significant addition was made to PPE from an entity under common control, and the transaction price (ie. Cost of the PPE) was also determined by an independent valuer. For 2023 management believes that premises carrying value is not materially different from its fair value at the year end.

The input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

If the premises of the Group were measured using cost model, their carrying amount would be as follows:

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Cost	50,663	50,494
Accumulated depreciation	3,984	3,611
Premises at cost less accumulated depreciation	**46,679**	**46,883**

If the premises of the Bank were measured using cost model, their carrying amount would be as follows:

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Cost	50,494	50,494
Accumulated depreciation	3,984	3,611
Premises at cost less accumulated depreciation	**46,510**	**46,883**

As at December 31, 2023 and 2022 included in property and equipment were fully depreciated assets amounting GEL 11,212 thousand and GEL 9,337 thousand, respectively.

16 Right-of-use Assets and Lease Liabilities

The right of use assets by class of underlying items is analysed as follows:

In thousands of Georgian Lari	**Premises**
Carrying amount at 1 January 2022	**4,370**
Additions	22,014
Modification Effect	652
Depreciation charge	(4,160)
Termination Effect	(1,294)
Carrying amount at 31 December 2022	**21,582**
Additions	803
Modification Effect	51
Depreciation charge	(5,072)
Carrying amount at 31 December 2023	**17,364**

The movement in lease liabilities are analysed as follows:

In thousands or Georgian Lari	**2023**	**2022**
Lease liability as at 1 January	**18,576**	**4,745**
Recognition of lease liabilities	834	22,011
Interest expense on lease liabilities	749	800
Foreign exchange effect	(162)	(3,016)
Modifications	58	802
Termination of lease contract	-	(1,264)
Repayment of interest expense	(749)	(802)
Repayment of lease liabilities	(3,336)	(4,700)
Lease liability as at 31 December	**15,970**	**18,576**

16 Right-of-use Assets and Lease Liabilities (Continued)

Amounts recognised in statement of profit and loss:

In thousands or Georgian Lari	December 31, 2023	December 31, 2022
Depreciation expense on right-of-use assets	5,072	4,160
Interest expense on lease liabilities	749	802
Expenses recognized in profit or loss statement related to low-value asset leases	153	144
Expenses recognized in profit or loss statement related short-term leases	265	232
Total	**6,239**	**5,338**

17 Due to Other Banks

In thousands of Georgian Lari	December 31, 2023	December 31, 2022
Short-term placements from NBG	175,098	288,447
Short-term placements of/loans from other banks	109,767	22,259
Correspondent accounts and overnight placements of other banks	1	1
Total due to other banks	**284,866**	**310,707**

The Group pledged debt securities as collateral with carrying amount of GEL 118,327 thousand, mortgage loans with nominal amount of GEL 88,066 thousand for short-term loan with NBG at the end of reporting period (2022: debt securities GEL 192,306 thousand, mortgage loans GEL 109,739 thousand and SME loans GEL 28,246 thousand). Refer to Note 33.

Refer to Note 34 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 31. Information on related party balances is disclosed in Note 35.

18 Customer Accounts

In thousands of Georgian Lari	December 31, 2023	December 31, 2022
State and public organisations		
- Current/settlement accounts	212,965	136,382
- Term deposits	270,743	265,495
Other legal entities		
- Current/settlement accounts	264,370	446,912
- Term deposits	386,825	201,484
Individuals		
- Current/demand accounts	296,118	305,651
- Term deposits	761,351	604,816
Total customer accounts	**2,192,372**	**1,960,740**

State and public organisations exclude government-owned profit orientated businesses. The customer accounts balances under the Bank's separate statement as at 31 December 2023 amount to GEL 2,199,455 thousand (2022: GEL 1,965,810 thousand).

Economic sector concentrations within customer accounts are as follows:

	December 31, 2023		December 31, 2022	
In thousands of Georgian Lari	Amount	%	Amount	%
Individuals	1,057,469	47%	910,467	45%
Trade	214,052	10%	49,849	3%
Energy	179,542	8%	168,821	9%
Service	147,399	7%	112,280	6%
Financial Institutions	145,554	7%	157,712	8%
Transportation or Communication	130,353	6%	208,387	10%
Construction & Production of Construction Materials	79,250	4%	74,436	4%
State	67,164	3%	89,583	5%
Production/Manufacturing	47,892	2%	37,871	2%
Education	37,911	2%	33,774	2%
Tobacco	30,229	1%	-	-
Real Estate Development	11,345	1%	79,997	4%
Other	44,212	2%	37,563	2%
Total customer accounts	**2,192,372**	**100%**	**1,960,740**	**100%**

At 31 December 2023, the Group had four customers (2022: three customers) with balances above 10% of total equity. The aggregate balance of this customer was GEL 387,252 thousand (2022: GEL 167,249 thousand) or 17% (2022: 8.5%) of total customer accounts.

Refer to Note 34 for disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 31. Information on related party balances is disclosed in Note 35.

19 Borrowed Funds

In thousands of Georgian Lari	December 31, 2023	December 31, 2022
Loans from Blue Orchard Microfinance Fund	89,995	77,547
Loans from Black Sea Trade and Development Bank ("BSTDB")	62,887	52,479
Loans from GREEN FOR GROWTH FUND (Finance-in-Motion)	39,529	14,533
Loans from BANCA POPOLARE DI SONDRIO SCPA	33,472	-
Loans from ODDO BHF Aktiengesellschaft	30,229	-
Loans from Asian Development Bank ("ADB")	29,722	-
Loans from responsAbility	20,780	-
Loans from THE EUROPEAN FUND FOR SOUTHEAST EUROPE PLLC	16,640	29,121
Loans from Microfinance Enhancement Facility SA, SICAV-SIF, (INCOFIN)	10,778	13,535
Loans from responsAbility SICAV (Lux) Micro and SME Finance Debt Fund	10,511	24,695
Loans from responsAbility Global Micro and SME Finance Fund	9,009	8,682
Loans from Global Impact Investments Sarl (SYMBIOTICS)	8,990	8,676
Loans from FINANCING FOR HEALTHEIR LIVES DAC	8,068	-
Loans from responsAbility SICAV (Lux) Micro and SME Finance Leaders	4,505	11,624
Loans from SYMBIOTICS SICAV (LUX)	3,004	2,898
Loans from FINETHIC S.C.A SICAV_SIF (SYMBIOTICS)	1,502	1,449
Loans from Hualing Special Economic Zone JSC	2,723	-
Loans from European Bank for Reconstruction and Development (“EBRD”)	-	46,087
Loans from GLOBAL CLIMATE PARTNERSHIP FUND (responsAbility)	-	16,732
Loans from China Development Bank (“CDB”)	-	13,830
Loans from Commerzbank	-	13,766
Loans from ResponsAbility SICAV (Lux) Financial Inclusion Fund	-	7,283
Total borrowed funds	**382,344**	**342,937**

The Group is obligated to comply with financial covenants in relation to its borrowings. Management believes that the Group was in compliance with covenants at 31 December 2023, except for the covenant set by JSC Pasha Bank Georgia towards BB Leasing JSC. The covenant required BB Leasing to maintain the volume of overdue leasing portfolio within the set limit. tBB Leasing was in breach of this covenant, but received a waiver subsequent to the year-end: JSC Pasha Bank Georgia confirmed that they have elected not to pursue any remedies available to them under the credit agreements until their respective maturity dates.

After the acquisition of the portfolios from JSC VTB Bank Georgia in 2022, the Bank experienced difficulties to meet some of the covenants. The lenders granted waivers to the Bank for all breaches as of 31 December 2022.

Information on compliance with covenants is disclosed in Note 33.

Refer to Note 34 for disclosure of the fair value of each class of borrowed funds. Interest rate analysis of borrowed funds is disclosed in Note 31. Information on related party balances is disclosed in Note 35, the movements in the Group’s liabilities from financing activities is disclosed.

20 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Accrued employee benefit costs	14,439	8,254
Taxes payable other than on income	1,052	364
Prepayments received	698	721
Other	1,852	1,283
Total other liabilities	**18,041**	**10,622**

Accrued employee benefits include the provisions created for staff and management benefits, including provisions created under share based payment ("SBP") arrangements.

21 Subordinated Debts

The subordinated debts of the Group are as follows:

In thousands of Georgian Lari	**Start Date**	**Maturity**	**Currency**	**31-Dec-23**	**31-Dec-22**
Loans from:					
The European Fund for Southeast Europe S.A.	Jun-22	Jun-29	EUR	44,888	43,356
Xinjiang HuaLing Industry & Trade (Group) Co	Aug-19	Aug-26	USD	13,514	13,577
Xinjiang HuaLing Industry & Trade (Group) Co	Sep-23	Sep-30	USD	7,116	-
Individuals	Dec-23	Dec-33	USD	13,187	-
Debt securities in issue	Jan-23	Jan-33	USD	27,678	-
Total subordinated debts				**106,383**	**56,933**

The "Xinjiang HuaLing Industry & Trade (Group) Co" debt issued in 2019 started to phase out in 2019 and as at 31 December 2023 is included in Tier 2 capital with 40% of its value of USD 4,900 thousands. All other subordinated debts are included with 100% of their values.

The subordinated debts from "Xinjiang HuaLing Industry & Trade (Group) Co" carry fixed interest rate of 7% per annum and the subordinated debt from the European Fund for Southeast Europe ("EFSE") caries a floating interest rate of 6M EURIBOR + margin 6.50%.

31 December 2023, the Group has debt securities in issue with nominal value of USD 10,000 thousand (2022: no debt security in issue). These bonds mature on 30 January 2030 and have a coupon rate of 7% per annum.

Refer to Note 34 for the disclosure of the fair value of subordinated debts. Interest rate analysis of subordinated debts is disclosed in Note 31. The movements in the subordinated debts is disclosed in Note 30. Information on related party balances is disclosed in Note 35.

