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BASISBANK

ANNUAL REPORT
2022

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MANAGEMENT REPORT

MR. ZHANG JUN – THE CHAIRMAN OFTHE SUPERVISORY BOARD

The past year was undoubtedly the most eventful and momentous, a decisive milestone on the path of the journey of Basisbank (hereinafter, "the Bank") and the entire BB Group (hereinafter – "the Group", consisting of BasisBank, BB Insurance, BB Leasing and Basis Asset Management Holding) towards the goals set.

Our progress in 2022 was significant, the Group accomplished several all-time highs and was able to consolidate and strengthen its position as the fourth biggest financial institution on the market in line with our strategy and development plan.

BB Group accomplished the most challenging task as part of its growth strategy, which is amalgamation of VTB Bank Georgia's retail and part of corporate business. We implemented the merging process in an unprecedentedly short period of time, strengthened and doubled the number of team members, the branch network and enhanced our customer base. The integration has progressed well, and our business has increased significantly, greatly expanding our retail, corporate and SME businesses.

BB Group did a great job managing underlying risks in a highly professional manner, moreover, the transaction took place against the backdrop of geopolitical developments unfolded in February 2022 and consequent tough situation in the region.

We set ambitious goals for ourselves, and we deliver our commitments with renewed energy and sense of purpose.

If not for the high competence of each member of BB Group team and the commitment and dedication to our common purpose, it would not be possible to take care of the interests of tens of thousands of new customers and provide them with stable and smooth financial services in an unprecedentedly short period of time.

Added to the increased number of clients and uninterrupted provision of quality services to them, the support and due management of integration processes between members of the doubled team was an equally difficult challenge. However, BB Group worked very effectively.

Following the increased scale of the Bank in 2022, we embarked on optimizing and improving our internal processes, while continuing to run ongoing projects. We have also moved forward in the development of digital banking services to further enhance the service standards for our customers. We have greatly expanded cooperation with our international partners.

It is also a matter of pride that during 2022, Basisbank made strides as a financial institution supporting business, positioning itself as a business banker in the top three major banks, thereby making an important contribution to the development of the national economy.

It goes without saying that BB Group also firmly positions itself as a highly socially responsible business, steadily implementing dozens of projects from year to year, to support culture and education.

In 2022, we welcomed a new independent member to the Supervisory Board. Mr. Nikoloz Enukidze was appointed in November 2022 as an independent member of the Supervisory Board, he also joined our Audit and Board Risk Committees. I am delighted to welcome him, and I am sure that we will greatly benefit from his broad experience and contributions. BB Group is going through an important stage of transformation and development, its strategic goals and business focus has shifted significantly towards more ambitious growth after an impressive advancement on the market in 2022. Mr Enukidze will bring decades of experience and leadership to the board and will add significant value as we have embarked on a significant journey for change and expansion.

The year 2022 was another clear example of the fact that there is no challenge that BB Group is unable to overcome, with the support of shareholders and the Board, setting the right management priorities, sound ambition and a team of motivated professionals, ready to conquer even greater heights.

Accordingly, we have reasonable expectations that 2023, which is the 30th anniversary year in the history of our Bank, will be a positive year of progress, growth, and development.

MR. DAVID TSAAVA
THE GENERAL DIRECTOR

The Financial year 2022 proved to be a year of transformation and enhanced business momentum for BB Group. We continued our trajectory towards the path of institutional development and strengthening our positions on the local market reaching an enhanced overall performance across all business lines, enabling us to record growth in excess of the industry averages in most of the indicators.

Early into the new year, when challenges bought by prolonged pandemic were still relevant, geopolitical turmoil unfolded in the region threatened to bring even more uncertainties and economic challenges to the country. Against this mixed background, we turned in our best year ever, with not just to excellent financial performance bu also comprehensive delivery against key strategic goals.

Due to aggressive actions of the Russian Federation against Ukraine, US, Great Britain, EU and other countries imposed sanctions on the aggressor's financial system. Foreign branches of Russian government-held banks were severely limited into their capabilities, including VTB Bank Georgia JSC, operating on the Georgian market.

Under its mandate to protect Georgian lenders and depositors, National Bank of Georgia was fast to initiate actions for ceding existing VTB Bank Georgia's portfolios to the peers. We capitalized on the opportunity and successfully amalgamated VTB Bank Georgia's retail and part of corporate businesses. The amalgamation, which took effect from 28 February, gave us an enlarged footprint and strengthened our franchise in key strategic segments.

Right after merger of VTB Bank Georgia's retail and corporate portfolios, all our efforts were focused on integrating both franchises smoothly and although the task of such unprecedented migration in a matter of several days being seemingly challenging, I am particularly proud to say that through exemplary commitment of the whole BB Group team, we were able to complete the first phase of transition process, providing immense relief to VTB Bank Georgia's customers, troubled by the uncertainty of the unfolding situation.

In 2022, the second phase involved optimizing the merged branch network, rebranding of all new branches, and complete integration of all former VTB Bank Georgia's customers to Basisbank's technology systems and operating platforms. The organization was also reorganized in line with the new business strategy and the human capital was realigned to create a performance-oriented institution. With our enlarged presence of 38 branches across the country, 250,000 retail customers, we now have a strong platform from which to accelerate growth. Moreover, customers were not the only valuable acquisition for our institution, we also were happy to welcome hundreds of seasoned professionals from VTB Bank Georgia to our family, doubling our workforce and outreach on the local market.

Despite regional and global uncertainties, inspired by our bold and efficient performance at the beginning of the year, our partner International Financial Institutions (IFIs) and Development Financial Institutions (DFIs) continued their unshaken support and stood ready to provide all necessary assistance, on both investment and technical side to further drive our institution to even greater achievements. We are grateful to our partnership with European Fund for South-Eastern Europe (EFSE), who stands by JSC BasisBank ("BB"), it was especially significant for us during the merger process and support the bank received from EFSE by providing a Sub loan of EUR 15 million which helped us to build up and return to the optimal capitalization level affected during the merger. This trust has brought our institution two new international partners and a new correspondent bank in 2022.

Keeping the pace with the milestone expansion at the beginning of the year 2022 through VTB Bank Georgia's retail and corporate portfolio mergers, our major Shareholder," Xinjiang Hualing Industry and Trade (Group) Co., Ltd.", made a generous capital injection of GEL 27 million into BB Group to support the momentum. A strong capital infusion just before the year-end by our Shareholder will provide even more space to execute the transformational process.

Over the last few years, we have also strengthened our capabilities across our subsidiaries by strengthening the senior management teams, developing innovative product offerings backed by improvement in processes and widening our distribution reach. The success of our Group's strategy is reflected in the superlative financial performance of our subsidiaries that together delivered 6% of the total Group's profit and reached up to year-over year performance of 80%.

As I look back over the past year, I am filled with gratitude and pride in what our team of more than 900 professionals has accomplished together. Moving our strategy forward in terms of key accomplishments, BB Group had an excellent year, enjoyed tremendous growth, and delivered against our plan beyond all expectations. Our present strength and success would not have been possible without utmost commitment and dedication of BB Group team.

On behalf of the entire Management Board, I would also like to express my sincere appreciation to our Supervisory Board, for the continuous guidance and support throughout the year and special thank you to our Shareholder and customers for their confidence, and trust.

Business Environment

Despite positive shifts, overall macro, and microeconomic conditions in our country, especially, considering the situation unfolding in the region, remained challenging throughout the 2022. However, despite of all odds, the country was able to maintain the momentum of the previous year and produce second consecutive year of double-digit economic growth with y/y 10.1%.

Macroeconomic trend of high inflation, attributable to reheating of global economy, was still observed in Georgia. However, through proper management tools employed by the national regulator, country was able to keep the inflation rate single digit, closing the year with 9.8% rate, compared to 13.9% annual indicator of the previous year. The National Bank of Georgia took decisive steps to ensure monetary stability, increasing the refinancing rate by 50 BPS, from 10.50% at 2021YE to 11.00% at YE2022. Increased foreign currency inflows, as well as the overwhelming wave of moderate and high-income Russian citizens, fleeing the waring state, allowed our economy to observe the reversal of already long-lasting national currency depreciation trend, producing strengthening of Georgian Lari by 24.9% in nominal terms (NEER) and by 15% in real terms (REER).

Good economic performance, coupled with the decisive monetary policy, earned our country, as well as players of the financial market, revised Credit Rating - 'BB'/Stable- restoring the Stable outlook, degraded previously, due to Pandemic cautions.

Financial market saw the trend of heavy regulation remain, as the National Bank of Georgia introduced new measures under the policy of De-dollarization, further restraining retail lending. The banking sector reached +16% of growth and remains sound and profitable, with robust capitalization, adequate liquidity, and good asset quality.

Our Strategy

Unexpected expansion at the beginning of the year was well in line with the Bank's growth strategy and ambitious transformation journey but has also put us ahead of the core strategic goals by several years. Still, we remain committed to our understanding what we would like to be: a convenient, versatile and efficient partner with comprehensive digital tools, delivering top-notch experience and financial well-being to our valued customers. Working in synergy with our subsidiaries – BB Leasing, BB Insurance and BB Asset Management Holding – we strive to maximize our economic outreach and build bridges between individuals, companies, International Financial Institutions and other significant stakeholders, to maximize our economic output and value for the shareholder.

It goes without saying that our team demonstrated ability to bring to life our core strategic pillars – SPEED, QUALITY and FLEXIBILITY – completing unprecedented task of migrating over hundred thousand customers in matter of days. With those still in mind, we pursue following mid-term objectives to align our resources to areas of growth; improve efficiency; invest in areas of competitive strength; further support and development of treasury function; enhance our partnership with global banks and partner IFIs; strengthen Brand position and increase Brand awareness and rise BB group ranking on the Market.

To serve the objectives under the strategic priorities, during recent years, we took numerous meaningful measures, such as institutional gap analysis, segmentation analysis, adjustment of relevant business processes and internal procedures. For even better performance, we invited both seasoned professionals, with a record of accomplishment and impeccable reputation in local and international financial circles and motivated young minds, who allow us to better understand the needs of modern societies and tools necessary to meet those.

During the recent years, we built strongly on the proactive digitalization process, taking huge steps forward building the ultimate fruit of our relentless efforts – Omni Digital Banking Channel, which will deliver distinctive and seamless service to our valued customers in a single digital ecosystem.

In 2022, with a joint effort of foreign partners and our team of professionals, we introduced the BackBase platform, which is deemed as a turning point for the digitalization process of BB Group. Another novelty we take pride in introducing is MVP (Minimum Viable Product), the scope of which includes digital onboarding. The latter was launched in the first half of the year for retail banking. By the end of year, we were able to add the broader range of products offered by our Group (insurance and leasing products included). In addition to our customer base, we bring new technological advancements to our people as well, to make their efforts for building our institution as strong as possible, more convenient and efficient. For these purposes, the Bank has been working on Data Warehouse and Business Intelligence tools, which are meant to provide our professionals with enhanced ability to acquire, store, process large inflows of information, and generate added value. We also take safety of our valued customers very seriously, which led us to developing fraud management system in cooperation with LexisNexis. The project will allow us to identify and prevent fraud cases based on client behaviour, ultimately creating a safer digital environment for our customer base.

Financial Performance

Our ability to adapt fast to unprecedentedly rapidly changing economic landscape, both on global and local levels, allowed us to seize the momentum and secured us yet another year of unprecedented growth, closing year with total assets worth well over GEL 3 billion and Gross Loan Portfolio (GLP) – GEL 2 billion. Retail, Small and Medium (SME) and Corporate teams followed their action plans in synergy, outperforming on all forecasted indicators.

Our relentless efforts helped us to maintain our International Credit Score of B+ with a "Stable" outlook, (lately updated to "Positive") despite the region facing a new and grievous challenges.

The key driver of our retail business growth was the successful takeover of VTB Bank Georgia's retail loan and deposit portfolios, allowing retail loan portfolio's y/y growth rate of 210% to GEL 760 million at the end of FY 2022.

SME direction remained as the cornerstone of our business model, so we were proud to welcome dozens of seasoned professionals from VTB Bank Georgia's SME team to our family. With increased outreach and workforce, we were able to achieve remarkable growth rate of 27%, which was GEL 70 million in year 2022 alone, inflating our SME division portfolio to GEL 333 million.

Corporate team was also replenished with colleagues from VTB Bank Georgia's, bringing even more expertise to the institution. Moreover, Basisbank took over a carefully selected corporate portfolio as well, allowing outstanding y/y spike of corporate division loan portfolio by 36% and corporate division deposit portfolio by 149% to GEL 1 billion and GEL 902 million, respectively.

Our strive of being a comprehensive financial group, delivering all necessary services to our valued customers, has proved to be nothing but successful. Despite still being new to Georgian market, our Insurance and Leasing subsidiaries constantly produce remarkable results year to year. Another such accomplishment is BB Insurance's dominance on Aviation Insurance Market, holding as much as 45% of market share as of year-end 2022. Another significant expansion was produced on Credit Life Insurance side of business, where we were able to increase our gross written premium (GWP) by remarkable rate of 134%. Our Insurance Team was successful on pricing optimization side as well, which has resulted in a decrease in the Loss Ratio from 18% in 2021 to 15% in 2022 (calculated as Net claims incurred divided by Net earned premiums).