22 Share Capital

In thousands of Georgian Lari except for number of shares	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 1 January 2022	**16,057**	**16,057**	**74,923**	**90,980**
New Shares Issued	1,034	1,034	26,143	27,177
At 31 December 2022	**17,091**	**17,091**	**101,066**	**118,157**
New Shares Issued	228	228	3,432	3,660
At 31 December 2023	**17,319**	**17,319**	**104,498**	**121,817**

The total authorised number of ordinary shares is 17,320 thousand shares (2022: 17,215 thousand shares), with a par value of GEL 1 per share (2022: GEL 1 per share). The number of ordinary issued shares is 17,320 thousand, (2022: 17,215 thousand shares). All issued ordinary shares are fully paid. Each ordinary share carries one voting right.

23 Dividends

In thousands of Georgian Lari	2023	2022
Dividends payable at 1 January	-	-
Dividends declared during the year	7,405	-
Dividends paid during the year	(7,405)	-
Dividends payable at 31 December	**-**	-

All dividends are declared and paid in Georgian Lari.

24 Share-based Payments

In March 2017, the Supervisory Board of the Bank approved a new Senior Management Bonus Scheme for the years 2017 – 2022 and granted new shares to the members of senior management of the Bank subject to service conditions. The Group considered 27 March 2017 as the grant date. The fair value per share at the grant date was estimated at GEL 12.55 per share. The fair value of the shares was determined by reference to the price per share established for the share purchase transaction between the owners of the Bank. According to the new share-based payment scheme, the Management shares were subject to the restrictions and could not be sold by the Directors within 2 (two) years after the acquisition ("the Lock-up Period"). After the Lock-up Period, half of the Management shares owned by the Directors could be sold. All of the Management shares owned by the Directors could be transferred only after the Directors' resignation.

Tabular information on the scheme is given below:

In thousands of Georgian Lari except for number of shares	2023	2022
Number of unvested shares at the beginning of the year	**167,000**	**165,000**
Number of granted shares	-	-
Change in estimate of number of shares expected to vest based on performance conditions	(22,350)	2,000
Number of shares vested	**(144,650)**	**-**
Number of unvested shares at the end of the year	**-**	**167,000**
Value at grant date per share (in GEL)	12.55	12.55
Expense recognized as staff cost during the year	**160**	**166**

In 2023, all the post-vesting restrictions expired entirely and the share-based payment reserve was eliminated against Share Capital and Share Premium (Share-based payment reserve amounted to GEL 2,606 thousand as at 31 December 2022).

25 Interest Income and Expense

In thousands of Georgian Lari	2023	2022
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	262,797	224,657
Debt securities at AC	21,830	18,364
Debt securities at FVOCI	15,781	8,906
Due from other banks at AC	9,902	6,240
Total interest income calculated using the effective interest method	**310,310**	**258,167**
Interest expense on financial liabilities at AC calculated using the effective interest method		
Term deposits of legal entities	62,448	38,762
Term deposits of individuals	36,831	22,401
Borrowed funds	25,274	20,240
Current/settlement accounts	18,357	17,721
Due to other Banks	17,850	28,670
Term placements of other banks	6,003	1,887
Subordinated debts	5,258	2,645
Debt securities in issue	1,675	-
Total interest expense calculated using the effective interest method	**173,696**	**132,326**
Net interest income	**136,614**	**125,841**

26 Fee and Commission Income and Expense

In thousands of Georgian Lari	2023	2022
Fee and commission income		
- Plastic card fees	5,299	4,018
- Financial guarantees issued (Note 33)	4,998	3,419
- Settlement transactions	3,306	2,907
- Distant banking fees	1,316	609
- Cash transactions	1,182	898
- Performance guarantees issued (Note 33)	636	207
- Other	2,315	1,168
Total fee and commission income	**19,052**	**13,226**
Fee and commission expense		
- Plastic card fees	3,980	3,223
- Settlement transactions	752	765
- Expenses Related to Guarantees	497	334
- Cash Collection & Transaction fees	377	221
- Commissions for credit lines	306	297
- Factoring services	4	6
- Other	279	205
Total fee and commission expense	**6,195**	**5,051**
Net fee and commission income	**12,857**	**8,175**

27 Insurance and Reinsurance Service Results

In thousands of Georgian Lari	2023	2022
Insurance revenue	**15,674**	**13,855**
Insurance service expense	**(112,883)**	**(4,100)**
- Incurred claims and other directly attributable expenses	(35,291)	(1,350)
- Insurance acquisition cash flows recognised when incurred	(1,337)	(544)
- Losses on onerous contracts and reversals of those losses	(35,861)	(56)
- Changes to liabilities for incurred claims	(40,394)	(2,150)
Reinsurance result	**98,058**	**(6,273)**
- Amounts recoverable from reinsurers for incurred claims	109,820	2,422
- Allocation of reinsurance premiums	(13,144)	(11,394)
- Reinsurance Commission Income	1,382	2,699
Net Insurance Result	**849**	**3,482**

28 Administrative and Other Operating Expenses

In thousands of Georgian Lari	2023	2022
Employee compensation	49,140	42,872
Depreciation of premises and equipment and amortization of intangible assets	5,257	5,166
Depreciation of right-of-use assets	5,072	4,160
Professional services	4,782	3,113
Communications and information services	4,390	3,234
Advertising and marketing	2,768	2,451
Repairs and maintenance	2,005	1,831
Taxes other than on income	1,052	884
Insurance	942	879
Security services	839	1,055
Interest expense on lease liability	710	800
Office supplies	576	992
Travel and Training	511	206
Lease expenses related to short-term and low-value asset leases	418	375
Other	4,190	5,775
Total administrative and other operating expenses	**82,652**	**73,793**

28 Administrative and Other Operating Expenses (Continued)

The table below discloses the information regarding the number of Management Board and Supervisory Board members and employees:

	31 December 2023		31 December 2022	
	Bank separate	**Consolidated**	**Bank separate**	**Consolidated**
Supervisory Board members	6	7	6	8
Management Board members	7	12	7	11
Middle management staff*	27	34	56	65
Other employees	841	873	798	827
Number of employees	**881**	**926**	**867**	**911**

**Due to the change of internal methodology on definition of middle management staff, the number of employees of this group has decreased significantly compared to 2022.*

The average number of employees of the Group during 2023 is 879 (2022: 833).

Included in staff costs is the amount of GEL 160 thousand (2022: GEL 166 thousand), which represents share-based remuneration provided to the Group’s personnel directly by shareholders.

As at 31 December 2023 the professional service fees include GEL 469 thousand fees incurred for audit and other professional services provided by Auditors/Audit Firms as defined in the Law of Georgia on Accounting, Reporting and Auditing (2022: GEL 477 thousand). The fees related to the Bank as at 31 December 2023 amount GEL 285 thousand, (2022: GEL 311 thousand).

29 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Georgian Lari	**2023**	**2022**
Current tax	(17,380)	(5,976)
Deferred tax	8,094	(6,697)
Income tax expense for the year	**(9,286)**	**(12,673)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Bank's 2023 income is 20% (2022: 15%). The income tax rate applicable to the income of subsidiaries is 15% (2022: 15%).

A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	**2023**	**2022**
Profit before tax	**86,171**	**86,565**
Theoretical tax charge at statutory rate (2023: 20% for the Bank, 15% for the subsidiaries; 2022: 15%)	(16,394)	(12,970)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income from Government /NBG's securities and deposits	7,726	4,373
- Other income which is exempt from taxation	62	491
- Income items not recognized in PL, but taxable from taxation viewpoint	(127)	(82)
- Other non-deductible expenses	(328)	(293)
Effect of change in tax legislation	(225)	(4,192)
Income tax expense for the year	**(9,286)**	**(12,673)**

29 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences as at 31 December 2023 is detailed below.

In thousands of Georgian Lari	1 January 2023	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	31 December 2023
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(6,440)	286	-	(6,154)
Credit loss allowance of loans	(6,924)	6,924	-	-
Right-of-use assets	789	(107)	-	682
Guarantees provision	(370)	370	-	-
Provision for interbank balances	189	(43)	-	146
Reversal of securities provision	(23)	23	-	-
Borrowings	(394)	164	-	(230)
Accruals	737	(267)	-	470
Other liabilities	2,202	888	-	3,090
Share Based Payment	144	(144)	-	-
Debt securities at FVOCI	(424)	-	424	-
Net one-off tax effect on changes of tax rules	(935)	935	-	-
Net deferred tax liability	**(11,449)**	**9,029**	**424**	**(1,996)**

The tax effect of the movements in these temporary differences as at 31 December 2022 is detailed below.

In thousands of Georgian Lari	1 January 2022	Effect of changes to tax legislation	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	31 December 2022
Tax effect of deductible/(taxable) temporary differences					
Premises and equipment	(327)	(109)	(3,286)	(2,718)	(6,440)
Credit loss allowance of loans	(1,375)	-	(5,548)	-	(6,923)
Right of use assets	96	32	661	-	789
Guarantees provision	(279)	-	(91)	-	(370)
Provision for interbank balances	92	30	67	-	189
Reversal of securities provision	38	-	(60)	-	(22)
Borrowings	(301)	(100)	7	-	(394)
Accruals	732	91	(86)	-	737
Other liabilities	565	336	1,299	-	2,200
Share Based Payment	83	28	33	-	144
Debt securities at FVOCI	-	-	-	(424)	(424)
Net one-off tax effect on changes of tax rules	-	-	(935)	-	(935)
Net deferred tax liability	**(676)**	**308**	**(7,939)**	**(3,142)**	**(11,449)**

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

30 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

	Liabilities from financing activities			
In thousands of Georgian Lari	**Borrowed funds**	**Subordinated debts**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2022	**429,490**	**15,562**	**4,745**	**449,797**
Proceeds from principal	217,368	46,232	-	263,600
Repayment of principal	(252,315)	-	(4,701)	(257,016)
Foreign exchange adjustments	(52,830)	(4,994)	(3,016)	(60,840)
Change in accrued interest	1,224	133	-	1,357
Other non-cash changes	-	-	21,548	21,548
Liabilities from financing activities at 31 December 2022	**342,937**	**56,933**	**18,576**	**418,446**
Proceeds from principal	247,467	46,357	-	293,824
Repayment of principal	(215,905)	-	(3,335)	(219,240)
Foreign exchange adjustments	6,126	1,973	(162)	7,937
Change in accrued interest	955	1,069	-	2,024
Other non-cash changes	764	51	891	1,706
Liabilities from financing activities at 31 December 2023	**382,344**	**106,383**	**15,970**	**504,697**

31 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. The Group manages the identification, assessment and mitigation of risks through an internal governance process, the risk management tools and processes to mitigate the impact of these risks on the Group's financial results, its long term strategic goals and reputation.

Responsibility for risk management resides at all levels within the Group, from the Supervisory Board and Management Board (The Executive Management) level down through to each business unit manager and risk officer. The risk management function is split between risk management units:

- On the Supervisory Board level - the Board committees: Risk Committee and Audit Committee;
- On the Management Board level – the Management Board level committees and units: Assets and Liabilities Management Committee ("ALCO"), Risk Management department, Treasury department, and Credit Committees, Compliance Commitee.

The Supervisory Board has overall responsibility for the oversight of the risk management framework. As a top governing body of the Bank, the Supervisory Board sets the general approach and principles for risk management by assessing the Bank's risk profile and the adequacy and effectiveness of the Bank's risk management framework, approving individual risk strategies, setting risk appetite and the risk control framework.

The Risk Management policies approved by the Supervisory Board of the Bank cover main type of risks, assign responsibility to the management for specific risks, set the requirements for internal control frameworks. The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board defines appropriate procedures for managing all inherent risks in each business line, with the role of structuring business to reflect risk, ensuring adequate segregation of duties and adequate procedures in place, defining operational responsibilities of subordinate staff. The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters.

Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk, both at portfolio and transactional levels, is managed by a system of Credit Committees; to facilitate efficient decision-making, the Group establishes a hierarchy of credit committees depending on the type and amount of the exposure.

Market and liquidity risks are managed by the Asset and Liability Management Committee in coordination with the Treasury Department and the Risk Management department. The Treasury Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, structural interest rate exposures, and controls and manages foreign exchange risk exposure.

The Bank sets principles about risk taking and risk management which are reflected in the internal rules and policies, and applied consistently throughout the organisation.

31 Financial Risk Management (Continued)

These general principles are the following:

- Prudent risk-taking with comprehensive risk assessment and control environment;
- Adequate and effective monitoring and reporting system;
- Proper quantification of risks using proper methodologies in line with the size and complexity of the Bank;
- Adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices via using international standards;
- Operating effective risk governance by maintaining proper risk control hierarchy, independent from business activities in order to avoid conflict of interest;
- Observation of risk management considerations upon the launch of new activities, business lines or products.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular emphasis is placed on developing risk maps that are used to identify a wide range of risk factors and serve as a basis for determining the level of comfort over the current risk mitigation procedures.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated and separate statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group established a number of credit committees that are responsible for approving credit limits for individual borrowers. Senior level credit is a supreme decision making body responsible for high value transactions. The Committee is also responsible for issuing guidance and manuals to lower level credit committees.

The credit approval limits between committees are segregated as follows:

For retail segment

- The senior credit committee reviews and approves limits above GEL 1000 thousand;
- The junior credit committees review and approve credit limits up to GEL 1000 thousands;
- Applications up to GEL 400 thousand are approved by risk management department. Exceptions are retail loans up to GEL 150 thousand are approved by retail lending group.

31 Financial Risk Management (Continued)

For business segment

- The senior credit committee reviews and approves limits above USD 1000 thousand;
- The junior credit committees review and approve credit limits up to USD 1000 thousands
- Applications up to USD 500 thousand are approved by risk management department.

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the Financial Reporting and Risk departments based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Management Board and the Risk Committee.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies an Internal Rating System for legal entities or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's) for Interbank exposures, debt securities and other financial assets, when applicable.

Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corporate internal ratings	Corresponding ratings of external international rating agencies (Fitch)	Corresponding PD interval of international rating agencies (Fitch)
Excellent	1 – 2	AAA to BB+	0,01% - 0,25%
Good	3 – 4	BB to B+	0,26% -1.53%
Satisfactory	5 – 6	B, B-	1,54% - 3,12%
Special monitoring	7 – 8	CCC+ to CC-	3,13% - 99,9%
Default	9	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- Excellent – strong credit quality with low expected credit risk;
- Good – adequate credit quality with a moderate credit risk;
- Satisfactory – moderate credit quality with a satisfactory credit risk;
- Special monitoring – facilities that require closer monitoring and remedial management; and
- Default – facilities in which a default has occurred.

The approach used by the Group for measuring credit risk associated with legal entities, is an Expert Judgement-based model designed internally, which assigns credit ratings to the borrower based on the different qualitative and quantitative factors. Ratings are estimated by credit risk officers and are reviewed by the members of the credit risk committees during the credit approval process.

Exposures without assigned internal rating are classified according to credit risk, using different quantitative and qualitative criteria: days in overdue, restructuring, existence of collaterals.

31 Financial Risk Management (Continued)

Credit Risk Grade	Credit Quality criteria
Excellent	Not overdue; fully covered with deposit, precious metal or government guarantee
Good	Not more than 31 days past due during last 12 months and collateral (deposit or real estate) fully covers the loan
Satisfactory	Not more than 31-60 days past due during last 12 months, or if loan was restructured, the event happened more than one year ago and current overdue is less than 31 days past due
Special monitoring	Not more than 61-90 days past due during last 12 months , or if the loan was restructured, the event happened more than one year ago and current overdue is 31-90 days past due
Default	Loan was restructured in last 12 months or minimum overdue in last 12 months is 90 days past due

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: interbank placements, loans to sovereigns and sub-sovereigns, and investments in debt securities (government, corporate, municipal bonds, Eurobonds and promissory notes purchased).

Expected credit loss (ECL) measurement**.** ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. Due to data limitation CCF is assumed to be 100%. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, the Group uses simplified assumptions for credit cards issued to individuals. As a matter of exception from determining the lifetime exposure based on contractual maturity, the Group uses simplified assumptions for credit cards issued to individuals. 5 years is applied as maximum lifetime these instruments.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

31 Financial Risk Management (Continued)

For purposes of measuring PD, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- 90 days past due (DPD);
- Distressed restructuring (i.e. exposure is defaulted);
- Inability to repay (ITR), which is expressed in internal rating of the counterparty.

Usually only 90 DPD and distressed restructuring are considered as default indicators for Retail borrowers, if there is no additional information available on a counterparty level.

Apart from the criteria, listed above the Group would classify as default, i.e. include in stage 3, if relevant, following cases:

- Call upon guarantee;
- Partial Write-off;
- Specific portfolios or segments, in case of global macroeconomic changes, which are expected to have detrimental impact on certain segments.

Apart from the criteria, listed above, in case of individual assessment of the counterparties above significance threshold in order to classify a counterparty as defaulted, the bank analysis number of qualitative factors. The below list is not exhaustive:

- A borrower's sources of recurring income will be no longer available due to incurred disappearance of the market that will result reduction of the borrowers sales;
- Delays in payments to other creditors;
- Sales of significant assets of the borrower with loss;
- Termination of significant contract (customer or supplier) that generates significant portion of the revenue or purchases in the past;
- A breach of contract and the covenants of a credit contract;
- Initiation of legal proceedings, that may result in significant cash outflow;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- A crisis of the sector in which the counterparty operates combined with a weak position of the counterparty in this sector.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined expertly, based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis for loans issued to corporate clients above significance threshold and on a portfolio for other loans and advances to customers. For interbank loans and debt securities at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. For loans issued to individuals and other financial assets SICR is assessed on a portfolio basis, but finally SICR is assigned to a particular loan and not to all loans of a borrower. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Group uses low credit risk assessment exemption for investment grade financial assets. The Group assumes that assets with an external 'investment-grade' rating (e.g., ratings within the AAA through BBB categories using the Standard & Poor's rating system or corresponding to Moody's) have low credit risk at the reporting date. The Group doesn't have financial asset classified as Low Risk assessment as of reporting date.

The Group considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

31 Financial Risk Management (Continued)

For interbank operations and investments in debt securities:

- 30 days past due;
- Award of external rating corresponding to the risk grade “Special monitoring” according to the rating scale disclosed above.

For loans issued to legal entities and bonds issued by corporate customers:

- 30 days past due;
- Restructuring (if exposure is not defaulted);
- Change of internal rating corresponding to the downwards movement from credit risk grades "excellent" or "good" to "Satisfactory" or "Special Monitoring".

For loans to Individuals:

- 30 days past due;
- Restructuring (if exposure is not defaulted);
- Significant increase in lifetime PD above predefined absolute and relative thresholds for retail portfolio.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement.

A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset’s effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed, this is particular will be true for portfolios which have been included in Stage 2 based on watch list status. Regular, at least yearly monitoring is performed for such portfolios to include latest developments into ECL assessment.

ECL for POCI financial assets is always measured on a lifetime basis. The Group therefore only recognises the cumulative changes in lifetime expected credit losses.

The Group performs assessment of credit impairment on an individual basis for the groups of borrowers with unique credit risk characteristics and significant exposures, that is, exposures above GEL 2,000 thousand.

Current threshold was set based on expert decision taking into consideration current structure of the Bank’s Portfolio, and might be re-assessed only in case of significant changes in portfolio volume and structure.