BB Leasing maintained its remarkable momentum from year 2021, marking the year 2022 with improved performance and achievements. The assets exceeded GEL 22.9 million, portfolio grew by 104% to GEL 17.7 million and net profit increased by 51%, exceeding GEL 2 million, hence allowing us to reach ROAE ratio of 14.2%.

Outlook 2023

With amalgamation of our peer's retail and corporate portfolios early in 2022, BB Group moved to a new stage of institutional development, at an arm's reach to our long-time objective – a firm place among TOP-3 largest financial institutions on the market.

With significant geopolitical shifts and tensions both on regional and broader global scale, we remain conservative on our policies and approaches but bold in our strategy and actions. During such challenging times, it is vital for all relevant stakeholders, such as government, financial and business sectors and public to work as closely as ever and produce unprecedented synergy to ensure all outstanding issues are properly analysed and addressed on all levels.

Going into year 2023, we will fully employ the Customer Centric approach, having our valued customer base at the heart of all our strategic decisions and actions.

To bring our approach to life and collect its' fruits of accelerated institutional expansion, we will focus on following core strategic goals: Improvement of management systems, Optimization of business processes, Development of digital channels, Branding, Structural change, ESG Implementation.

Going forward, we will remain focused on growing our retail, SME business segments as well as our subsidiaries to reach leading positions on the market. Over the next year, we will continue to invest in strengthening our team structure and geographical presence across central and regional parts of the country. We will continue to transform our service model and enhance digital solutions to become more proactive and provide our customers with easier access to banking products and services through offering of a more convenient experience. We will invest in a superior customer experience and concentrate on where we can create the most value.

We will strengthen our retail and business franchise with new propositions and superior solutions, aiming to achieve a top 3rd position on the market.

GROUP STRATEGY

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BASISBANK - BUILDING THE HISTORY OF SUCCESS

Established early in 90th, Basisbank emerged as one of Georgia's leading private financial institutions creating one of the most valuable banking brands in the country. With a total asset base of GEL 3 billion, accounting for 4.4% of sector assets, Basisbank is the 4th-largest financial institution in Georgia and is an important contributor to the country's economy. With a legacy of approximately 30 years of history, diverse experience and capabilities, Basisbank under BB Group serves over 250,000 customers delivering top-notch services with a workforce of over 900 employees throughout branches across Georgia.

With bold outlook and well-founded ambition, in year 2017, Basisbank founded two subsidiaries, BB Insurance and BB Leasing, in tandem forming a new holding – BB Group. With solid domestic franchise across diverse economic sectors and activities, BB Group diversifies its business across five main business lines of retail banking, corporate banking, SME banking, leasing, and insurance. The banking operations account for the largest share of the Group's assets and profits.

In BB Group, we have established a nurturing environment for both our valued customer base and our staff, with cornerstones such as sustainability, constant development, unconditional inclusiveness, and diversity. Such environment is both favourable and attractive, helping us to build decade-long bonds, based on reliability, trust and utmost satisfaction on both – employee and customer – ends.

Our talented workforce, who are dedicated to our three core principles – Speed, Quality and Flexibility, helps us create a deep connection with our consumers. Our market expertise, comprehensive product offerings and our unique scale of advantages and strengths place us as one of the reliable financial partner and advisor for the community we serve.

We concentrate on key lines of development with focus on continuous transformation and development of our strategic business lines by creating unified platform and agile professional environment, connecting customers and businesses, introducing market-leading services, investing in digital technologies, staff, and infrastructure to whet customer experiences.

As of year-end 2022, three subsidiaries are operating under the BB Group umbrella: BB Insurance, BB Leasing and Basis Asset Management Holding Company (BAMH).

Our subsidiaries continue to deliver strong operational performance even during the volatile period brought by Covid-19 outbreak, tough macroeconomic environment weighed down by high inflation, interest rate increases and unresolved geopolitical tensions as well as changing regulatory environment, we remain focused on improving our market share and attaining sizable scale in respective businesses.

Through targeted brand building activities, we will continue our trajectory towards creating our corporate identity as a responsible financial services provider in the country.

BB Group Strategy

Last year, we remained focused on executing our strategic agenda for 2022, while at the same time unforeseen events and circumstances unfolding at the beginning of the year, after US, Great Britain and EU other countries imposed sanctions on Russian financial system due to Russia's aggressive military activities in Ukraine, dramatically changed our trajectory and set us 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 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 us well ahead of the stated strategic goals by several years.

Thus, 2022 was a year of many challenges and accomplishments, including reorganization of our 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. We are more than proud that we made significant progress on our key existing and added commitments in 2022.

Due to acquisition, in the midst of the year, we had to re-adjust our strategy for the remaining year.

BB Group's key strategic priorities for 2022 were built around a bold statement of gaining greater market share and positioning the bank as the 3rd largest market player and included:

- Aligning resources to the areas of growth
  - More focus on Mid-sized business
  - Reduce further the concentration of large exposures and focus on MSME and retail in lending and deposit strategy
- Improving efficiency
  - Increase customer load with products – clients per product / revenue per client measures
  - advancement per unit and per sales channel/point
  - Target Non-interest income growth in gross revenues
- Investment in areas of competitive strength
  - Investing in platforms, technology, and coverage
- Increase revenue from leasing and insurance of 8-10% of gross revenues
- Support the Treasury function and development
  - Intensify treasury in businesses and retails leverage advantages of in-house developed market-lead
  - products and services
  - Leverage the advantage of primary dealer market with unique brokerage service tools
- Enhancement of our partnership with global banks and partner IFIs
  - Increase number of our partners, priority is to support businesses with funding from IFIs tailored on
  - customer financing needs and technical support, channel the big clients funding needs through
  - syndicate loans
- Strengthening of Brand position and increasing Brand awareness
  - Client focus - on growth in active client base in corporate and retail.
  - Competitive pricing strategy - activate new proposals, joint projects, cross-offers, and sales.
- Strengthening of BB Group ranking on the Market:
  - Goal - strong 3rd position in terms of business and retail financing
  - Accelerated credit growth in retail, increase our service centres with strong customer inflows
  - Growth higher than market after migration of portfolio in TA and GLP
  - Loan and customer book growth across all segments

Key mandatory changes and strategically important projects defined for 2022 agenda:

- In 2022, we followed our digitalization strategy. With a joint effort of foreign partners and our team of professionals, we introduced the BackBase platform which is deemed as a turning point for the digitalization process of the Bank.
- MVP (Minimum Viable Product), the scope of which includes digital onboarding was launched in the first half of the year for Retail Banking. By the end of year, we added the broader range of products offered by our Group (insurance and leasing products included).
- We initiated development of the data warehouse system which will enhance the efficiency of the internal and external reporting processes.
- In 2022, we started development of a fraud management system in cooperation with LexisNexis. The project will allow us to identify and prevent fraud cases based on client behaviour.

Our ambition is to be one of the leading banks in Georgia with mid-term target of strong No 3 position, supported by strong capital and customer base, with promising digital platforms and resilient financial performance. Our updated strategy, introduced in 2023, is built around this purpose.

In February 2023, we announced an ambitious next cycle strategy to transform our business in pursuit of this purpose to generate a stronger growth trajectory and to deliver higher, more sustainable returns. We aim to reinforce our position as a universal financial institution in Georgia, building on our strength as a customer-centric, forward-looking bank. This resulted in an updated strategy we summarized as following.

2023 Strategic Objectives

The most important decision is that the Bank, in all its decisions, will base its actions on the interests of the target segment, the customers. That is, Client Centricity becomes the basis and ultimate measurement parameter of all our processes and decisions.

To achieve quantitative goals, in 2023, our focus will be directed towards the following strategic goals:

Improvement of management systems

- Set up/introduce strategic planning and monitoring system
  - Development of business strategies – defining min. segments and establishing a certain strategy
  - Setup of strategic planning and monitoring process

- Clarity of the rules of the game
  - Implementation of current projects, task management infrastructure
  - Implementation and transparency of a cross-functional case management model - involving POs, or rather a project manager
  - Continuous monitoring of performance and initiation and implementation of improvement measures - e.g., levels of delegation, managerial or project management competencies, effective use of email and other tools, etc.

- Business Intelligence improvement
  - Improvement of analytics and forecasting
  - Introduction of the balanced system of KPI's so that it's aligned to goals
  - Set up of information flows – including feedback system etc

Optimization of business processes

- Optimization of defined top 10 processes using recognized methodology (LEAN, SixSigma) to improve customer experience and resulting NPS

Development of digital channels

- Improvement of Digital Channels
  - Applying Group-wide technology platforms to deliver better products and services
  - Accelerating existing business scale and drive value across the Group by driving technology and digital innovation
  - Upgrading our systems and implementing automation of manual processes. This is intended to allow us to deliver a more personalized digital experience, reduce cost and create additional capacity to support more of our customers.

Branding (internal and external, creation and communication)

- Branding and Refreshed Corporate Culture
  - Develop the brand platform and strategy and communicate it externally
  - Develop Basisbank as an employer brand platform and communicate this to employees together with the internal communication team
  - Agree on the desired corporate culture and its constituent elements and plan and initiate change
  - Systematization of internal communication

Structural Change

- To ensure the timeliness and consistency of the bank's transformation, a transformation team will be created under the CEO's arm, whose main task will be the transformation of business processes and management systems

ESG Implementation

- Environmental, social and governance standards (ESG) and corporate social responsibility, are priorities which are to imbedded in the principle of sound and responsible lending, the Bank considers ESG issues as an important part of its strategy. BB plans to enhance its structural units and provide training to relevant staff involved in lending process, develop/enhance ESG strategy, staffing plan and lending framework in line with the changes and requirements of local law and other mandatory requirements.
  - Enhancing our expertise to support the scale-up of low carbon technologies, infrastructure and businesses
  - Supporting clients by providing expertise advice and finance

- Developing green and sustainable banking products, including green mortgages, green business loans
- Introducing our Sustainable Finance Framework
- Reinforcing our social and environmental policies through our governance

Going forward, we will remain focused on growing our retail, corporate and SME business segments as well as our subsidiaries to reach leading positions on the market. Over the next year, we will continue to invest in strengthening our team structure and geographical presence across country. We will continue to transform our service model and enhance digital solutions to become more proactive and provide our customers with easier access to banking products and services through offering of a more convenient experience. We will invest in a superior customer experience and concentrate on where we can create the most value. We will strengthen our retail and business franchise with new propositions and superior solutions, aiming to achieve a top 3rd position on the market.

DELIVERING ON OUR STRATEGY

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Commercial Direction

Basisbank's approach to serving its business clients encapsulates the link between relationship banking at its best and additional benefits offered by the BB Group setting. Our Commercial Direction under the supervision of Chief Commercial Officer serves a sizeable number of small, medium, and large companies through strong domestic franchise and presence in all economically active regions of Georgia.

The Bank's efficient multichannel sales network, segment focus and expertise allow supporting its Corporate, SME as well as high-net-worth client segment in all business.

Commercial Direction is organized into five main business divisions: Corporate, SME, Trade Finance and Factoring, China Related Clients and Projects and Unique Banking Division that function under Business Management Department. Each division includes specialized group units directed at improvement of service quality and efficient personalized relationships with the customers. In 2021, in pursue of bringing perfection to overall business processes and development, a special Advisor to Commercial Director in Strategic Business Development joined the Group. Our Team brings vast expertise and efficient customer relationship in corporate and SME lending, international trade, project financing, syndications, as well as in servicing Chinese customers. We offer a broad range of products and services to our business customers, based on in-depth client and sector knowledge combined with innovation and digitalization. Our commercial direction is fully aligned with the Group-wide strategy.

Corporate unit includes West and East Georgia regional groups, working specifically with corporate clients in the vicinity of their business location. Similarly, SME Business unit consists of West and East Regional Groups of SME bankers, also working closely with their clients, serving their business needs daily.

SME Business unit includes a specialized Agribusiness Group, staffed with agribusiness bankers, who are presented in each our regional offices specifically to boost agribusiness lending, attract new agro clients and improve service quality for the existing ones.

Through its group of private bankers, Unique Banking Division provides premium class services to the bank's high-net-worth client segment individually addressing the needs of each VIP customer. Our unique clients benefit from superior quality of service, personal attention, and customized product solutions.

Trade Finance and Factoring Division offers our clients involved in factoring and international trade business flexible, convenient and risk-free services in alternative financing solutions to address business specifics of the industry.

China Related Clients and Projects Division serves our business clients, helping them create new business opportunities and links with Chinese counterparties. Our professionals working in this division strive to build a bridge that connects our Corporates and SMEs with Chinese businesses, also supporting the Chinese clients living and working in Georgia, along with Chinese investors. The division is staffed with highly qualified Chinese language experts, trained in China.

In 2022, the focus of the Commercial Direction was directed on the following activities:

- working with state agencies to facilitate access to support programs for businesses vulnerable to various macroeconomic challenges
- addressing customer concerns and tailoring solutions to their specific needs
- strengthening the team to bring in greater business focus and drive performance and efficiency

- de-risking and diversifying corporate and SME loan book
- accelerating sustainable finance offering to our clients through various projects and enabling transition to a low-carbon future progress
- delivering sustainable growth for clients by leveraging our network to facilitate trade, business growth and investment flows across our geographical footprint
- proactively taking measures on the operational front and developing strategies to counter the near-term challenges

Corporate Banking

Our Corporate Banking Division has a deep customer base, which includes top businesses, large private sector companies, financial institutions, and public sector entities.

Understanding customer expectations and responding through appropriate products and services has been central to BB Group's strategy. The demand for convenience, speed and flexibility with customized solutions and innovative approaches lays at the core of our corporate business strategy. Our clients represent a large and important part of the economies we serve. We are committed to delivering on our ambition to increase support and funding for financial products and services that have a positive impact on our clients' healthy economic growth.

The ever-changing geopolitical and economic context forces us not only to keep adapting but to also retain our focus on our customers, expanding access to services to help them get the support they need.

During the year, we have rationalized our exposure to high-risk segments. In 2022, our core activities were focused on servicing clients in selected sectors (such as trade, agriculture, construction, tourism) with a strong customer connection across a focused geographical footprint. Corporate direction activity significantly increased in such sectoral areas as FMCG, real estate development and management and energy.

We have been constantly engaged with borrowers extending support in additional term loans, working capital facility and syndications. Our portfolio growth was spread mainly between two directions - direct financing and syndicated deals.

Finding best financing solutions and supporting businesses to thrive remained to be one of our key focus areas in 2022. Basisbank's corporate lending business continued with solid growth despite interest rates volatility, imposing of restricting sanctions and challenging market environment, reflecting the diversity of our activities and ongoing focus on achieving our strategic objectives with prudent risk management.

In 2022, the corporate division loan portfolio grew by GEL 273 million to GEL 1.0 billion and accounted for 36% y/y growth. The growth in the portfolio was driven by the Bank's strong brand positioning on the market, digital offerings, efforts towards process simplification and accessibility and efficient completion of VTB Bank Georgia's retail and business portfolio migration process.

The most significant event of 2022 for corporate department, as well as for the whole BB Group, was tied to VTB Bank Georgia's portfolio merger, where unprecedented dedication of the whole team to the smooth transition process was exceptional. The migration of customers and their deposits and loans was accomplished expeditiously within a few days. New cards were issued for newly acquired clients. VTB Bank Georgia's service centres and ATMs were switched to Basisbank's infrastructure. The new customers were provided with full access to banking services through distant channels.

Aside of migrated business portfolio from VTB Bank Georgia, it is worth noting that our new disbursements across the selected sectors continued to improve consistently through the year, which was facilitated by improved operational processes and targeted execution. We focused on growing healthy portfolio emphasizing sectors that offer high-growth opportunities and recorded impressive growth for the year end. Our persistent customer outreach programs and higher interaction with clients helped in improving and deepening existing relationships. During 2022, we welcomed a number of new clients and continued to mature and expand our existing customer relations.

To further improve the client experience and take advantage of market opportunities, this year we began to focus on specific client segments. To ensure the maximum efficiency of rendered services and successful acquisition of new clients, current team was strengthened with new team members. With the growing demand for our services, we added 20 relationship managers in 2022 to support specific fields of businesses through sectoral segmentation, enabling our expert teams to deepen relationships with clients and prospects and to capitalize on untapped market opportunities. A construction-monitoring unit was established to monitor construction projects and reduce risks associated with the sector. In 2022, we added 30 new companies, reaching 2,000 corporate clients.

Building a strong team and growing strong corporate franchise will remain a top priority for the Bank in 2023.

Also in 2022, the Bank has successfully implemented a project of data warehouse system upgrade and business analytics system based on it. Combined with the depth and quality of our customer data and insight, we are well placed to anticipate the ever-changing needs of our customers.

Some of the features include:

- Fast and flexible reporting
- Complete storage/sorting of historical data
- Improved data quality
- Accelerated counting and feedback mechanism
- Easy access
- Identify ways to increase profits
- Analyse consumer behaviour
- Comparative analysis of competitors
- Optimization of operations
- and more ...

- A new unified payment management system has been introduced, which allows us to manage the payment process for all channels of the bank from a unified platform.

- Gpay system - debugging and introducing Google Pay. The service is available both in standard way and from the bank's mobile application to make simple, comfortable, and secure payments.

- We continuously strive to serve our clients with greater speed, flexibility and convenience. We have fully revised and redesigned our new portal for online sales of credit products adding new features and relevance, to help clients more easily transact and access a growing number of products and services online. Product offerings for each customer can be directly acquired online.

- The Bank continued to enhance the data analytics driven onboarding, credit assessment and monitoring of its customers . Basisbank involved in the SWIFT GPI system. Automation of processing of incoming transactions has been carried out, automated KYC processes were integrated, financial monitoring reports were streamlined, advanced processes of improving and automating screenwriting, fraud management and transaction monitoring have been initiated.

SME Banking

Basisbank is an established business partner of Georgian SME companies. SME remains one of the key growth drivers for the Bank. We serve over 6 000 SME clients in a variety of sectors offering a broad range of products and services, based on in-depth client and sector knowledge combined with personalized value propositions and offerings. Thanks to our qualified team, we have managed to steadily grow our SME loan portfolio developing it in both business and AGRO sectors. With solid experience and proper management, our goal is to build a long-lasting partnership with our clients.

Our SME division loan portfolio is well diversified and distributed across different sectors such as: Hotels & Restaurants; real estate management; construction & production of building materials; agriculture; trade; services; production and more. The concentration of the share of each sector in the total loan portfolio is in line with the regulator and our internal strategy.

Our vision and goals of the SME Lending Division were further expanded in 2022. Sectoral analysis resulted in the development of individual approaches in key sectors where the loan portfolio is mostly distributed, making SME Division more flexible in the process of customer servicing and lending. We planned and successfully implemented the staffing of new credit groups in economically active regions, focused on increasing the loan portfolio in both small, medium and AGRO areas. The process of digitalization and technology changes was progressively underway, aimed at providing clients with efficient, fast, and flexible services. We also improved analytics and end-to-end processes, to speed up decision making and enhancing overall banking experiences for our SME customers.

The Division has significantly grasped the opportunity of increasing its contribution to Green Lending. Basisbank actively cooperates with various financial organizations and donors in support of sustainable financing. With the help of the partner institutions, important projects were implemented that contributed to raising awareness of energy efficiency and foster the development of renewable energy in the country. In this regard, our SME Banking Division staff completed various certification courses and online educational trainings towards upgrading their green lending skills that have reflected in the improved productivity. Businesses had the opportunity to invest in multi-component green projects and, along with financial resources, received professional advice from our qualified staff. In a number of projects financed by the Bank, the share of green loans amounted to GEL 50 million by the end of the year, which is 2% of the total portfolio.

During 2022, the Bank actively continued to strengthen small and medium-sized business processes. SME Banking Division's work was focused on the following areas: expansion of human capital in economically active and attractive regions; a more in-depth analysis of sectors, leverage of cross-sell opportunities and offerings of customized credit products; optimization of processes and investments in people to transform SME business operations and improve productivity as well as customer experience.

In March 2022, most of the assets and liabilities of VTB Bank Georgia, which fell under international sanctions, together with its branch network, were transferred to Basisbank. This led to the growth of Basisbank's sales network. We obtained full coverage of such regions as Kvemo Kartli and Kakheti. Additional branches were added in the regions where the Bank was already present, which ultimately significantly increased both the number of customers and transactions, as well as geographical footprint.

SME Division stayed close to its customers, successfully helped them navigate the turbulence amid lingering post-Covid-19 consequences, unresolved Russian-Ukrainian geopolitical tension, heightened volatility in the financial markets, VTB Bank Georgia's portfolio merging while demonstrating full commitment and support. Important actions were taken with the support of state programs: Produce In Georgia and Preferential Agro Credit. The programs included various preferential components - subsidies on the accrued interest rates including a co-financing of a refinancing rate of 5% over the entire loan period, significantly reducing interest burden for businesses and credit guarantee schemes - the systemically important project initiated by the Ministry of Economy, to facilitate those in need of additional collateral and to encourage banks to finance through additional liquidity. Program aims to support development of business in Georgia and diversification of domestic production, through creation of new enterprises, and expansion / re-equipment of existing enterprises and credit guarantee scheme is very important opportunity which aims to improve access to finance for small and medium size businesses, facilitate lending and ensure inclusive economic growth. Accordingly, credits issued within this program increase significantly from year to year. The role of banks in participation of the above products plays crucial role for healthy development of Georgian businesses. Total value of such subsidized loans in Basisbank's portfolio amounts approximately GEL 21 million and consists of 52 different projects. The Bank is actively involved in participation of these and other products, striving to maintain the growth trend of the portfolio.

Thanks to the joint efforts of our team, the credit portfolio of small businesses increased by a record 27% and amounted to GEL 333 million in 2022. Overall SME Division increased loan portfolio amount of GEL 70 million throughout the year.

Noticeable results were also achieved in terms of attracting deposits of SME clients. The volume of term deposits and current accounts amounted to GEL 147 million.

As part of the continuing work efficiency process, the bank developed and adopted a completely updated and optimized loan granting procedure. This change significantly shortened the process of issuing loans, freeing up our back and front office employees and most importantly, the client's time and saving time on more basic functions and more in-depth interactions with the customers.

As part of the continuing transition to digital processes, Basisbank moved its clients' business loan application experience to digital platforms for their convenience. This generated a flow of incoming applications from digital channels, increasing an overall accessibility of the bank. Managing client accounts has also become easier: instead of a printed-paper order, depositing and withdrawing money to and from the accounts can be managed only through SMS. It offers reduced service time and bank costs.

Another successful project was the delegation of transactional and credit products fees for legal entities to the Managers of the Bank's service centres. As a result, the process of providing the client with special tariffs has become simplified, completely remote and fast.

The strategic goal to offer maximum comfort and positive experience to the client in dealing with the bank, offering them greater satisfaction, remains on the agenda. To achieve this goal, Basisbank plans to simplify and speed up current processes, and introduce new products, procedures and projects fitted to the needs of the client.

In 2023, the key strategic priorities for SME Division will be:

- Maintaining the share of SME businesses in the top 3 of the banking sector.
- Maintaining solid growth rate in agribusiness.
- Implementation of a new sales model - the principle of a one-stop shops of financial solutions and access to the full capabilities for the clients.
- An updated procedure for securing a loan with increased possibility for the clients to obtain larger volume of loans.
- New Instruction on processing and approval of the loans, aimed at accelerating the time of loan applications revisions.
- Optimization and enhancement of internet and mobile banking functionality with greater comfort and accessibility to full spectrum of services.
- Introduction of e-signature capabilities and simplified procedures for opening a legal entity account to serve our clients with greater speed, flexibility and convenience.
- Adopting a digital lending tool to simplify the organization, reporting and storage of loan applications. It will also shorten the loan application processing time and facilitate the introduction of automatic approval of loans.

In addition to customer satisfaction, employee well-being was also a core priority in 2022. SME Division welcomed approximately 35 new team members to help grow and support efficient client relationships. In 2022, performance evaluation system was updated to better reflect achieved results and efficiency of SME Division's team members. A special plan focused on developing top talent in SME Division, through investments in educational programs to build skills and support professional growth of the staff was also intensified throughout the year.

The positive indicators and results of 2022 highlight the fact that, despite the economic hurdles, SME Division has managed to maintain stable development. Our goal was to provide continuous and seamless financial support to our customers despite the changing economic situation.

BASISBANK INVESTS IN RESTORED HISTORIC CHATEAU BASILON WINE CELLAR IN SIGHNAGHI

Basisbank continues to provide financial support to the agricultural sector. With the support of the Bank and within the framework of the preferential agri-credit project, Chateau Basilon, reconstructed the historic wine cellar in the village of Khirsa, Sighnaghi, Kakheti. Basisbank invested GEL 1 million 110 thousand for the revival of the old wine cellar.

Chateau Basilon implemented another important project with the financial support of GEL 510 thousand from Basisbank and through the preferential agri-credit program: the first unique agro ecosystem in Georgia on own land plot on the slopes of the Nekresi monastery, where 40 hectares of Saperavi vineyards are planted. Acacia, paulownia and pomegranate forests are planted around the vineyards, on 30 hectares, to maintain natural balance between plants, birds, insects and microorganisms.

Currently, Chateau Basilon vineyards are fully operational. The local semi-dry red wine Kakheti will be bottled shortly, ready to be exported both to the local market and to various countries around the world.
"We continuously support the development of individuals and companies employed in the field of agriculture, excited to create new opportunities for successful business activities. Each new properly operating project that creates new job opportunities supports stronger economy. I hope that the partnership between us and Chateau Basilon will further expand to reach new dimensions in the future," said Giorgi Gabunia, Commercial Director of Basisbank.

BASISBANK SUPPORTS CULTIVATION OF INTENSIVE APPLE ORCHARDS IN GORI

Basisbank provided financial support in the amount of USD 600,000 for the cultivation of apple orchards in the village of Brotsleti, Gori district. The project was implemented within the framework of the preferential agro credit program and in cooperation with Garneti, Ltd.

Modern, intensive apple orchards were planted on an area of 12 hectares, with about 4,000 apple seedlings planted per hectare. The yield of gardens reaches 50 tons, and the products are sold both on local and international markets. Local people are employed in the gardens.

The apple orchards are equipped with modern irrigation systems, and a hail protection netting, and support systems are installed.

"We always support and make a significant contribution to the development of agricultural entrepreneurship, which in turn contributes to the strengthening of business and the development of our economy. We believe that Basisbank's financial involvement will be successful, and our partnership will provide this entrepreneur even more expansion opportunities. We are constantly involved in the development of the agricultural sector, providing financial assistance to the agricultural sector in all areas," said Giorgi Gabunia, Commercial Director of Basisbank.