The Group performs assessment on a portfolio basis for the following types of loans: retail loans and loans issued to Corporate SMEs, when the exposure is under the significance threshold. Under this approach loan pools are stratified into homogeneous sub-segments based on specific characteristics, for example product types, historical data on losses, location, sectors of activity, loan currency etc.

31 Financial Risk Management (Continued)

The Group performs assessments based on external ratings for interbank loans, debt securities issued by the banks and loans issued to sovereigns.

ECL assessment of credit impairment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome and is expressed in individual rating of the borrower. The Group defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment of credit impairment is based on the quantitative factors on the one hand, and on the other hand, on expert judgement of experienced officers from the Credit Risk and Problem Assets Management Department, with support of credit risk experts, who are the primary source of information from borrower's side and judgements are regularly tested in order to decrease the difference between estimates and actual losses. Final expected credit loss is assessed on collective bases for stage 1 and stage 2 loans, and on an individual level for stage 3 loans, taking into consideration expected cash flows from selling of underlying collaterals.

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as wholesale or retail), product type, date of initial recognition, term to maturity etc. Different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future quarter during the lifetime period for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates an ECL for each future period that is afterword discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. Due to the insufficient data on the payment periodicity for instruments with non-monthly schedules, the assumption of 30-day schedule has been used for the entire Retail portfolio. The impact of this simplification was assessed as immaterial. Currently the Group doesn't consider early partial repayment assumptions in ECL assessment for Retail portfolio (the impact was assessed to be insignificant). For revolving products like overdrafts and credit cards the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" (CCF) that accounts for the expected drawdown of the remaining limit by the time of default. CCF is calculated and updated for each reporting period for the committed, but undrawn limits for Corporate and SME exposures and cards and overdrafts separately.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument.

The Group uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes for Corporate and SME loans, developing lifetime PD curves based on the historical default data for Retail loans.

31 Financial Risk Management (Continued)

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. 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 a minimum, at inception and reassessed on an annual basis for all material exposures, unless otherweise decided based on expert judgement.

The approach currently used by the Group for LGD measurement can be divided into three steps:

- Calculation of LGD on a portfolio basis based on recovery statistics; LGD1- recoveries based on solely clients cash payments
- Measurement of LGD based on the specific characteristics of the collateral; LGD2 - recoveries expected based on the specific real estate collateral: projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities
- Final LGD= LGD1*LGD2

The rationale behind the Group's approach is the observation that even after default, certain part of defaulted exposure is covered by borrowers own cash payments, without realizing the underlying collateral. Therefore underlying collateral is used to cover the remaining defaulted liability, only after the borrower has exhausted payment possibilities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate/SME loan portfolio and for retail homogenous sub-portfolios.

The Group has applied a floor to final estimated LGD. The rationale for applying the floor is that there are factors, which cannot be modelled even in the pessimistic scenario, which can result in a loss even in case of over-collateralized assets. The Group applies LGD floor as management adjustment to the model estimates and the floor value is subject to regular back-testing and reviews. ECL Sensitivity to LGD floor is disclosed in Note 31.

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Under IFRS9, validation and back-testing of all applied parameters and significant assumptions is an inherent part of ECL assessment process. The results of back testing the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

During 2023 the Group has performed back-tests of the assumptions, thresholds and risk parameters used in IFRS9 impairment model, in order to assess the adequacy of forecasts for financial year 2023 as estimated by the IFRS9 impairment models at the end of previous year. The tests were concluded with satisfactory results and no changes have been regarding any model parameters.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit lines of corporate customers, credit cards and overdrafts issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default.

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to government, corporate bonds and interbank exposures.

31 Financial Risk Management (Continued)

ECL Measurement on finance lease receivables. The Group estimates the loss allowance on finance lease assets at the end of the reporting period, whereby the Group classifies lease receivables in Stage 1, Stage 2 or Stage 3 in compliance of IFRS9 requirements.

Namely, at each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition (SICR feature). The evaluation is performed mainly based on quantitative criteria and the SICR feature and/or Default are identified if the following occurs:

- all lease receivables with more than 30 DPD currently and/or in last 6 months as having significantly increase in credit risk since initial recognition are considered to have SICR feature and are classified in Stage 2
- all lease receivables with current 90 DPD, or problematic restruturing within last 12 months are considered to have default indicator and are classified in Stage 3

The Group uses the following designations for the ECL depending on the exposure allocation to the Stage:

- 12months ECL for Stage 1 lease receivables,
- Lifetime ECL for Stage 2 and stage 2 lease receivables

With reference to expected credit losses, IFRS 9 impairment framework includes a requirement to incorporate forward-looking information, including macroeconomic factors in the process of estimating expected credit losses (ECL) by evaluating a range of possible states of the economic environment. The scenarios are defined as baseline (most likely, 50% probability of occurring), upside (better than most likely, 25% probability of occurring) and downside (worse than most likely, 25% probability of occurring). Forecasts of economic variables are published by NBG and provide the best estimate of the expected macro-economic developments in the upcoming years. The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.The Group analyses the ECL parameters separately in different scenarios and derives the final ECL estimate used in the loss allowance calculation process as a probability-weighted amount, where the weights represent the probabilities of individual scenarios occurring.

Insurance risk: The Group has exposure to market risk through its insurance and investment activities. The Group manages its insurance risk through the use of reinsurance of risk concentrations, underwriting limits, approval procedures for transactions and monitoring of emerging issues.

Claims management risk: In general, motor claims reporting lags are minor, if any, and claim complexity is relatively low. Overall the claims liabilities for this line of business create a moderate estimations risk. The Group monitors and reacts to trends in repair costs, injury awards and the frequency of theft and accident claims.

The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in the winter months. Motor lines of insurance are underwritten based on the Group ’s current experience.

Reinsurance risk: The Group cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on the Group’s evaluation of the specific risk. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes. When selecting a reinsurer, the Group considers their relative creditworthiness. The creditworthiness of the reinsurer is assessed mainly from publicly available information.

31 Financial Risk Management (Continued)

Reserving risk: There is a risk that reserves are assessed incorrectly and there are not enough funds to pay or handle claims as they fall due. To estimate insurance and reinsurance liabilities, the Group uses actuarial methods and assumptions set by the Insurance State Supervision Service of Georgia.

***Credit risk in respect to insurance*:** The Group is not subject to significant credit risk on receivables arising out of direct insurance operations as policies are cancelled and the unearned premium reserve relating to the policy is similarly cancelled when there is objective evidence that the policyholder is not willing or able to continue paying policy premiums. Management normally fully provides for impaired insurance receivables after they are 365 days overdue.

Management of risk in insurance. The Group’s underwriting strategy seeks diversity so that the Group’s portfolio at all times includes several classes of non-correlating risks and that each class of risk, in turn, is spread across a large number of policies. Management believes that this approach reduces the variability of the outcome.

The underwriting strategy is set out in the Group’s insurance risk management policies. The strategy is implemented through underwriting guidelines that determine detailed underwriting rules for each type of product. The guidelines contain insurance concepts and procedures, descriptions of inherent risk, terms and conditions, rights and obligations, documentation requirements, template agreement/policy examples, rationale of applicable tariffs and factors that would affect the applicable tariff. The tariff calculations are based on probability and variation.

Adherence to the underwriting guidelines is monitored by the Management on an on-going basis, also on a regular basis the Supervisory Board monitors the trends of loss ratio and business profitability. Regular analysis triggers the Board to react accordingly, and to provide changes in the products pricing/specifications in order to maintain the desired loss ratio.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

31 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2023 is presented in the table below:

	GEL	USD USD 1 =2.6894 GEL	EUR EUR 1 =2.9753 GEL	Other currency	December 31, 2023 Total
Cash and cash equivalents	89,175	103,702	86,656	4,477	284,010
Mandatory cash balances with the NBG	-	145,430	39,170	-	184,600
Due from other banks	15,426	-	-	-	15,426
Investments in debt securities	378,461	-	-	-	378,461
Loans and advances to customers	1,300,936	920,488	272,535	11	2,493,970
Finance leases to customers	16,130	10,006	-	-	26,136
Reinsurance contract assets	74,974	-	-	-	74,974
Other financial assets	1,801	444	24	-	2,269
Total non-derivative financial assets	**1,876,903**	**1,180,070**	**398,385**	**4,488**	**3,459,846**
Non-derivative financial liabilities					
Due to other banks	274,393	10,473	-	-	284,866
Customer accounts	1,094,333	932,477	160,945	4,617	2,192,372
Borrowed funds	19,030	168,928	194,386	-	382,344
Lease liabilities	1,820	14,150	-	-	15,970
Insurance contract liabilities	77,101	-	-	-	77,101
Other financial liabilities	2,998	926	37	-	3,961
Subordinated debts	-	61,495	44,888	-	106,383
Total non-derivative financial liabilities	**1,469,675**	**1,188,449**	**400,256**	**4,617**	**3,062,997**
OPEN BALANCE SHEET POSITION	**407,228**	**(8,379)**	**(1,871)**	**(129)**	**396,849**

31 Financial Risk Management (Continued)

The Group's exposure to foreign currency exchange rate risk at 31 December 2022 is set out below:

	GEL	USD USD 1 =2.7020 GEL	EUR EUR 1 =2.8844 GEL	Other currency	December 31, 2022 Total
Cash and cash equivalents	76,284	130,294	68,622	2,868	278,068
Mandatory cash balances with the NBG	-	175,050	43,537	-	218,587
Due from other banks	12,593	-	-	-	12,593
Investments in debt securities	394,362	-	-	-	394,362
Loans and advances to customers	1,114,872	726,502	245,399	4	2,086,777
Finance leases to customers	10,743	6,937	-	-	17,680
Reinsurance contract assets	2,474	-	-	-	2,474
Other financial assets	2,993	458	34	1	3,486
Total non-derivative financial assets	**1,614,321**	**1,039,241**	**357,592**	**2,873**	**3,014,027**
Non-derivative financial liabilities					
Due to other banks	303,462	7,245	-	-	310,707
Customer accounts	881,326	912,127	164,339	2,948	1,960,740
Borrowed funds	42,012	111,353	189,572	-	342,937
Lease liabilities	2,132	16,444	-	-	18,576
Insurance contract liabilities	3,192	-	-	-	3,192
Other financial liabilities	4,288	1,147	353	70	5,858
Subordinated debts	-	13,577	43,356	-	56,933
Total non-derivative financial liabilities	**1,236,412**	**1,061,893**	**397,620**	**3,018**	**2,698,943**
OPEN BALANCE SHEET POSITION	**377,909**	**(22,652)**	**(40,028)**	**(145)**	**315,084**
Derivative financial instruments					
Gross settled:					
currency swaps	-	27,020	43,266	-	70,286
currency swaps	(70,857)	-	-	-	(70,857)
OPEN POSITION	**307,052**	**4,368**	**3,238**	**(145)**	**314,513**

The open currency position may cause substantial losses depending on the extent of difference and a change in exchange rate. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. General open currency position limits are set to minimize this risk insomuch as such change may adversely affect the Group's revenues, equity, liquidity and creditworthiness.