BASISBANK INVESTS IN HILL HOTEL KUTAISI

Basisbank is delighted to continue supporting the hotel industry and hospitality sector. Hill Hotel Kutaisi, a new 14-room hotel, was opened in Kutaisi with the funding provided by the Bank and within the framework of the Host in Georgia project.

The total cost of the project is GEL 1 million, of which financial support of Basisbank amounts to more than GEL 800,000. The company obtained co-funding from the Host in Georgia state project.

The construction of the hotel started in 2019. The place hosted the first visitors in May of 2022. The Hill Hotel Kutaisi offers relaxation in a comfortable and cozy environment to both local and international visitors and is adapted for people with disabilities. Located in the heart of Kutaisi, the Hotel offers picturesque views of the historical monuments of the city.

"I am so thankful for the support and contribution of Basisbank team and the Ministry of Economy of Georgia, leading to successful completion of the project. It would be delightful to see many more similar projects in our region to facilitate the development of tourism," said Shota Ochigava.

"Basisbank is happy to make a significant contribution to the development of the hotel industry in different regions of Georgia. We prioritize funding these projects, as these helps develop tourism and strengthen the construction sector. This, in turn, is one of the main prerequisites for the development of the national economy. We are proud to be part of another successful project," said Giorgi Gabunia, Commercial Director of Basisbank.

BASISBANK INVESTS IN THE CONSTRUCTION OF CH GROUP RESIDENTIAL COMPLEX

Basisbank, one of the largest financiers of Georgian business, continues to support the development and construction sector. Your House on Natakhtari Street, an 11-story business-class residential complex, is being built with the financial support of the Bank and in cooperation with the CH Group development company.

The total cost of the project is USD 6 million. The bank has invested GEL 4.3 million.

Construction includes 1780 sq.m area. A multi-apartment residential complex with underground parking, as well as commercial and office spaces is located in an environmentally friendly, peaceful and safe environment. The complex is provided with 24-hour doorkeeper service and furnished landscaping. The residential complex offers beautiful views of the city and the funicular.

The business-class residential building will be completed in May 2023, and those wishing to purchase an apartment can take advantage of a simplified mortgage loan from Basisbank. Clients are encouraged to fill out the application online.

"Our group successfully operates in the construction and development market. The prestige and advantage of the house designed by the CH Group is determined by its geographical location. The residential complex is located in an impressive district of Tbilisi, it is compact and all kinds of infrastructures that a socially active person needs are available nearby. We are excited that in partnership with Basisbank, we are building a multi-functional complex, special for its high reliability, and that we offer our residents a safe living environment built with the highest quality and environmentally friendly materials.

"Supporting Georgian business, including the construction sector, is our important priority. These projects are important for the country as a whole, as they help develop the construction sector and make the economy stronger. I am delighted that we are cooperating with this company, known for high reliability, and we are proud that our partnership is delivering another successful large-scale project, expected to have a positive impact on the general business environment," said Giorgi Gabunia, Commercial Director of Basisbank.

Unique Banking

Through a group of private bankers, Unique Banking Division provides premium class services to the bank’s high-net-worth client segment to individually address the needs of each VIP customer. Our Unique clients benefit from superior quality of service, personal attention and customized product solutions.

Our Unique Banking business is built on listening to and supporting our customers’ best interests. Each private banker is trained to respond to each individual’s unique needs with the right blend of banking and consultancy services and digital solutions.

Given Unique Banking's exclusivity, Basisbank Group aims to capitalize on the existing segment of premium clients, increase existing customer loyalty and engagement, focusing on maximizing the profit.

The year 2022 saw significant changes being implemented for Unique Banking Division as well. The number of personal bankers increased from 3 to 8, additional locations were added to serve unique clients and offer extra comfort and convenience.

The challenging period we went through in the first half of the year with the acquisition of VTB Bank Georgia's retail and corporate portfolio, brought a growing number of customers and strong financial result to the Bank.

Unique Banking pleasingly witnessed a sharp upsurge in the number of customers and an increase in the portfolio. By the end of 2022, Unique Banking Division's loan portfolio grew by 198,4% in loans up to GEL 85 million and in deposits by 197.6% up to GEL 493 million.

The year 2022, saw novelties in unique banking products as well. We were excited to offer our clients a new service package with financial and travel advantages. Our Unique Visa Infinite card was upgraded to even better meet Unique clients' growing expectations. Our renovated service spaces in 3 locations were readily available to provide quality services to our clients.

PROGRESS

- On-boarded over 350 new-to-bank unique clients
- Welcomed 5 new private bankers
- 198,4% increase in loan portfolio by the end of the year
- Increase in deposits YOY – GEL 493 million by the year end

Having witnessed steady growth over the years, in 2023 we plan to cover a greater number of customers and provide them with even more diverse choices in our offers.

Retail Banking

Retail Banking serves individuals, with a focus on affluent and middle-income, mass retail segment. We provide digital banking services with a human touch to our clients across a broad range of basic banking products, from payments to deposits, cards and convenient online and mobile banking, as well as lending and day-to-day banking needs. Retail Banking represents approximately 40% of the Bank's portfolio. We are closely integrated with BB Group's other client segments, for example offering salary services to Corporate & SME clients.

Powering a more personalized experience through digital solutions, we provide clients ease of service, choice and support through access to products, solutions and services from anywhere. More than 76% of clients transacted with us digitally in 2022. We aim to improve productivity and client experience through increasing digitization and simplifying our processes.

Year 2022 has brought many challenges to the world as well as to Georgian market as a whole, nonetheless this has been a year of transformation and enhanced business opportunities for BB Group.

At the beginning of the year, Russia's aggressive invasion of Ukraine posed a new large-scale challenge to the global and regional economy. These hostilities led the USA, Great Britain, the European Union and other countries to imposing financial sanctions on the Russian financial system. The National Bank of Georgia immediately took upon its' responsibility to uphold these sanctions and instructed financial sector respectively. VTB Bank Georgia was affected by the restrictions and was no longer able to carry out transactions in USD, Euro and other foreign currencies as well as provide full-fledged services to both retail and corporate customers.

With a proven record of accomplishments, BB Group made a decision to take over the retail business of VTB Bank Georgia, which included a network of branches and ATMs, retail customer deposits, current and card accounts, and retail credit portfolio. In terms of the deal, conducted under the mandate and supervision of the National Bank of Georgia (NBG), BB Group assumed the responsibility for the retention of VTB Bank Georgia's employees, the protection of the interests of depositors and borrowers.

Through dedicated and tireless work of the management and focal teams, BB Group managed to accomplish unprecedented for the Georgian financial market task and migrate the whole retail business in a matter of several days. Of course, the process was not so simple and was accompanied by certain difficulties, especially for the

Customer Experience Management and Quality Assurance Department, which had to deal with the requests of migrated customers of VTB Bank Georgia. Despite the fact that in a short period of migration, it was necessary to deal with huge workload, our Customer Support managed to maintain the core principles of the Bank and provide high quality customer services in times of uncertainty.

Thus, in 2022, Retail business achieved one of the highest growth rates seen so far, driven by the stated acquisition of VTB Bank Georgia's retail portfolio. This resulted in a growth rate of 210% in retail lending, and 79% in customer deposits amounting to GEL 760 million and GEL 418 million, respectively. Recently undergone VTB Bank Georgia's retail portfolio merging supported BB Group's opportunity to grow the business sustainably. By the end of first quarter of the year, the Bank's standing on the local financial market improved drastically and came closer than ever to our strategical goal of becoming 3rd largest commercial bank on the market.

Another benefit of the transaction was improved outreach on the market, with expanded 22 branches in capital of Tbilisi and 16 regional branches in the regions, including a brand new one in Mestia that opened in March 2022 and allowed us better coverage of rapidly developing Upper-Svaneti district. The greater scale will support the possibilities of developing and offering attractive products and services to BB Group's present and future clients.

BB Group adopted personalized banking direction as well, consequentially forming a new Premium and Credit Services Division. Under the umbrella of this division, bankers serving premium customers and credit managers serving customers owning credit products of the mass retail segment were united. Premium banking services offer personalized and exclusive banking products to premium clients, as well as offer remote services of premium bankers, and services in special premium zones on-site at the branches.

Emboldened by the successful beginning of the year, Basisbank built fast on achievements and offered customers various novelties on both, service and product, sides. In June, Basisbank introduced SMS signature to individual customers, allowing them to use SMS signature (OTP code verification) instead of wet signature to authenticate different banking transactions. The following month, July, our valued customers received access to yet another authentication innovation – Signify Platform – it allows client to remotely confirm consumer and mortgage loan agreements with an electronic signature without visiting the bank, which makes the lending process even easier and more comfortable. The advantages include time saving, replacing the mandatory visit of the client to branches/service centers with a remote channel. The service is in the spirit of Basisbank's core principles - fast and convenient.

Following the successful launch of Apple Pay at the end of the previous year, our team dedicated this year to bring the same level of convenience to our valued customers, using the Android platform. All the work and dedication fruited in introduction of Google Pay, or Gpay to our customer base in November, allowing them to add any card issued by the Basisbank to the virtual wallet and make simple contactless payments.

Basisbank always strives to offer the market products under the best terms possible, so in this spirit, we introduced Credit Card – Mego – the only free credit card with extended grace period, low interest rate, zero interest on card transactions and a cashback.

To facilitate active growth of the retail loan portfolio and to provide optimal services to the existing and potential borrowers, the software of the automated loan review system - the credit conveyor of retail loans was developed and launched in 2022. To increase efficiency and productivity of the workforce, updated plans for the sale of retail products and bonus schemes were introduced for the retail department, which includes selling of all core products, such as credit products, debit and credit cards, deposits, certificates of deposit, remote services, insurance, etc.

In 2022, as the mortgage issuance process continued to be streamlined, additional staff trained by the Justice Training Center were placed as mortgage operators across virtually the entire network, making it easier to issue mortgages, reducing time and creating more comfort for customers.

Due to increasing importance of AML and KYC issues, the KYC electronic questionnaire was also introduced for resident and non-resident individuals in 2022. It analyses the data based on the information received from the clients and automatically assigns the risk level to them, which in the case of non-resident individuals greatly simplifies and significantly reduces the time and resources of client onboarding and account opening.

The efforts of the retail team during this year have yielded astounding results, as we have been able to witness growth in all directions. Number of transactions completed in our branches increased by astounding percentage of 94%, whereas number of digital transactions almost doubled (95% spike). Overall y/y increase in number of transactions made an impressive 95%.

All those accomplishments would have been impossible without the cornerstone of our Group – our employees, who displayed unprecedented dedication throughout the year to overcome all the challenges the milestone year had brought by. During the year 2022, we welcomed 308 new members to our retail family, including 217 transfers from VTB Bank Georgia. All new members received both in-house and external training. The latter was delivered at one of the leading institutions in the field – Training Centre of the Ministry of Justice.

Entering new, year 2023, retail team plans to keep the pace and continue building on achievements of the previous years, introducing even more novelties for our valued customers, making services much faster and more convenient and products even more beneficial.

International Cooperation

The events caused by economic and geopolitical tensions, in particular Russia-Ukraine war, USA and EU sanctions for Russia and China, hiking inflation rates, have created a kind of uncertainty among investors, which had a downward trend in international financing globally, nonetheless the year turned out to be productive for Basisbank in terms of deepening cooperation with existing partner financial institutions and most importantly acquiring new partners on the way.

To enable our Group to create greater agility in catalysing business growth, last year, we welcomed new partners and attracted in total USD 65.8 million in long-term and USD 39.7 million in short term resources from our new and long-dated lenders: European Bank for Reconstruction and Development (EBRD), Black Sea Trade and Development Bank (BSTDB), ResponsAbility, Blue Orchard (BO), EFSE, Green for Growth Fund (GGF), Asian Development Bank (ADB), Symbiotics, Incofin and many others. We continued our focused effort to increase and diversify our portfolio of borrowings and pool of international partners contributing to the overall development of our lending business. In 2022, we prioritized promoting and collaborating international financial institutions for such projects as: trade financing, MSME, and Tier II instruments.

As a result, in 2022, we received substantial support from our partners, in particular, for projects involving cross-border trade, MSME development and projects directed at affordable financing.

Mutually successful cooperation between Basisbank and EFSE dates back to the year 2019, when EFSE provided local currency financing as an important aspect of responsible finance protecting local small borrowers from the direct risk of exchange rate fluctuations. We continued deepening our partnership with EFSE and signed EUR 15 million worth Subordinated Loan Agreement to further enhance overall capital and liquidity position of Basisbank contributing towards flexibility to expand on the market.

Through joint collaboration, Basisbank and ADB continued to contribute to the development of international trade business development in the country by expanding availability of short-term financing and devoting larger resources to the economy. In particular, ADB increased its trade limit availability up to USD 20 million.
We have further expanded our partnership with our long-dated partner institutions: BSTDB, which contributed up to USD 10 million; Blue Orchard, contributing EUR 15 million and ResponsAbility contributing EUR 8 million to support MSME access to affordable financing in the Country.

In 2022, we were thrilled to welcome two new partners to BB Group family: Incofin Investment Management and Symbiotics. Basisbank received USD 5 million from Incofin Investment Management-advised Microfinance Enhancement Facility and EUR 4.5 million from Symbiotics respectively to support MSME Lending in Georgia.

In 2022, Basisbank signed the first ISDA (International Swaps and Derivatives Association) Agreement with EBRD, as a result of an extensive yearlong works, to increase multi-currency financing options as well as to manage currency risks and liquid funds more efficiently. Within the framework of the reached agreement, Basisbank has already attracted 15 million EUR equivalent GEL resources. It is the first ISDA Agreement signed with International Financial Institution for Basisbank, which opens the door for greater collaboration to use similar products and manage financing options more efficiently on an international arena.

In 2023, low economic growth, high inflation and rising rates are likely to be maintained; nonetheless, we will continue expanding our cooperation with our partner institutions with a special focus on scaling up sustainable finance instruments and provide affordable financing to our retail and business clients.

Our People

The year 2022 saw the entire BB Group team being in the middle of the transformation. In February 2022, after amalgamation of VTB Bank Georgia's portfolio, the structure undergone changes several times to reflect ongoing VTB Bank Georgia's portfolios migration process and to enable BB Group to deliver its products and services to increased number of clients faster, and in a more connected, convenient way. HR was actively engaged to embed the BB Group's mindset and culture to new employees, helped new colleagues to adapt to a new working environment and practices and supported overall wellbeing of a workforce. New structural units and positions emerged for the back office, keeping the recruitment unit quite busy.

In a team that already counts over 900 people, employee remains the core value of the Group. We therefore seek to create an environment in which everyone can do their best work, and feel motivated, included and respected. HR inevitably has a central role in this process. In 2022, we introduced HR business partner function - a new role in the HR team. We believe this role will help us a lot in strengthening our team both in the back and front office lines.

Until now, HR Department consisted of 3 main directions:

- Support and analytics
- Recruitment and development
- Office administration

In 2022, the fourth area - business partner has emerged. A special HR business partner role was added to HR team for the back-office work enhancement. Listening to employees helps us identify, and work to close gaps between their expectations and their experiences. HR business partner will play a special role at each stage in our culture transformation and overall employee experience improvement. In 2022, the new HR Business Partner's role contributed to ongoing needs such as, taking care of employees at BB Group level and creating the best possible experience for them.

We constantly strive to improve our ongoing communication and engagement with our employees - this happens through various types of research, as well as individual and targeted meetings. We take employee feedback and strive to improve their experience. Direct communication with the team helps us better understand their needs and feel the pulse of the company.

By engaging employees and fostering a positive experience for them, we can better serve our clients and deliver on our purpose to drive our business and profitability through our unique expertise and culture.

We have adopted a number of tools for engagement with our workforce, in line with our strategy. These engagement mechanisms, including various surveys, online platform and frequent meetings enable colleagues to share ideas and feedback with Top Management. We constantly keep colleagues updated on the strategy, performance and progress of the Group through a regular Top Management on-site and off-site meetings and communications. In 2022, BB Group's CEO held 4 engagement remote meetings throughout the year with the staff, including quarterly updates on financial performance and Q&A sessions to deliver meaningful, regular two-way communication with colleagues. Regular meetings allow BB Group's Management to obtain feedback from its employees and reflect this into the future experiences.

Direct engagement with employees was carried out through our 'Workplace" platform as well. This online platform/app introduced in 2020 enables us to effectively engage with our workforce, update BB Group team members on our strategy and progress as well as on various noteworthy projects and initiatives shared by BB team on a daily basis.

In 2022, we hired a total of 500 new employees, including more than 350 for junior and front office positions and more than 100 for top and middle management positions.

We are committed to building the long-term careers of our people by providing them with various career opportunities. In 2022, greater emphasis was placed on the promotion of internal employees, causing the increase in the number of internal vacancies and promotions.

Skills development and learning

We want to attract, develop and retain the skills we need to deliver outstanding performance. Cultivating a future ready workforce through training and development is an important part of BB Group's culture. We aim to increase engagement across the Group by creating a better working environment for our colleagues that should translate into an improved client experience.

In 2022, greater focus was placed on career development, training and skills development of our human capital while many significant investments were also made towards enhancing the productivity of our staff. Throughout 2022, more than 290 employees received trainings in various upskilling courses such as: Standards for Effective communication, Basic training for new employees, Sales Techniques, MS EXCEL - high level, advanced and basic levels, Agile, Scrum and Kanban, Power BI, Green Finance Expert Study Tour, AML & CTF, IT business analytics and others.

Settlement and Correspondent Banking

2022 was a transformative year for Settlement and Correspondent Relationship. After the migration of VTB Bank Georgia's customers, the number of international and local transfers increased by approximately 30%-35%. There was a need to accelerate and improve the processes and strengthen human resources. To support increased transactions, along with the growth of the division, position and structural changes were performed over the past year; structural changes are also planned for 2023.

Compliance with international standards and working with technologically sound safe programs have always been a priority for the Bank. In 2022, the currency transfer process was optimized and the core system was updated in full compliance with SWIFT standards. Manual processes were automated, which allowed BB to improve the transaction processing.

These changes altogether allowed us to create an orderly environment for all user groups and to process the Swift information quickly and qualitatively.

The following modules and features were updated and introduced:

- Transfer module - Swift integration completely changed the process, optimized and automated the processes of transfers entering the bank through the Swift system.
- Automatic receipt and correction of statements received by Swift including reconciliation with transactions; The process was optimized to reduce the risks associated with the transactions.
- Interbank transfers module, which led to the automation of receiving interbank transfers and optimization of processes, which prior was done manually.

The integration of these modules was a prerequisite for the Bank to be included in the SWIFT GPI global payments system. SWIFT GPI (Global Payment Innovation) is an innovative platform for international currency transfers that combines new rules with standard transfer rules. Simplicity and speed are the key advantages of the platform, which helps speed up international transfers.
GPI status means:

- ability to monitor the full cycle of transfers.
- transparency of commissions.
- speed of execution of transfers.

Basisbank strives to keep pace with SWIFT's innovative initiatives. The implementation of the GPI platform in international transfers is one of the clear examples of the above.

Correspondence Business Challenges and Corresponding Strategies

Basisbank performs international transfers through its correspondent network present in different countries of the world, including Germany, Austria, China, Russia, Turkey, Georgia and includes over 30 correspondent accounts.

The Russia-Ukraine war, unfolded in February 2022, had a significant impact on the correspondent relationship with Russia and transfers to Russia in general.

In the spring of 2022, due to sanctions, correspondent accounts with three Russian banks were closed (VTB Bank Moscow, Alfa bank, Moscow, Transkapitalbank PJSC) and the number of Russian banks with which transfers could be made was significantly reduced.

By the end of 2022, *Deutsche Bank,* the leading correspondent bank for BB in dollar and euro currency for over 25 years, left the Georgian market in November 2022.

In parallel with these events, new correspondent relations were established with the European A-class bank *Raiffeisen Bank International,* and Euro and US Dollar accounts were opened, which allowed the Bank to provide uninterrupted and smooth service of international transfers for the customers.

Raiffeisen Bank International is a reliable partner to Basisbank not only in terms of correspondent relations, but also in other areas of business, such as treasury and documentary operations business.

Despite the turbulent situation, Basisbank was able to open a Ruble correspondent account with *Raiffeisen Bank* in Russia and provide its clients with Ruble transfers without delay.

The year 2022, clearly showed that the consequences and challenges posed by political, economic and trade sanctions and tightening regulations against money laundering and the financing of terrorism are becoming apparent, and the correspondent business needs robust development and diversification through expansion of the partner banks network and finding alternative channels of transfers.

To achieve this goal, the Bank is working on the expansion of the correspondent network actively negotiating with both international and regional banks and vigorously introducing innovative services and tools to face the challenges. BB actively participates in international conferences and forums, which allows BB to enhance its image and promote itself on a global scale.

In 2023, the Bank plans to introduce a new Visa product, *Visa B2B Connect*. It is an innovative payment system that serves the business segment and offers international transfers to different destinations around the world. The system is based on the block-chain, which means an improved vision in terms of security.
Also, the Bank is working on another new Swift product: inclusion in the Swift Go system as an Instructed Party. The service further shortens the terms of execution of registrations. Basisbank strives to keep up with improved international standards and introduce innovations, which ultimately improves customer service.

In 2023, BB will actively continue enhancing its image on a global scale expanding the list of partner correspondent banks. The growth of correspondent banks, on the other hand will help expand our documentary and treasury businesses.

Customer Experience Management and Quality Assurance Department

Encouraging a customer-centric environment, with the best customer experience being an unconditional guarantee, is the focus and daily concern of Basisbank as a whole and more specifically, of the Customer Experience Management and Quality Assurance Team.

In the reality of today's digital world, customers, prior to buying a service through various micro-moments, send the necessary insights illustrating their needs, and in such moments, they expect quick and effective solutions. The Customer Experience Management and Quality Assurance Department makes every effort to ensure that Basisbank not only provides the necessary solutions, but also turns the information, services, processes, and use of products obtained at the touch points of the bank's brand into a positive customer experience in the customer journey, by focusing and demonstrating care.

The team is focused on improving the customer experience in various ways, such as: organizing customer surveys; customer service measurement and coaching; testing new/existing products and services and recommending correction of inconsistencies; qualitative verification of existing and new processes, development of a complete process scheme by creating manuals and guidelines necessary for quality service and disseminating them to staff; active participation in projects to develop new products and services; analyze customer issues with effective and fair solutions, identification of recurring customer problems and recommending solutions; organizing functional trainings to improve the quality of service.

The daily activities of the department are an example of the customer centricity approach of the Group and contribute to the strengthening of the most important value in the company - the culture of customer centricity.

In 2022, as the scope of the department evolved, the division was upgraded to become a department with four independent units under its umbrella and competencies such as User Experience Testing (UAT) and complete process diagrams/customer touchpoint journey mapping. By the end of 2022, the department included following units:

- Quality Development Unit
- Functional Training Unit
- Quality Measurement and Research Unit
- Client Issue Management and Experience Testing Unit

Compared to the previous year, the number of employees in the department has increased up to - 12), which is explained by both the post-migration needs and by the Group's vision to be a customer-centric financial institution resulting in increased resources and attention to customer experience management and strengthening of BB Group's customer-centric culture.

The most important challenge both for the company as a whole and in terms of the department's workload in 2022 was the migration of the VTB retail portfolio to Basisbank, which the team managed successfully by:

- Customer experience management during the process and in the subsequent period to ensure the most comfortable transfer
- Analyzing problems and providing best solutions to the customers
- Developing manuals/recommendations on new processes/products
- Continuous informing and training of employees

During the migration of VTB Bank Georgia's retail portfolio to Basisbank, the quality development unit actively participated in developing new processes to eliminate inconsistencies in customer touch points and improve service quality. These included reporting, analytics, and recommendations for optimization to manage client flows.

Transactional NPS (Net Promoter Score) program is managed on a daily basis, and shared results and recommendations with related functional areas/management to improve customer experience.

A Relationship NPS study was planned and designed to identify the reasons for the customer recommendations/ criticism, and an analysis was carried out to plan important improvements, including for digital self-service channels. Overall, The Customer Experience Management and Quality Assurance Department continues to improve current practices to achieve and sustain superior customer experience.

Various types of studies were conducted during the year, and the results were shared with other units to improve customer/employee experience.

2023 Plans and Priorities

The first priority is the client and care for their best experience. Our priorities include taking care of the opinions and needs of the client based on our research, recommendations and solutions for resolving recurring problems. Strengthening customer-oriented culture at the company, enhancing employee satisfaction with HR and other relevant units to make customer care more efficient is the key. Considering NPS results and reflecting/considering them in business cases is a significant challenge for 2023. In today's reality, in a competitive environment, where the products are more or less the same, our task is to establish an emotional connection with the customers, listen and consider their needs, demonstrate customer-centricity and provide excellent experiences.

- Designing a customer journey map by See/Think/Do/Care framework according to newly created products and services to provide relevant information/service at the appropriate stage
- Implement Lean for quality assurance process development by DMAIC (define, measure, analyse, improve, control) framework
- Enactment of the VOC (Voice of Customer) program to understand and satisfy clients' needs, to put employees in the customer's position -"Walking in Customer's Shoes"
- Develop an online training program for employee training and testing
- Develop Knowledge Base for quick navigation of employees and ensuring flexibility in the service process
- NPS program automation and technological development
- Regular monitoring and analytics of customer-centricity KPIs and sharing with other units/management, recommendations for development
- Offering a service identified during online consultation; analytics of digital channels/social media communication channels for the best customer experience

Marketing Department and Strategic Communication

Year 2022 was earmarked with huge structural transformation for BB Group as a whole. One of the notable changes concerned the Bank's marketing direction, as for the first time in the 29-year history of the Bank, it became autonomous of products and services department and was formed into an independent structural unit with its' own head. The change was brought by BB Group's breakout accomplishment at the beginning of the year, takeover of VTB Bank Georgia retail business, which brought new challenges and ambitions to the table.

To better position the Group's brand and stimulate sales of banking products through the channels available by the bank, it became clear that the Group's marketing activities should be taken to a higher level of commitment, as a result a new Marketing Department with a separate Marketing and Digital Communications Unit was introduced.

The department is focused on creating real value for customers in the digital space. Therefore, the marketing team constantly conducts various media channel research to study consumer behaviours and deliver the right products and services in the right channel. In addition to social media, communication includes various channels where the team uses Google, Meta and other analytics tools. This part will help us build analytics tools into our updated digital products to get a complete picture of customer behaviour and attitudes.