The open currency position is calculated and maintained on a daily basis. In the event of any violation, the Bank must perform balancing operations to bring the parameter within the approved limits. General open currency positions is a consolidated on-balance sheet and off-balance sheet position which must fall within the limits set by NBG, which is 20% of regulatory capital.

31 Financial Risk Management (Continued)

ALCO introduces intra-day and overnight open currency position limits in aggregate and for individual currencies, within which the Bank may operate. Such limits are reviewed by ALCO from time to time to respond to market conditions. The Bank's internal limits are lower than the limits set by the NBG. Current limit equals 5% of the regulatory capital. The Group monitors under ICAAP framework its exposure to currency risk, according to 99% confidence level VaR at 10 day holding period. As at 31 December 2023 the VaR value amounted GEL 712 thousand (2022: GEL 469 thousand).

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December, 2023	**At 31 December, 2022**
In thousands of Georgian Lari	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20%	(1,676)	874
US Dollar weakening by 20%	1,676	(874)
Euro strengthening by 20%	(374)	648
Euro weakening by 20%	374	(648)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
31 December, 2023						
Total financial assets	1,269,616	975,590	277,402	781,956	155,282	3,459,846
Total financial liabilities	862,395	644,948	588,597	539,081	427,976	3,062,997
Net interest sensitivity gap at 31 December 2023	**407,221**	**330,642**	**(311,195)**	**242,875**	**(272,694)**	**396,849**
31 December, 2022						
Total financial assets	487,034	1,335,439	303,529	789,544	98,481	3,014,027
Total financial liabilities	1,009,766	663,551	356,023	294,981	374,622	2,698,943
Net interest sensitivity gap at 31 December 2022	**(522,732)**	**671,888**	**(52,494)**	**494,563**	**(276,141)**	**315,084**

31 Financial Risk Management (Continued)

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 200 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Group's:

- Profit for the year ended 31 December 2023 would decrease/increase by GEL 9,830 thousand (2022: decrease/increase by GEL 5,553 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate on assets and borrowings; and

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's:

- Other comprehensive income for the year ended 31 December 2023 would decrease/increase by GEL 4,915 million (2022: decrease/increase by GEL 565 million) mainly as a result of the changes in the interest income on variable interest assets

The table below discloses interest rate changes impact on the fixed rate debt securities at FVOCI:

	2023	2022
Interest rate increases by 200 bases points	(8,732)	(7,778)
Interest rate Decreases by 200 bases points	9,407	8,380
Interest rate increases by 100 bases points	(4,447)	(3,961)
Interest rate Decreases by 100 bases points	4,615	4,111

The Group monitors interest rates for its financial instruments. The table below summarises weighted average nominal interest rates at the respective reporting date based on reports reviewed by key management personnel:

	2023			2022		
In % p.a.	**GEL**	**USD**	**Euro**	**GEL**	**USD**	**Euro**
Assets						
Cash and cash equivalents	3.2%	0.5%	0.1%	7.4%	2.8%	0.1%
Correspondent accounts with NBG	9.5%	-	-	11%	-	-
Mandatory cash balances with the NBG	-	-	-	-	-	-
Due from other banks	13.6%	-	-	11%	-	-
Investments in debt securities	10%	-	-	10%	-	-
Loans and advances to customers	13.7%	9.7%	8.4%	14.4%	8.5%	6.1%
Finance lease receivables	21.4%	13.3%	-	21.0%	12.5%	-
Liabilities						
Due to other banks	10.1%	3.3%	-	11.1%	-	-
Customer accounts	11.2%	3.4%	1.8%	11.5%	2.1%	0.8%
- current and settlement accounts	9.0%	1.6%	0.5%	9.8%	2.0%	0.5%
- term deposits	12.0%	3.5%	1.9%	12.1%	2.1%	0.8%
Borrowed funds	13.3%	7.3%	5.8%	14.0%	6.1%	5.3%
Lease liabilities	11.9%	4.3%	-	12.2%	4.7%	-
Subordinated debts	-	7.5%	10.6%	-	7.0%	8.8%

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

31 Financial Risk Management (Continued)

Prepayment risk. The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2022: no material impact).

The management of interest rate risk is regulated by the Assets and Liabilities Management ("ALM") Policy of the Bank. The Risk Management department regularly produces a report on interest sensitivity gap by repricing periods. The report is used to assess the impact of changes in interest rates on the profit of the Bank. The amount of the stress (expressed in basis points) of the interest rates incorporated in the report is defined by the Risk Management department, based on observed fluctuations in interest rates for relevant currencies. The limit of tolerable potential impact on the profit of the Bank is defined as up to 1% of the regulatory capital.

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2023 is set out below:

In thousands of Georgian Lari	Georgia	China	OECD	Non-OECD	Total
Non-derivative financial assets					
Cash and cash equivalents	128,830	1,445	152,129	1,606	284,010
Mandatory cash balances with the NBG	184,600	-	-	-	184,600
Due from other banks	15,426	-	-	-	15,426
Investments in debt securities	378,461	-	-	-	378,461
Loans and advances to customers	2,457,255	1,434	8,950	26,331	2,493,970
Finance leases receivables	26,136	-	-	-	26,136
Reinsurance contract assets	73,219	406	344	1,005	74,974
Other financial assets	2,106	134	12	17	2,269
Total non-derivative financial assets	**3,266,033**	**3,419**	**161,435**	**28,959**	**3,459,846**
Non-derivative financial liabilities					
Due to other banks	284,866	-	-	-	284,866
Customer accounts	2,021,480	17,356	36,094	117,442	2,192,372
Borrowed funds	-	2,723	349,899	29,722	382,344
Lease liabilities	15,970	-	-	-	15,970
Insurance contract liabilities	75,632	461	493	515	77,101
Other financial liabilities	3,961	-	-	-	3,961
Subordinated debts	40,865	20,630	44,888	-	106,383
Total non-derivative financial liabilities	**2,442,774**	**41,170**	**431,374**	**147,679**	**3,062,997**
Net position in on-balance sheet non-derivative financial instruments	**823,259**	**(37,751)**	**(269,939)**	**(118,720)**	**396,849**
Credit related commitments and performance guarantees	**593,872**	**10**	**23**	**3,290**	**597,195**
Net position	**229,387**	**(37,761)**	**(269,962)**	**(122,010)**	**(200,346)**

31 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with counterparties outstanding to/from companies ultimately controlled by the entities located in China are allocated to the caption "China". Cash and cash equivalents have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's financial assets and liabilities at 31 December 2022 is set out below:

In thousands of Georgian Lari	Georgia	China	OECD	Non-OECD	Total
Non-derivative financial assets					
Cash and cash equivalents	248,691	662	15,042	13,673	278,068
Mandatory cash balances with the NBG	218,587	-	-	-	218,587
Due from other banks	12,593	-	-	-	12,593
Investments in debt securities	394,362	-	-	-	394,362
Loans and advances to customers	2,031,473	433	8,313	46,558	2,086,777
Finance leases receivables	17,680	-	-	-	17,680
Reinsurance contract assets	1,270	158	335	711	2,474
Other financial assets	2,992	147	258	89	3,486
Total non-derivative financial assets	**2,927,648**	**1,400**	**23,948**	**61,031**	**3,014,027**
Non-derivative financial liabilities					
Due to other banks	310,707	-	-	-	310,707
Customer accounts	1,817,177	17,659	17,787	108,117	1,960,740
Borrowed funds	-	13,830	329,107	-	342,937
Lease liabilities	18,576				18,576
Insurance contract liabilities	2,052	224	461	455	3,192
Other financial liabilities	5,671	16	170	1	5,858
Subordinated debts	-	13,577	43,356	-	56,933
Total non-derivative financial liabilities	**2,154,183**	**45,306**	**390,881**	**108,573**	**2,698,943**
Net position in on-balance sheet non-derivative financial instruments	**773,465**	**(43,906)**	**(366,933)**	**(47,542)**	**315,084**
Credit related commitments and performance guarantees	**392,057**	**4,020**	**-**	**4,557**	**400,634**
Derivative financial instruments					
Gross settled:					
currency swaps	-	-	(70,857)	-	(70,857)
currency swaps	-	-	70,286	-	70,286
Total derivative financial instruments	-	-	(571)	-	(571)
Net position	**381,408**	**(47,926)**	**(366,362)**	**(52,099)**	**(84,979)**

31 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The Group manages liquidity risk according to the Asset-Liability Management Policy and Regulation of Liquidity Management, where detailed processes and limit system for liquidity management is defined. The Asset/Liability Committee is responsible for the implementation of the Asset-Liability Management Policy, the daily management of liquidity is the responsibility of Treasury Department.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits, long-term borrowings and credit lines. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements.