During the first year of independent operation, the Marketing Department was able to produce remarkable results. Integrating digital channels into the Bank's marketing strategy has led to enhanced Brand visibility and awareness, deeper understanding of customers insights and increased customers touchpoints and leads. As the Marketing Department already understands consumer behaviour in our digital channels, the department is creating special report tools for constant measurements. Facebook page reach increased by 77% to 2,790,362 unique visitors, compared to previous year, whereas Instagram reach growth was as much as 165% to 650,000 visitors. In addition to the accomplishments, there were also 2 successful marketing campaigns on key products introduced by the Bank during the year (Gpay and Mego Credit Card) and one digital project establishing the presence of Basisbank branches and ATMs on digital navigation systems and maps.

Strategic Communications

At the beginning of 2022, the increase in the scale of the BB Group business led to an increase in the tasks of the public relations function. The move came as part of the Group's recent strategic realignment after VTB Bank's Retail and Business portfolio merger. With the aim of having a more coordinated approach to both internal and external communication, in line with the Group's strategic priorities, new functions were added to the Strategic Communications Department. To achieve greater efficiency of the Group's activities and drive brand awareness through internal and external communications, clear segregation of the functions within the department into specific areas was prioritized and determined. As a result, Strategic Communications Department expanded its scope by dividing assigned obligations into the following three main areas: internal communications, external communications, and CSR.

Internal Communications

Vigorous internal communications and engagement across BB Group team members is especially important considering the doubled number of employees during 2022. Workplace, a special online platform serves as a key awareness-raising tool for all employees, allowing them to receive up-to-date information on BB Group's strategic decisions, financial and operational performance, latest press releases and news by giving access to a group wide information shared on a daily basis. The platform is the main communication channel, bringing all employees together and allows all-important topics to be shared and be made available online to every employee, regardless of their geographic location.

External Communications and CSR

BB Group is committed to being accurate, transparent and responsible in its communication. The External Communications role assumes responsibility for planning, coordinating and executing external communications on BB Group's business activities through various channels and media coverage in a timely manner.

As a result of external communications activities, information was provided to an average of 1 million people through news agencies and social networks. At the same time, the bank became a sponsor of the *Smeda for Business* column of BIM: the bank's representatives guested on the show to talk about various current banking and financial issues.

External communication is also key in ensuring to expand BB Group's activities in the area of CSR's. Corporate Social Responsibility (CSR) has been a long-standing commitment for BB Group. The Bank's contribution to social sector development traditionally includes sponsorships in the support of meaningful socio-economic development in Georgia through various educational projects.

In 2022, Basisbank continued sponsoring the elite intellectual club "*What? Where? When?*" representing TV viewers. In 2022, Basisbank, as an active supporter of cultural development in the country, became sponsor to one of the country's leading Marjanishvili Theater. A number of plays were premiered with the support of the bank.

BB Group provided financial support to Dadiani Palace hosted exhibition of German artists "German Artists and the Caucasus".

We have been keen supporters of educational projects organized by the National Bank of Georgia and FinEdu for years, eagerly making significant financial and human contributions. In 2022, BB was actively involved in projects such as World Savings Day, Cyber Security Month, Young Students competition and others.

We have been intensely cooperating with Georgian higher education institutions for years. With the financial support of the bank, Ilia University held a grand ceremonial event for the graduates of 2022. We provided scholarships to students with high academic performance of Sulkhan-Saba Orbelian University to encourage them for future achievements.

Basisbank awarded the laureates of the 2022 Tsinandali Prize in the field of art and science. The bank presented special awards and cash prizes to the winners in two nominations: theater art and film art.
With the financial support of Basisbank, an exhibition and sale of the works of the students of the Academy was held in the exhibition hall of the State Academy of Arts: the purpose was to pay tuition fees for the suspended students with a part of the proceeds from the event.

A charity gala concert held at the Tbilisi Opera and Ballet Theater under the organization of Nino Surguladze's charity fund" Natvris Khe" was sponsored by Basisbank. The proceeds from the concert were fully used for the treatment of Georgian and Ukrainian children with various serious diseases and their subsequent rehabilitation.

OPERATING AND FINANCIAL REVIEW

In 2022, the inflationary risks increased globally as a result of the new economic shock - Russian-Ukrainian war which slowed the projected pace of decline of high global inflation in the phase of post-pandemic recovery.

Inflationary pressure broadens and becomes harder to eliminate, so central banks keep tight monetary policy to curb the inflation, thus increasing the monetary policy rate. The Federal Reserve raised the target range for the FED funds rate 7 times in 2022 and the rate was increased by 4.25 pp from 0.25% to 4.5% to maintain the price stability and to slow down the inflation. Like the FED, the European banking system also increased rates during 2022 up to 2.5%.

It is expected that central banks will maintain tight monetary policies during 2023 until the inflation risks are sufficiently mitigated. On the other hand, increasing the monetary rate by the central banks has a negative effect on economic growth. As a result, the World Bank forecasts a global downturn in economic growth with 2.1% in 2023 and 2.4% in 2024.

High global inflation has been transmitted to the Georgian market as well. The average annual inflation amounted to 11.9% in 2022. Inflation peaked at 13.9% in January 2022 and gradually decreased in the following months to 9.8% in December 2022, 9.4% in January 2023.

It should be noted that high inflation in 2022 was mainly driven by demand side pressure promoted by migrated individuals from Belarus, Russia and Ukraine. Imbalances on the job market was another factor that provoked inflation. Moreover, according to recent market analyses remuneration growth on the market exceeds productivity growth that creates excess demand on the goods and services markets. This imbalance has been translated into inflation as well. To fight against the inflation the NBG maintained policy rate at 11% throughout the year. It should be noted that increased interest rates on the US dollar and Euro had the same effect as increased GEL rates. Tight monetary policy followed by the NBG coupled with the increased interest rates on USD and EUR funds mitigate the demand side pressure on the price level, which in our reality the excess demand is attributed to migrated individuals, the effectiveness of the monetary policy could be fair.

The pressure on the inflation from supply side was partially mitigated by appreciation of GEL against the trading partners' currencies. By December 2022, the Georgian Lari nominal effective exchange rate appreciated by 24.9% y/y, while the real effective exchange rate appreciated by 15% y/y. To mitigate amplified exchange rate fluctuations the NBG was actively intervening on the currency exchange market. The central bank net purchases contributed to accumulation of reserves. By the end of December, reserves in total reached to $4.9 billion (2021: $4.2 billion). Rebuilt international reserves create sound ground to deal with the shocks effectively. Currently reserves stand at historical high $5.4 billion.

In 2023, inflation in Georgia has decreased significantly, the annual inflation by the end of July 2023 was standing at 0.3%, far below than the target 3%, which is the result of significantly decreased imported inflation, GEL appreciation and decreased prices on international shipping costs as well as lower commodity prices on the international market including oil and natural gas. Inflation is expected to remain low due to strong GEL and stabilization of economic growth. The National Bank of Georgia started to decrease the monetary policy rate to 10.25% in early May 2023 and currently keeping at 10.25%, latest announcement of the Monetary Committee predicted reduction in rate down to 9.5% until the end of the year.

Georgia performed strongly - the growth achieved in 2021 was maintained in 2022 reaching 10.1% YOY in real GDP. Contrary to the expectations the Russia-Ukraine war had the opposite effect - massive migration accompanied with the flow of free cash increased consumption and reflected positively on growth. The largest share of economic growth comes from services, which was facilitated by an increased number of foreign citizens in Georgia - Strong foreign inflows led to high economic growth and the tourism sector recovered. Georgian external trade turnover reached 33.4% increase compared to the same period of last year. The value of exports increased by 31.6% y/y and imports also grew by 34.1% y/y. Import growth was significantly driven by increased domestic demand due to migration. As a result, the negative trade balance widened to $7.96 billion (+36 % y/y) in 2022. Yet the negative trade balance was compensated by inflows from tourism income, remittances and FDIs.

Gradual recovery in the tourism sector (migration from Russia, Belarus and Ukraine pushed up travel receipts, as a result, the recovery of tourism income surpassed the 2019 level) along with the increased inflows of remittances (reaching up to $4.4 billion which is 86% more compared to the same period of the previous year) and FDIs supported narrowing the current account deficit (CAD) from 10.4% in 2021 down to 3.95% in 2022. The temporally effect of migration should expire, and as per NBG forecast the CAD will reach 5.5% of GDP in 2023.

Estimated real GDP growth amounted to 10.1% in 2022, in 2023, real GDP growth by the Central Bank is expected at 6% considering the base effect after two-digit growth in 2021 and 2022 and expects to stabilize at 5% in 2024. At the same time, the World Bank forecasts for Europe and Central Asia Economic, the bank expects 4.4% and 5% economic growths for Georgia in 2023 and in 2024, respectively.

Rating Updates for 2023

As for the international credit ratings, Fitch Ratings, a global credit ratings agency updated Georgia's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) on January 27, 2023, keeping the status at 'BB', revising the financial outlook for the country's financial development from "stable" to "positive".

Fitch Ratings updated Georgia's Rating (IDR) on January 27, 2023, keeping the status at 'BB', revising the financial outlook for the country's financial development from "stable" to "positive", reflecting very strong GDP growth, a rise in international reserves, and fiscal outperformance in 2022, driven by a rebound in tourism, and large migrant and capital inflows from Russia, a sizeable part of which Fitch now expects will endure. "The rating is supported by Georgia's strong governance and economic development indicators relative to the 'BB' medians, and by its credible macro-fiscal policy framework," reads the agency report. However, the Fitch forecasts GDP growth will moderate to 4.5% in 2023.

Moreover, global credit ratings agency Moody's Investors Service (Moody's) changed the outlook on the Government of Georgia's ratings to negative from stable on April 28, 2022 and kept the local and foreign currency long-term issuer ratings and foreign currency senior unsecured rating at Ba2.The decision to change the outlook on Georgia's Ba2 ratings to negative was made as a result of 'heightened geopolitical event risks from Russia's ongoing military invasion of Ukraine (Caa2, ratings under review) given Georgia's ongoing, albeit 'frozen', tensions with Russia over South Ossetia and Abkhazia, the unpredictability of Russia's strategic intentions in the region and Georgia's border with Russia.'

Furthermore, Standard & Poor's (S&P) Global Ratings affirmed the "BB" Local Currency LT credit rating of Georgia on February 25, 2022. At the same time the rating agency revised outlook to stable from negative.

Banking Sector Review

The Georgian banking sector is stable and the most developed sectors in the country and beyond, having generally sound credit fundamentals, the Georgian financial system has retained resilience during the pandemic and against the potential risks posed by the tense geopolitical situation in the region caused by Russia-Ukraine war. The Georgian banking sector was one of the main driving forces for the strong economic performance in 2021 and 2022.

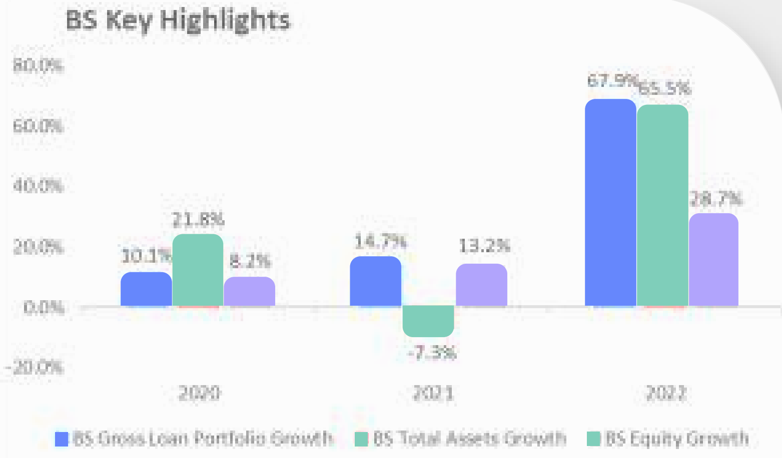
The sector is well-regulated and strongly supported by the NBG through the economic cycles, liquidity and solvency parameters are strong, while maintaining solid profitability. The leverage ratio of the total banking sector is low compared to peer and other countries, while profitability in comparison with assets and equity is high. It indicates that the banking sector has huge potential for further development and growth.

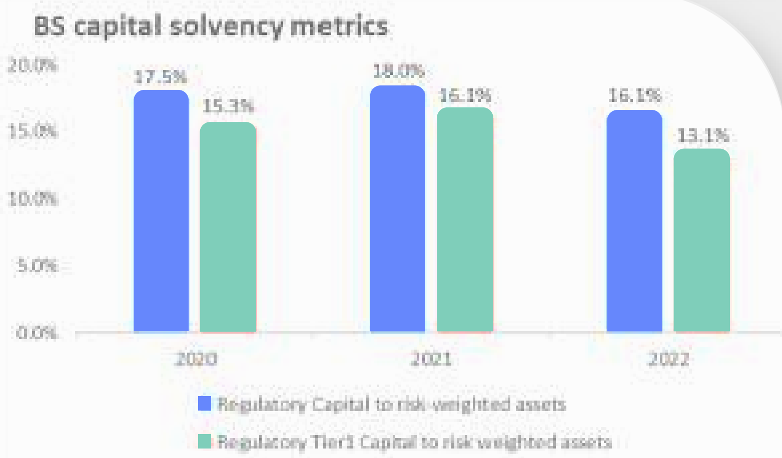
The sector Tier 1 capital ratio improved by 1.5pp in 2022 to 17.1%, while regulatory non-performing loans fell to 4.0%. As for earnings and profitability indicators, return on equity (ROE) is strong, standing at 24.7%, while return on assets (ROA) was 3.2%. The outlook for profitability is good.

Deposit dollarization has steadily fallen to 57%, supported by macro-prudential measures. Georgian commercial banks' assets to GDP amounted to 98%, while loans to GDP was 62.4% and deposits to GDP was 61.7%.

The majority of banks have already recovered the capital buffers released during the pandemic and met the threats related to geopolitical tensions in the region with solid buffers. The financial sector's readiness was further aided by the sustainability of banks' assets' quality (During 2022 the loans portfolio quality has been improved. More precisely, as of December 2022, the share of 90 and more overdue loans in the total loans portfolio decreased by 0.35 pp and amounted to 1.33% in y/y terms) reduced household over-indebtedness and loan dollarization.

De-dollarization policy alongside the appreciation of the national currency against the US dollar by 12.8% in y/y terms reduced the dollarization of the loans portfolio by 5.92 pp, y/y and amounted to 47%. In order to encourage the de-dollarization of deposits, from July 2021, a new rule for determining the minimum reserve requirement for funds raised in foreign currency came into force. According to the mentioned rule, the norm of the minimum reserve requirement for each commercial bank was determined according to the dollarization of deposits. By reducing dollarization in loans, other factors remaining unchanged, banks will have the opportunity to increase leverage and lending.





Regulatory Updates

After the pandemic, the world faced the Russia-Ukraine war challenge that affected most of the countries, including Georgia. The military actions negatively affected the world economy, increased inflation and created recessionary expectations. The situation is still uncertain; thus, the economic conditions remain unstable as well.

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.

Due to the pandemic, the creditworthiness of households has deteriorated, which was reflected in increased share of 90 and more overdue loans (2.31% in 2020, 1.90% in 2021, respectively). As the economic conditions have been improved, the loans portfolio quality was enhanced as well. Although, within the positive tendencies and economic recovery, inflation growth is noteworthy that is negatively impacted on households' disposable income. Furthermore, household debt burden is also hampered by globally increased interest rates.

In order to improve borrowers' creditworthiness, the NBG implemented a number of policies. The NBG made a decision to reduce the maximum maturity of foreign currency mortgage loans from 15 to 10 years at the end of 2021. Decreased maturity in combination with tightened limits on PTI ratios enhanced households' creditworthiness and mitigated currency-induced credit risks through reduced portfolio dollarization.

During 2022, the financial stability committee kept the countercyclical capital buffer at 0%. Due to the uncertain geopolitical situation caused by the Russia-Ukraine War, economic growth could be at risk. Credit to GDP ratio for the Georgian banking sector was high compared to peer countries. If the credit to GDP ratio increases such that financial stability will be at risk, the NBG will likely increase the buffer to reduce credit activities and support financial sector stability. This will help the banking system to avoid the possible impairment of loans portfolio quality. The Financial Stability Committee decided to revise the framework for setting the countercyclical capital buffer based on the suggestion of the Basel Committee. Meaning that the buffer could be activated regardless of the economic cycle.

To support the larization policy the NBG prohibited commercial banks from charging customers a prepayment fee if the foreign currency loan is converted into GEL. The mentioned regulation can create a slight pressure on the exchange rate. However, considering the strength of lari supported by the migrant individuals the timing of this policy can be appropriate. It will mitigate upside pressure on the lari exchange rates and reduce the uncertainty for the businesses.

During the 2020-2022, the National Bank of Georgia developed the concept and changes for the transition to IFRS. The Regulation on Identifying Risk Categories of Financial Instruments and Expected Credit Losses was approved, and changes were made to the relevant decrees, to come into force on January 1, 2023. Commercial banks are expected to comply with supervisory regulations with IFRS-based numbers and approaches while transitioning to IFRS. Other things being equal, a neutral approach to the cost of regulatory capital should be maintained. The capital adequacy framework has been amended for this purpose. A credit risk adjustment (CRA) buffer and an updated procedure for its calculation were introduced. The aim of establishing a credit risk adjustment buffer is to reduce the credit risk caused by insufficient expected credit losses and to determine an adequate capital buffer.

Based on the decision of the government of Georgia, Banks and the financial sector are no longer moving to the Estonian model of corporate income tax. The profit tax for banks will increase to 20% from 15% and banks will pay profit tax according to international financial accounting reporting standards, which was not the case before. The regulation will be effective from 2023.

As a result of the above-mentioned macro prudential policies, the financial sector maintains stability and faces potential threats arising from the uncertain geopolitical situation in the region with solid capital buffers. The banking sector has enough resources to ensure that lending to the economy continues smoothly.

Financial performance of the Group

Considering Russia’s military activities in Ukraine starting from 24 February 2022, the United States, Great Britain, EU, and other countries have imposed sanctions on Russian financial system. VTB Bank Georgia JSC operating in Georgia has also been put under the sanction. The bank was placed under huge pressure from the depositors’ side to withdraw their funds. Acting under its mandate to protect Georgian lenders and depositors, the National Bank of Georgia was fast to initiate actions for ceding existing VTB Bank Georgia’s portfolios to the peers.

Basisbank agreed with VTB Bank Georgia to purchase retail and part of corporate loan and deposits portfolio. Basisbank accepted full support from National Bank of Georgia in the process of the acquisition. Protecting the interests of Georgian depositor clients is one of the main priorities under this mandate.

We are pleased to announce this transaction as an important step in our growth journey. Basisbank, with its 30-year long history, is one of top five largest Georgian banks on the market. The stated acquisition served the Bank’s mission to enhance its business and achieve its strategic goals and significantly boosted Basisbank’s retail customer franchise which is well in line with the Bank’s growth strategy and ambitious transformation journey.

This acquisition increased BB's assets by more than 40% positioning as 4th largest Bank on the market. Banks market share in Loan Portfolio increased to 4.6% from 2.9% in year end and market share by Assets increased to 4.4% from 3.08%.

24 new branches were added to existing network, around 135 thousand of clients were added to client base and over 350 employees joined Basisbank.

Financial Results were also fascinating:

After the portfolio acquisition, Basisbank entered a new stage of transformation to answer the challenges of increased size and market demands.

In the quarters following the transaction, bank managed to increase its profitability, capital, Deposit and Loan Portfolios and is following its bold strategy to become 3rd player on the market.

BB progress

In 2022, the acquired portfolio amounted to GEL 586 million of Retail and GEL 202 million Business loans. While on the liabilities side migrated deposits amounted to GEL 524 million for Retail and Gel 141 million for the business segment.

Thus, in 2022 total business loans increased by 33.7% y/y to GEL 1,361 million and retail loans increased by 209.7% y/y to GEL 760 million. The mentioned portfolio acquisition significantly changed our business profile. Before the transaction, Basisbank was positioned on the market with a concentrated portfolio issued on the business segment with an 81% share in total lending, while by the end of 2022, the share of business loans in the total loans portfolio reduced to 64%. This deal opened new opportunities for the bank, as it significantly enriched our clients' base and products offered on the market. To get full benefits from the deal in 2022 we changed our business processes so that most of the internal resources were dedicated to the full acquisition of migrated clients.

The market position was significantly strengthened on the liabilities side as well. In 2022, Business deposits increased by 118.0% y/y to Gel 1,049 million and retail deposits increased by 56% y/y to GEL 911 million. Migrated large number of retail deposits significantly reduced concentration on the funding side, mitigated deposits outflow risks and enhanced our liquidity positions.

To support the growth the bank successfully raised EUR 15 million subordinate long-term loan from EFSE. It improved our capital structure, secured capital positions and gave capacity for further growth.

On aggregate level, the bank finances 61% of assets with customer deposits (46% in 2021), 20% with IFI and local borrowings, 2% with subordinated debt, 3% with other liabilities and 14% with equity.

This acquisition increased the bank's assets, reaching GEL 3 billion in assets and elevate Basisbank to 4th place among the largest banks in Georgia.

Performance

BB's performance on Group level almost doubled in 2022, due to sizeable changes in BB's franchise. The net results in operating profit and net income delivered by the Group reached +237% and +92 % YOY growth. Net profit growth was mainly driven by increased operating income across almost all revenue categories.

The Bank reported a good 18.5% return on average equity (ROAE), supported by a non-recurring gain resulted from the acquisition stems from the fact that Basis acquired the loans with discount in order to capture potential credit risks, while factual provisioning of this portfolio was less. The normalised ROAE at 11.9% in 2022, almost the same as in 2021 (11.7%).

Profitability	*2022* Consolidated	*2021* Consolidated	*2020* Consolidated
Cost/income ratio	47.7%	50.4%	46.6%
Pre-impairment operating profit on average equity	34.1%	12.3%	12.1%
Pre-impairment operating profit on average assets	5.1%	2.4%	2.0%
Pre-tax return on average equity	21.6%	12.0%	8.7%
Return on Equity (Profit After Tax/ Tot. Equity)	18.5%	11.7%	8.2%
Return on Assets (Profit After Tax/Tot. Assets)	2.7%	2.3%	1.4%

Net Interest Income

Income generated from interest margins remains the main source of revenues for commercial banks in the Georgian banking sector. In 2022, net interest income for Basisbank amounted to Gel 123.8 million, up by 87.3% y/y and amounted to 81.9% of the Group's operational revenues[1]. A sizable growth of interest revenues was related to the portfolio acquisition coupled with the increased interest margins. In the post-pandemic period, commercial banks benefited from the increasing interest rate environment as it widened interest margins.

	End of 2022		End of 2021		
(in million GEL)	*Bank Standalone*	*Consolidated*	*Bank Standalone*	*Consolidated*	*y/y pct.*
Net interest income	123.8	125.8	66.1	67.9	85.3%
*Non-interest income (net)**	77.8	83.1	9.8	13.8	502.2%
Total net revenues	**201.6**	**208.9**	**76.0**	**81.7**	**155.7%**
Administrative expenses	(69.6)	(72.1)	(38.2)	(41.2)	75.2%
Pre-impairment operating profit	**132.0**	**136.8**	**37.8**	**40.6**	**237.3%**
Credit loss allowance for financial assets	(50.2)	(50.1)	(0.9)	(0.9)	
Income(loss) before income taxes	**81.8**	**86.7**	**36.9**	**39.6**	**118.8%**
Income tax expense (benefit)	(12.2)	(12.6)	(0.8)	(1.1)	
Net Income	**69.6**	**74.1**	**36.1**	**38.6**	**91.9%**

* Non-interest income (net) was heavily affected by the acquisition of VTB Bank Georgia's portfolios.
In 2022, net interest margin improved by 1.0 pp y/y to 5.3%. Tightened monetary policies across the globe affected portfolio yields. The gross interest yield increased by 2.5 pp y/y to 10.8%, while the gross interest paid increased by 1.0 pp y/y to 6.6%. Thus, net interest rate spread improved by 1.5 pp and amounted to 4.3%. Reduced liquidity position since the acquisition of VTB Bank Georgia's portfolio was another supporting factor for interest margins.

[1] Excluding one-off effect related to gain from the acquisition of loan portfolio.

Net Interest Margin (NIM) Evolution (in million GEL)	2022	2021	Change in pct.
	Consolidated	Consolidated	Consolidated
Total interest and similar income	258.2	133.8	93.0%
Total interest expenses	(132.3)	(65.9)	100.9%
Net interest income	125.8	67.9	85.3%
Average interest-earning assets [1]	2,381	1,602	48.6%
Average interest-bearing liabilities	2,016	1,187	69.8%
Gross interest yield [2]	10.8	8.4	2.4 ppt
Gross interest rate paid [3]	6.6	5.5	1.1 ppt
Net interest spread [4]	4.3	2.8	1.5 ppt

1 Average balances for each year are calculated in general based upon month-end balances.
2 Gross interest yield is the average interest rate earned on our average interest-earning assets.
3 Gross interest rates paid is the average interest rate paid on our average interest-bearing liabilities.
4 Net interest spread is the difference between the average interest rate earned on average interest-earning assets and the average interest rate paid on average interest-bearing liabilities.
5 Net interest margin is net interest income expressed as a percentage of average interest-earning assets.

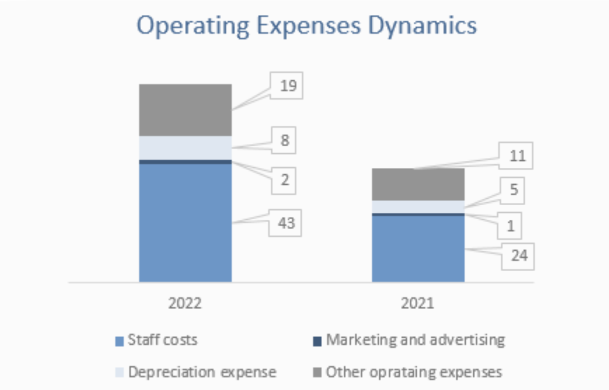
Net non-interest income

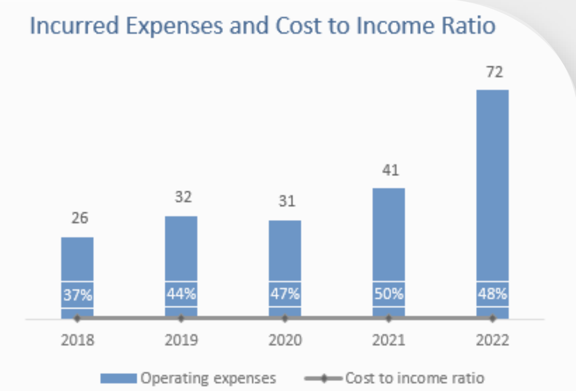
Non-interest income is a significant source of revenue for commercial banks. The revenue generation capacities of commercial banks from this source grow in line with the development of the banking business. In 2022, the share of non-interest income in total revenues amounted to 16.7%[2] of total operating income, which is below the market average. It shows a significant potential for the bank to further diversify and grow its operational revenues. Our focus for the last decade was to ensure sustainable growth dynamics. Acquisition of loans and deposits portfolio significantly expanded our clients' base which created a strong foundation for non-interest income growth for coming years.