The liquidity is calculated and assessed on standalone basis. The Bank calculates and maintains liquidity in accordance with the requirement of the NBG. These ratios are:

- Liquidity Coverage Ratio (“LCR”), which is calculated as high-quality liquid assets divided by net cash outflows over a 30 day stress period. Only assets with high potential to be easily converted into cash are included in high-quality liquid assets.
- NSFR - is defined as the amount of available stable funding relative to the amount of required stable funding

The ratios are as follows:

	2023 actual	**2023 NBG requirement**	**2022 actual**	**2022 NBG requirement**
Total liquidity coverage ratio	123%	>=100%	124%	>=100%
Liquidity coverage ratio (GEL)	98%	>=75%	107%	>=75%
Liquidity coverage ratio (FC)	166%	>=100%	138%	>=100%
NSFR	117%	>=100%	121%	>=100%

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department.

The table below shows liabilities at 31 December 2023 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

31 Financial Risk Management (Continued)

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities and commitments						
Due to other banks	277,232	7,781	-	-	-	285,013
Customer accounts – individuals	348,276	212,211	281,176	251,620	6,999	1,100,282
Customer accounts – other	500,698	250,754	244,083	180,518	307	1,176,360
Borrowed funds	20,089	121,140	100,444	171,368	-	413,041
Lease liabilities	364	1,764	2,064	12,336	1,536	18,064
Insurance contract liabilities	76,786	-	315	-	-	77,101
Other financial liabilities	3,755	203	3	-	-	3,961
Subordinated debts	941	2,388	4,294	41,751	113,051	162,425
Total non-derivative financial liabilities	**1,228,141**	**596,241**	**632,379**	**657,593**	**121,893**	**3,236,247**
Financial guarantees	220,665	-	-	-	-	220,665
Undrawn credit related commitments	316,029	-	-	-	-	316,029
Letters of credit	1,462	-	-	-	-	1,462
Total potential future payments of financial obligations	**1,766,297**	**596,241**	**632,379**	**657,593**	**121,893**	**3,774,403**

31 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2022 is as follows:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Non-derivative financial liabilities and commitments						
Due to other banks	304,480	-	7,245	-	-	311,725
Customer accounts – individuals	376,733	228,297	229,131	96,144	7,778	938,083
Customer accounts – other	610,245	263,397	128,273	75,234	7,888	1,085,037
Borrowed funds	20,727	45,036	104,159	204,601	-	374,523
Lease liabilities	338	1,679	2,006	14,891	2,519	21,433
Insurance contract liabilities	1,478	-	1,714	-	-	3,192
Other financial liabilities	4,524	791	543	-	-	5,858
Subordinated debts	-	1,912	2,884	31,497	49,521	85,814
Total non-derivative financial liabilities	**1,318,525**	**541,112**	**475,955**	**422,367**	**67,706**	**2,825,665**
Derivative financial instruments						
Gross settled:						
currency swaps	-	(70,857)	-	-	-	(70,857)
Total derivative financial instruments	-	(70,857)	-	-	-	(70,857)
Financial guarantees	106,590	-	-	-	-	106,590
Undrawn credit related commitments	258,522	-	-	-	-	258,522
Letters of credit	564	-	-	-	-	564
Total potential future payments of financial obligations	**1,684,201**	**470,255**	**475,955**	**422,367**	**67,706**	**3,120,484**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Payments in respect of gross settled forwards will be accompanied by related cash inflows. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Georgian legislation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap as follows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities.

31 Financial Risk Management (Continued)

Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial instruments at 31 December 2023 is as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December, 2023						
Non-derivative financial assets						
Cash and cash equivalents	283,174	835	-	-	-	284,009
Mandatory cash balances with the NBG	184,600	-	-	-	-	184,600
Due from other banks	-	-	6,343	9,084	-	15,427
Investments in debt securities	18,666	106,675	10,802	210,428	31,890	378,461
Loans and advances to customers	270,270	231,405	328,128	952,526	711,641	2,493,970
Finance leases receivables	18	1,285	1,256	23,453	124	26,136
Reinsurance contract assets	74,617	-	357	-	-	74,974
Other financial assets	2,271	-	-	-	-	2,271
Total non-derivative financial assets	**833,616**	**340,200**	**346,886**	**1,195,491**	**743,655**	**3,459,848**
Non-derivative financial liabilities						
Due to other banks	277,084	7,782	-	-	-	284,866
Customer accounts – individuals	68,374	230,955	292,141	315,873	150,119	1,057,462
Customer accounts – other	65,522	262,532	294,374	333,106	179,376	1,134,910
Borrowed funds	19,483	113,355	92,137	157,369	-	382,344
Lease liabilities	304	1,490	1,765	10,974	1,437	15,970
Insurance contract liabilities	76,651	-	450	-	-	77,101
Other financial liabilities	3,755	203	3	-	-	3,961
Subordinated debts	-	-	-	13,514	92,869	106,383
Total non-derivative financial liabilities	**511,173**	**616,317**	**680,870**	**830,836**	**423,801**	**3,062,997**
Financial and performance guarantees	502	-	-	-	-	502
Undrawn credit related commitments	1,462	-	-	-	-	1,462
Letters of credit	31,603	-	-	-	-	31,603
Net liquidity gap based on expected maturities	**288,876**	**(276,117)**	**(333,984)**	**364,655**	**319,854**	**363,284**
Cumulative liquidity gap based on expected maturities	**-**	**12,759**	**(321,225)**	**43,430**	**363,284**	**-**

31 Financial Risk Management (Continued)

The expected maturities analysis of financial instruments at 31 December 2022 is as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December, 2022						
Non-derivative financial assets						
Cash and cash equivalents	277,680	388	-	-	-	278,068
Mandatory cash balances with the NBG	218,587	-	-	-	-	218,587
Due from other banks	-	677	11,917	-	-	12,594
Investments in debt securities	170,677	58,859	40,439	108,973	15,415	394,363
Loans and advances to customers	55,275	314,280	289,500	901,417	526,305	2,086,777
Finance leases receivables	4	53	489	16,671	463	17,680
Reinsurance contract assets	430	72	1,972	-	-	2,474
Other financial assets	3,349	-	-	-	135	3,484
Total non-derivative financial assets	**726,002**	**374,329**	**344,317**	**1,027,061**	**542,318**	**3,014,027**
Non-derivative financial liabilities						
Due to other banks	303,462	-	7,245	-	-	310,707
Customer accounts – individuals	71,792	242,161	234,063	135,267	227,182	910,465
Customer accounts – other	45,521	303,225	150,932	200,959	349,637	1,050,274
Borrowed funds	20,075	52,648	83,232	186,982	-	342,937
Lease liabilities	235	1,364	1,652	13,072	2,253	18,576
Insurance contract liabilities	1,491	127	1,574	-	-	3,192
Other financial liabilities	4,524	791	543	-	-	5,858
Subordinated debts	-	-	-	13,577	43,356	56,933
Total non-derivative financial liabilities	**447,100**	**600,316**	**479,241**	**549,857**	**622,428**	**2,698,942**
Financial and performance guarantees	154	-	-	-	-	154
Undrawn credit related commitments	25,852	-	-	-	-	25,852
Letters of credit	564	-	-	-	-	564
Net liquidity gap based on expected maturities	**252,332**	**(225,987)**	**(134,924)**	**477,204**	**(80,110)**	**288,515**
Cumulative liquidity gap based on expected maturities	**-**	**26,345**	**(108,579)**	**368,625**	**288,515**	**-**
Derivative financial instruments						
Gross settled:						
currency swaps	-	(70,857)	-	-	-	(70,857)
currency swaps	-	70,286	-	-	-	70,286
Total derivative financial instruments	**-**	**(571)**	**-**	**-**	**-**	**(571)**
Net liquidity gap based on expected maturities	**252,332**	**(226,558)**	**(134,924)**	**477,204**	**(80,110)**	**287,944**
Cumulative liquidity gap based on expected maturities	**-**	**25,774**	**(109,150)**	**368,054**	**287,944**	**-**

31 Financial Risk Management (Continued)

Mandatory reserve with NBG is classified on on-demand category as they are created to support the Bank's capability to meet its obligations in the event of an unforeseen interruption of cash flows. Overdue assets over 90 days are reflected in "over 5 years" time package.

Amounts for financial and performance guarantees and undrawn credit lines are disclosed based on expected cash outflows. 10% of total credit line commitments are expected to be utilised and disclosed as expected cash outflow. Customer accounts expected maturities are calculated according to VaR methodology, outflow rates are calculated at 95% confidence interval for each time bucket.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

32 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least above the minimum level stated in borrowing agreements.

Compliance with capital adequacy ratios set by the NBG is monitored monthly, with reports outlining their calculation reviewed and signed by Deputy General Director, Finances. Other objectives of capital management are evaluated quarterly.

In the process of transition to Basel III framework, to increase transparency and comparability and segregate between available Capital instruments, for coverage of potential risks, the National Bank of Georgia ("NBG") amended Capital Adequacy requirements in December 2017 and in addition to the minimum capital requirements under pillar 1, in updated framework new Pillar 1 and Pillar 2 buffers were introduced:

Buffers under pillar 1:

- The capital conservation buffer - 2.5% of risk-weighted assets, and is designed to provide for losses in the event of stress, included in minimum capital requirements;
- The countercyclical capital buffer - was introduced within the Basel III framework and represents one of the main macro-prudential policy instruments, currently set at 0%;
- Systemic buffers - are set separately for each commercial bank considered to be systematically important (not applicable for Basis bank)

Buffers under pillar 2:

- Unhedged currency induced credit risk buffer (CICR);
- Credit portfolio concentration buffer, which entails name and sectoral concentration buffers;
- Net stress test buffer, will be introduced in accordance with stress tests results administered by the NBG;
- Net GRAPE buffer, set in accordance with the NBG's General Risk Assessment Program and the assessment of banks' internal capital requirement;

32 Management of Capital (Continued)

Under the current capital requirements set by the NBG, banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above a prescribed minimum level.

Under the current capital requirements the banks are to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above a prescribed minimum level.

According to the Pillar 3 quarterly reports submitted to NBG, the capital ratios are as follow:

In thousands of Georgian Lari	**2023 Pillar I/II**	**2022 Pillar I/II**
Primary capital		
Share capital	17,092	17,215
Share premium	101,066	102,555
Other reserve	2,606	0
Retained earnings	299,494	189,397
Revaluation reserve	11,085	13,936
Current year profit	71,959	53,210
Primary capital Before Correction	**503,302**	**376,313**
Primary capital Corrections	(26,873)	(22,446)
Total primary capital after correction	**476,429**	**353,867**
Secondary capital		
Subordinated debts	96,933	51,210
General reserve	-	31,668
Total secondary capital	**96,933**	**82,878**
Total regulatory capital	**573,362**	**436,745**
Risk weighted assets, combining credit, market and operational risks	3,155,794	2,707,680
Minimum NBG requirement for Tier 1 ratio	**14.02%**	**11.42%**
Tier I ratio	**15.10%**	**13.07%**
Minimum NBG requirement for Regulatory capital ratio	**17.13%**	**14.99%**
Regulatory capital ratio	**18.17%**	**16.13%**

33 Contingencies and Commitments

Legal proceedings. As of 31 December 2023 and 2022, the Bank had several unresolved legal claims (no legal disputes against the subsidiaries). The Bank's legal counsel's opinion is that it is possible, but not probable, that the court ruling may be in favour of the claimants. Accordingly, no provision for any claims has been made in these consolidated and separate financial statements. The possible outflow which could result from such litigation, based on the current status of the legal proceedings, is estimated to be GEL 2,152 thousand (2022: GEL 2,652 thousand), while the timing of the outflow is uncertain.

Tax contingencies. Georgian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. A tax year remains open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Bank was under inspection of tax authorities for the tax period starting from 1 April 2015 until 31 August 2018. There are certain areas which were questioned by the tax authorities, the Bank has not agreed with some estimations and appealed to court, disputes were not settled as at 31 December 2023. The onsite inspection is concluded, the total accruals made after inspection are given in below table. In 2023 The Bank has created provision of GEL 581 thousand as of 31 December 2023 (2022: GEL 581 thousand) on positions where it is probable that the Bank will have to make additional payments. For the rest of the disputed amount the Group's management believes that it is not likely that any significant loss will eventuate and no provisions are created.

The Georgian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. The Group consults with qualified external tax advisors on a regular basis.

Capital expenditure commitments. As at 31 December 2023 and as at 31 December 2022, the Group has contractual capital expenditure commitments as an investment liability in respect of development and reconstruction of newly acquired land and premises from Hualing International Special Economic Zone under the agreement dated 1 December 2022. The commitment has arisen from the contract replacing the investment liability of Hualing International Special Economic Zone assigned by the Government as a Condition for Privatization for land and the Building dated 21 July 2015 for the same assets. Under the purchase contract between Basisbank and Hualing international special economic zone, the liability for the development of the asset transferred to the bank by the Government decree N161 as of 23 January 2022. The investment committement is totalling GEL 4 million for the completion of construction works and commissioning the building until 28 October 2024.

The Group has already allocated the necessary resources in respect of these commitments.

33 Contingencies and Commitments (Continued)

Lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Georgian Lari	2023	2022
Not later than 1 year	192	39
Total operating lease commitments	**192**	**39**

The Group leases a part of premises rented for location of equipment (ATMs) under operating leases which are not included into Right of Use Assets. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals

Compliance with covenants. The Group is obligated to comply with financial covenants in relation to borrowed funds and credit lines disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. Management believes that the Group was in compliance with the covenants as at 31 December 2023, except for the covenant breached by BB Leasing JSC as discussed in Note 19 – BB Leasing received a waiver letter from the lender subsequent to the year-end.

The Group was in breach of several covenants as of 31 December 2022, for which waiver letters have been received by the lenders before the year-end.

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

The composition of the Bank's capital calculated in accordance with the Basel Accord is as follows:

In thousands of Georgian Lari	31 December, 2023	31 December, 2022
Tier 1 capital		
Share capital and share premium	121,817	118,157
Retained earnings	370,362	307,146
Total tier 1 capital	**492,179**	**425,303**
Tier 2 capital		
Revaluation reserves	10,669	14,342
Subordinated debts	85,106	45,546
Total tier 2 capital	**95,775**	**59,888**
Total capital	**587,954**	**485,191**

Credit-related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

33 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit-related commitments are as follows:

In thousands of Georgian Lari	**31 December, 2023**	**31 December, 2022**
Financial guarantees issued	221,065	106,710
Undrawn credit line commitments	316,594	259,071
Total loan commitments	**537,659**	**365,781**
Less: Provision for financial guarantees	(400)	(120)
Less: Provision for loan commitments	(564)	(558)
Less: Commitment collateralised by cash deposits	(47,151)	(16,993)
Total credit related commitments, net of provision and cash covered exposures	**489,544**	**348,110**

33 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2023 is as follows:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Issued financial guarantees				
- Excellent	42,318	-	-	42,318
- Good	172,237	-	-	172,237
- Satisfactory	-	5,379	-	5,379
- Default	-	-	1,131	1,131
Unrecognised gross amount	**214,555**	**5,379**	**1,131**	**221,065**
Provision for financial guarantees	(303)	(82)	(15)	(400)
Loan commitments				
- Excellent	20,183	-	-	20,183
- Good	295,628	-	-	295,628
- Satisfactory	-	206	-	206
- Special monitoring	-	12	-	12
- Default	-	-	565	565
Unrecognised gross amount	**315,811**	**218**	**565**	**316,594**
Provision for loan commitments	**(562)**	**(2)**	**-**	**(564)**

33 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2022 is as follows.

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Issued financial guarantees				
- Excellent	16,005	-	-	16,005
- Good	88,180	-	-	88,180
- Satisfactory	-	2,525	-	2,525
Unrecognised gross amount	**104,185**	**2,525**	**-**	**106,710**
Provision for financial guarantees	(104)	(16)	-	(120)
Loan commitments				
- Excellent	99,743	-	-	99,743
- Good	157,651	-	-	157,651
- Satisfactory	-	1,455	-	1,455
- Special monitoring	-	18	-	18
- Default	-	-	204	204
Unrecognised gross amount	**257,394**	**1,473**	**204**	**259,071**
Provision for loan commitments	**(554)**	**(4)**	**-**	**(558)**

Credit lines on clients which have fallen in stage 3 level at the reporting date and had unutilized credit lines by the end of the date were also assigned of the same stage, but are not entitled to draw these amounts while in default.

Refer to Note 31 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to credit related commitments.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was GEL 1,853 thousand at 31 December 2023 (2022: GEL 1,501 thousand).

33 Contingencies and Commitments (Continued)

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Construction	36,986	24,625
Real Estate Management and Develoment	3,996	1,509
Service	2,311	1,368
Energy	1,494	1,106
Trade	796	528
Financial Institutions	-	239
Other	13,312	5,525
Total guaranteed amounts	**58,895**	**34,900**

Movements in provisions for performance guarantees are as follows:

In thousands of Georgian Lari	**December 31, 2023**	**December 31, 2022**
Carrying amount at 1 January	**(35)**	**(200)**
Initial recognition of issued performance guarantees	(81)	(24)
Utilisation of provision	14	188
FX movements	-	1
Carrying amount at 31 December	**(102)**	**(35)**

33 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

In thousands of Georgian Lari	Notes	December 31, 2023 Asset pledged	 Related liability	December 31, 2022 Asset pledged	 Related liability
Investments in debt securities at FVOCI	10, 17	101,548	89,900	115,429	68,636
Investments in debt securities at AC	10	23,670	20,000	76,877	133,321
Mortgage Loan portfolio pledged with NBG		81,490	65,100	109,739	58,044
SME Loan portfolio pledged with NBG		-	-	28,246	28,000
Total		**206,708**	**175,000**	**330,291**	**288,001**

At 31 December 2023, restricted cash balances are balances of GEL 134 thousand (2022: GEL 135 thousand) are placed as a cover for international payment cards transactions. In addition, in 2023, mandatory cash balances with the NBG of GEL 184,600 thousand (2022: GEL 219,063 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations, as disclosed in Note 8.

34 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial assets and liabilities recorded or disclosed at fair value in the consolidated and separate statement of financial position at 31 December 2023 were classified in their entirety based on the lowest level of input that is significant to the asset or liability's fair value measurement.

34 Fair Value Disclosures (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December, 2023				31 December, 2022			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investments in debt securities								
- Georgian government bonds	-	157,726	-	157,726	-	146,235	-	146,235
					-	-		
NON-FINANCIAL ASSETS					-	-		
- Premises and equipment	-	-	58,874	58,874	-	-	59,263	59,263
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	-	**157,726**	**58,874**	**216,600**	**-**	**146,235**	**56,139**	**202,374**

The market approach has been used to value premises. Inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs at 31 December 2023 and 31 December 2022 are as follows:

	Fair value at 31 December				
In thousands of Georgian Lari	**2023**	**2022**	**Valuation technique**	**Inputs used**	**Relationship of unobservable inputs to fair value**
ASSETS AT FAIR VALUE					
NON-FINANCIAL ASSETS					
- Premises	58,874	59,263	- Market comparable approach	- Price per square meter	The higher the price per square meter, higher the fair value and the lower the discount rate, higher the fair value.
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**58,874**	**59,263**			

34 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December, 2023				31 December, 2022			
In thousands of Georgian Lari	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
ASSETS								
Cash and cash equivalents								
- Cash on hand	58,335	-	-	58,335	76,580	-	-	76,580
- Cash balances with the NBG	-	57,001	-	57,001	-	107,400	-	107,400
- Correspondent accounts and overnight placements	-	167,540	-	167,540	-	93,701	-	93,701
- Placements with other banks with original maturities of less than three months	-	1,134	-	1,134	-	387	-	387
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	15,426	-	15,426	-	12,593	-	12,593
Mandatory balances with the NBG	-	184,600	-	184,600	-	218,587	-	218,587
Loans and advances to customers at AC								
- Corporate loans	-	-	1,707,134	1,703,455	-	-	1,335,804	1,350,228
- Mortgage loans	-	-	510,814	504,073	-	-	501,106	495,672
- Consumer loans	-	-	261,691	259,924	-	-	212,622	212,802
- Credit cards	-	-	25,446	26,518	-	-	28,076	28,075
***Finance* lease receivables**	-	-	26,136	26,136	-	-	17,680	17,680
Investments in debt securities								
- Georgian government treasury bonds	-	110,150	-	109,414	-	176,046	-	175,348
- Georgian government treasury bills	-	52,375	-	52,331	-	39,524	-	39,498
- Corporate bonds	-	-	59,000	58,990	-	-	32,950	33,281
Reinsurance contract assets	-	74,974	-	74,974	-	2,474	-	2,474
Other financial assets	-	2,269	-	2,269	-	3,486	-	3,486
NON-FINANCIAL ASSETS								
- Investment properties	-	-	2,340	1,299	-	-	2,351	1,657
TOTAL	**58,335**	**665,469**	**2,592,561**	**3,303,419**	**76,580**	**654,198**	**2,130,589**	**2,869,449**

34 Fair Value Disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December, 2023				31 December, 2022			
In thousands of Georgian Lari	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying Value**
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	1	-	1	-	1	-	1
- Short-term placements of other banks	-	109,767	-	109,767	-	22,258	-	22,258
- Short-term loans of NBG	-	175,246	-	175,098	-	289,466	-	288,448
Customer accounts								
- Current/settlement accounts of state and public organisations	-	212,965	-	212,962	-	136,382	-	136,382
- Term deposits of state and public organisations	-	-	268,256	270,743	-	-	264,513	265,495
- Current/settlement accounts of other legal entities	-	264,370	-	264,370	-	446,912	-	446,912
- Term deposits of other legal entities	-	-	392,056	386,825	-	-	202,462	201,484
- Current/demand accounts of individuals	-	296,121	-	296,121	-	305,651		305,651
- Term deposits of individuals	-	-	772,981	761,351	-	-	606,218	604,816
Borrowed funds	-	384,825	-	382,344	-	345,531	-	342,937
Insurance contract liabilities	-	77,101	-	77,101	-	3,192	-	3,192
Lease Liabilities	-	18,064	-	15,970	-	21,433	-	18,576
Other financial liabilities	-	3,961	-	3,961	-	5,858	-	5,858
Subordinated debts	-	105,060	-	106,383	-	58,303	-	56,933
TOTAL	**-**	**1,647,481**	**1,433,293**	**3,062,997**	**-**	**1,634,987**	**1,073,193**	**2,698,943**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities were discounted at the Group’s own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group. The Group’s liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

35 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can 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.

At 31 December 2023, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Share-holders	Immediate parent company	Supervisory Board	Manage-ment Board	Companies under common control	Other related parties
Loans and advances to customers (contractual interest rate: 6% –24%)	-	2,074	-	169	2,559	642	1,321
Credit loss allowance at 31 December 2023	-	(2)	-	-	(2)	(1)	(2)
Customer accounts (contractual interest rate: 0% – 12%)	566	1,863	4,102	2,066	7,359	78,338	2,626
Provisions for liabilities and charges	-	-	-	1	1	-	-
Insurance receivables	-	-	-	-	6	-	5
Insurance contract reserves	-	12	-	7	10	104	37
Subordinated debt (contractual interest rate: 7%)	-	-	13,577	-	-	-	-

The income and expense items with related parties for 2023 were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Share-holders	Immediate parent company	Supervisory Board	Manage-ment Board	Companies under common control	Other related parties
Interest income	-	18	-	3	119	144	124
Interest expense	(43)	(50)	(56)	(27)	(491)	(1,142)	(130)
Credit loss allowance	-	(1)	-	-	10	32	23
Gains less losses from trading in foreign currencies	-	57	15	-	8	292	5
Foreign exchange translation gains less losses	-	(13)	(105)	31	(6)	393	(13)
Earned premium	-	-	-	2	9	-	7
Claims Settled	-	-	-	4	2	-	19
Change in outstanding claims	-	-	-	6	2	21	24
Provision for credit related commitments	(1)	-	-	(1)	(5)	-	(1)
Administrative and other operating expenses	-	-	-	-	-	-	(2,486)

35 Related Party Transactions (Continued)

At 31 December 2023, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Undrawn credit line commitments	-	21	-	93	1,993	158	12

Aggregate amounts lent to and repaid by or paid to related parties during 2023 were:

In thousands of Georgian Lari	Ultimate share-holder	Share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Amounts lent to related parties during the year	-	4,365	-	365	5,680	6,064	696
Amounts repaid by related parties during the year	-	2,256	-	234	4,576	6,955	1,156
Amount paid to RP for purchases of CIP and other assets	-	-	-	-	-	-	-

At 31 December 2022, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Ultimate shareholder	Share-holders	Immediate parent company	Supervisory Board	Manage-ment Board	Companies under common control	Other related parties
Loans and advances to customers (contractual interest rate: 4% – 16.5%)	-	26	-	19	1,468	1,562	1,318
Credit loss allowance at 31 December 2022	-	(2)	-	(1)	(3)	(1)	(3)
Customer accounts (contractual interest rate: 1% – 14.5%)	524	1,887	3,122	2,687	7,516	83,812	2,054
Provisions for liabilities and charges	-	-	-	1	7	1	-
Insurance receivables	-	-	-	-	1	-	3
Insurance contract reserves	-	-	-	1	5	-	7
Subordinated debt (contractual interest rate: 7%)		-	13,577	-	-	-	-

35 Related Party Transactions (Continued)

The income and expense items with related parties for 2022 were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Share-holders	Immediate parent company	Supervisory Board	Manage-ment Board	Companies under common control	Other related parties
Interest income	-	3	-	4	174	399	108
Interest expense	(42)	(59)	(42)	(22)	(423)	(766)	(117)
Credit loss allowance	-	-	-	-	(2)	76	(5)
Gains less losses from trading in foreign currencies	-	48	-	-	(1)	255	5
Foreign exchange translation gains less losses	-	244	2,283	333	242	5,154	18
Provision for credit related commitments	-	13	-	1	10	-	6
Earned premium	-	-	-	-	-	-	6
Claims Settled	-	-	-	-	-	-	2
Change in outstanding claims	(1)	-	-	(1)	(5)	-	(1)
Administrative and other operating expenses	-	-	-	-	-	-	(1,918)

At 31 December 2022, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Undrawn credit line commitments	-	76	-	56	1,396	817	14

Aggregate amounts lent to and repaid by related parties during 2022 were:

In thousands of Georgian Lari	Ultimate share-holder	Share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Amounts lent to related parties during the year	-	404	-	125	5,065	9,365	629
Amounts repaid by related parties during the year	-	991	-	238	5,913	13,850	-
Amount paid to RP for purchases of CIP and other assets	-	-	-	-	-	-	59,922

A person is considered as related party only if he/she has control or joint control or significant influence over the Bank or the Group, is a member of Top Management of the Group or its parent entity.

35 Related Party Transactions (Continued)

Legal Entity is considered to be a related party if the following conditions are met: The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others). One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); The enterprise is subject of control or joint control of the following natural persons: person having control or significant influence over the Bank; Member of Top Management of the Bank, The Group or its parent Company, as well as their family members. Other related parties include companies under control of the Bank and/or family member of persons who are considered as related party and have right significant influence over the bank or the Group.

Compensation for the members of the Supervisory Board is presented below:

	2023		**2022**	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	956	-	857	-
Total	**956**	-	**857**	-

Key management compensation is presented below:

	2023		**2022**	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	4,450	88	2,951	28
Share-based compensation:				
- Equity-settled share-based compensation	160	-	167	-
Other long-term employee benefits:				
- Long-term bonus scheme	6,122	8,740	4,906	3,858
Total	**10,732**	**8,828**	**8,024**	**3,886**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services. Key management personnel includes management board members.

36 Events after the reporting period

Increase of BasisBank's Share Capital. On February 14, 2024 during the shareholder meeting the decision was made to issue ordinary shares. These shares were subsequently fully purchased by the Bank's largest shareholder, Xinjiang Hualing Industry and Trade (Group) Co, for a total of 26.5 million GEL.

Acquisition of leasing portfolio by BB Leasing. In January 2024, BB leasing acquired selected auto leasing portfolio from Georgian Leasing Company JSC (a subsidiary of JSC Bank of Georgia).

BB Leasing acquired 412 leasing contracts with overall portfolio of GEL 4,120 thousands. As a result, BB leasing has significantly increased its retail business and has significantly strengthen its position on the market. The portfolio was acquired with a discount of 10.4% from its carrying value.

37 Abbreviations

The list of the abbreviations used in these consolidated and separate financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
ALCO	Assets liability management committee
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
IFRS	International Financial Reporting Standard
IRB system	Internal Risk-Based system
L&R	Loans and Receivables
LGD	Loss Given Default
LTV	Loan to Value
NBG	National Bank of Georgia
PD	Probability of Default
PL	Statement of profit or loss
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
ROU asset	Right of use asset
SPB	Share-based Payment
SICR	Significant Increase in Credit Risk
SME	Small and Medium-sized Enterprises
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments’ cash flows represent Solely Payments of Principal and Interest

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