In the coming years, we aim to heavily invest in digital channels development to fully load our clients with transactional activities. We expect key modules to be finalized in 2023, which will allow us to process a greater volume of information and offer our services in all our directions banking, leasing and insurance through renewed and upgraded digital platforms in accordance with the market requirements.

Operating Expenses

In 2022, the bank successfully managed to maintain operational efficiency at a decent level regardless of the modification of business processes related to the VTB Bank Georgia's portfolio acquisition. In 2022, the adjusted[3] cost to income ratio stands at 47.7%, down by 1.7 pp in annual terms. In the long-term we aim to maintain the ratio slightly below 50%. The majority of operational expenses are attributable to staff costs and amounted to 61.8% of total operational expenses. The bank steadily continues financing strategic development projects in 2023 that have some impact on administrative expenses but will contribute to achieving the group's strategic goals for upcoming years.





[2] Excluding one-off effect related to gain from the acquisition of loan portfolio.
[3] Excluding one-off effect

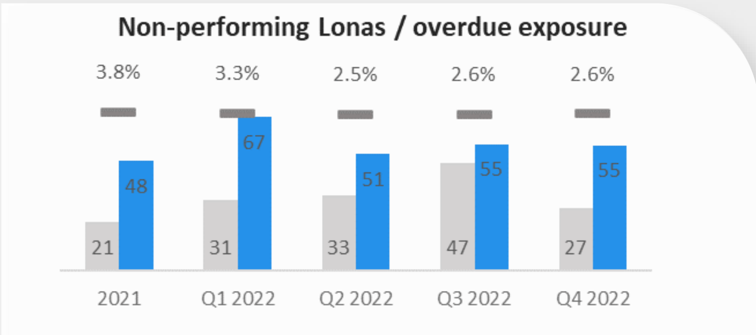
Assets quality

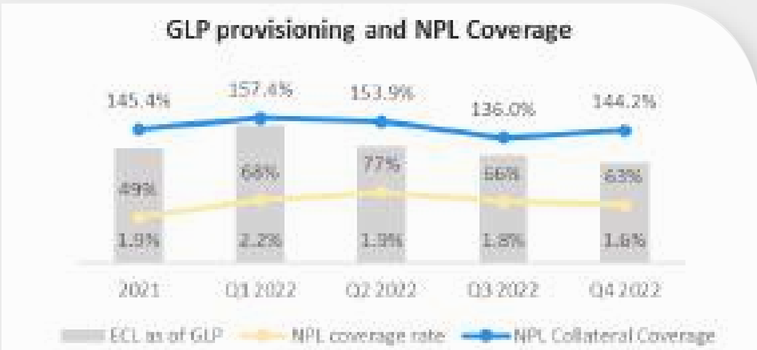
BB's asset portfolio quality indicators were directly related to the acquisition of portfolio at the beginning of the year. The retail portfolio share increased almost twice in GLP, changing portfolio distribution from 19% Retail and 81% Business to 36% and 64% respectively by the end of 2022.

All major portfolio quality parameters have been improved, immediately after the deal the NPLs[4] ratio declined, and by the end-2022 stood to 2.6% down from 3.8% at end-2021. The reduction reflects general improvement in Georgian economy which largely restored the businesses and households, the most affected sectors during 2020-2021 pandemic, and the growth of GLP as well as write-offs related mostly to the migrated loans from VTB Bank Georgia.

PAR90 portfolio increased during the year but started to decline from the second quarter of 2022. The effect was driven by the overdue days on the part of migrated retail portfolio, which was due to the difference in NPL assessment and management policy between BB and VTB Bank Georgia. BB writes off loans with Indicators that there is no reasonable expectation of recovery, days past due over 180 days and non-existence of collateral as of write-off day. Following the transfer of the VTB Bank Georgia portfolio, BB reviewed the portfolio and loans which were identified as a default category were written off from the balance sheet. Written-off portfolio in 2022 amounted GEL 42 million. Out of total write off charge GEL 8 million was attributed to loans originated within the Group and GEL 34 million to loans acquired from JSC "VTB Bank Georgia".

The coverage of NPLs by total provisions was at 63% at end-2022, the NPL coverage by collateral[5] is high standing at 144% by the end of 2022, reflecting the Bank's reliance on collateral.





Cost of risk (adjusted for the effects of the acquisition of VTB Bank Georgia's loan portfolio) in 2022 amounted to 0.65%.

Funding and Liquidity

The Bank is primarily funded by customer accounts which is standing at 72% of liabilities at end-2022, and loans/deposits ratio materially improved to 108% from 144% which is significant improvement in funding structure since end of 2021 where customer accounts composed 56% of total liabilities. Increase in deposits share is partially related to migration (mainly retail) of customers from VTB Bank Georgia. BB successfully handled the migration

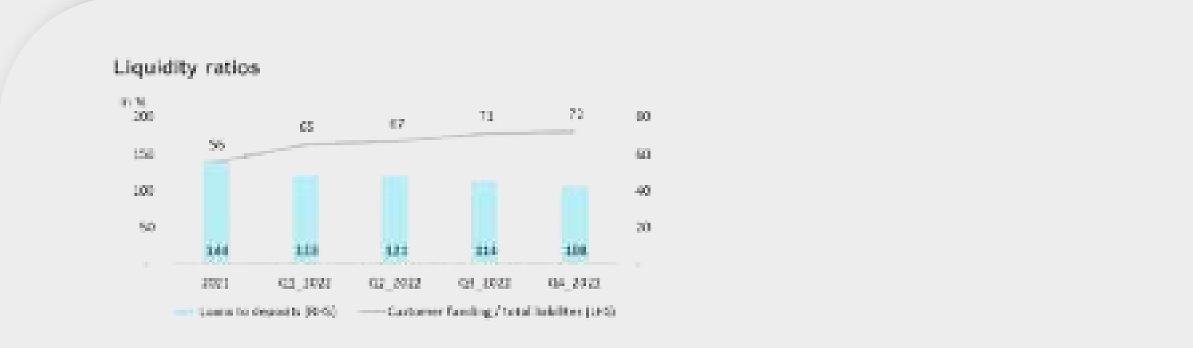
[4] NPLs to Gross Loan Portfolio equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.

[5] 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

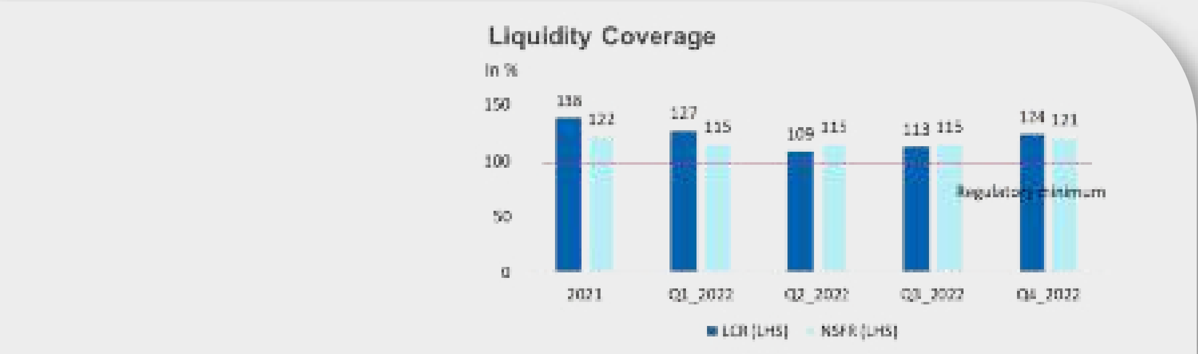
process and managed to accommodate thousands of customers within very short period. Maintaining the new customer was the tremendous task, which was successfully accomplished by the Bank.

That helped to improve the funding structure and increase clients base, improves key liquidity parameters - loans/deposits ratio materially improved to 108% from 144% in 2021. The deposit base fairly stable, equally split between business and individuals. Other sources are funded by loans from IFIs (12.5% of liabilities), short term interbank borrowings (11.4%, mostly repo with the NBG) and long-term subordinated debt (2.1%).

BB has reasonably stable funding base, its liquid assets mainly including cash and government and corporate securities eligible for pledging and repo operations. The Bank keeps large mandatory reserves with the NBG (equal to 11% of deposits), which are inflated by high requirements, some of these funds could be made available to the bank in case of liquidity stress.



The Liquidity is maintained within established limits and covenants, in line with regulation LCR and NSFR are above minimum requirement 100%.



Capital Position and Regulatory Compliance

Following the acquisition, the bank's CAR ratio declined to 16.1% at end-2022 (end-2021: 18%) due to increase in RWAs but remained strong. The ratio was supported by a common equity injection by the Shareholder, in 4Q22 (equal to 1% of RWAs) and internal capital generation. The Bank also received Euro 15 million of sub debt from EFSE early in Q2 2022, which helped to restore the released buffers in 4th quarter of 2022, granted by the NBG to support the acquisition yearly in 2022.

For regulatory reporting purposes, commercial banks adopted International Financial Reporting Standards (IFRS) from January 1, 2023. It was a long transitioning process starting from 2020. By adopting the IFRS, the public and supervisory reporting of the banking sector will be closer to the practices of other developed countries in Europe and the world. Subsequently, the capital adequacy framework has been amended for this purpose.

Commercial banks are expected to comply with supervisory regulations with IFRS-based numbers and approaches as they transition to IFRS. Also, according to the stated principle of the National Bank of Georgia, when transitioning to IFRS, other things being equal, a neutral approach to the cost of regulatory capital should be maintained. The capital adequacy framework has been amended for this purpose.

A credit risk adjustment (CRA) buffer and an updated procedure for its calculation were added to the Regulation on Determining Capital Buffers for Commercial Banks within Pillar 2. The purpose of establishing a credit risk adjustment buffer is to reduce the credit risk caused by insufficient expected credit losses set up for assets, and to determine an adequate capital buffer. Currently 2.1% of CRA buffer is added to total capital requirement.

During 2022 NBG kept countercyclical capital buffer at 0%. Within the accumulation of capital buffer during the periods of stress, NBG decided to revise the framework for setting countercyclical capital buffer based on the suggestion of Basel Committee up to 1% starting in early 2024.

Current supervisory requirements for BB

The Supervisory Requirements of BasisBank include minimum supervisory requirements set within the framework of Pillar 1, plus capital conservation buffer and counterparty buffer, which is currently defined by the National Bank at 0%. As for system buffers, Basisbank is not considered by the National Bank as a system-maker, so the systemic capital buffer rate for Basisbank is set at 0%.

As at 31 December 2022, the requirements introduced for BB under Pillar 2 define the following buffers:

- Unhedged currency induced credit risk buffer
- Credit portfolio concentration risk buffer, consisting of the name and sectorial concentration buffers
- Net stress test buffer, set in accordance with supervisory stress tests
- Net GRAPE buffer is set as part of the review of the risk categories and the bank's internal capital adequacy within the NBG's General Risk Assessment Program.

Capital buffers defined by Pillar 2 are individual for all banks and depend on the Bank's risk positions concentration.

According to NBG's capital requirements, the banks are obliged to maintain a ratio of regulatory capital to risk-weighted assets (capital ratio) at the minimum required limit.

As at 31 December 2022, the BB's capital ratio stood at 16.13% (2021: 18.00%). No dividends have been declared during 2021-2022 to impact the capital ratios.

CORPORATE GOVERNANCE REPORT

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BASISBANK

Basisbank, the joint stock company established according to Georgian law, has declared its commitment to complying with the rules of the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in 2009. Since 2018 the corporate governance in the Bank is subject to the Corporate Governance Code for Commercial Banks adopted by the National Bank of Georgia (hereinafter – Corporate Governance Code or CG). The CG Code 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. The Bank's internal Corporate Governance framework is continuously reviewed to align with additional legal and regulatory requirements and global best practices.

GOVERNANCE STRUCTURE

SHAREHOLDER

Shareholder exercises its rights and responsibilities through the General Meeting. The General Meeting of Shareholders is the supreme governing body of the bank, by participating in the Meeting shareholders exercise their rights of bank membership 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.

SUPERVISORY BOARD

The Supervisory Board (hereinafter - the Board or SB) is the body supervising the Group's activities, exercising its functions through the Board Meeting and 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.

The key functions of the Supervisory Board are supervision of the Basisbank Group's activities, Corporate Governance and Risk Management. Within the framework of these functions, the Board makes decisions on establishing the group's values, organizational structure and generally, ensuring that the group is governed in full compliance with the principles of fairness, competence, professionalism and ethics; establishes the group's strategy and oversees management's implementation of the bank's strategic objectives; ensures that the group 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 on risk management). The Board also oversees Management Board's activities and evaluates Management Board's 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 group in line with the requirements of law and regulatory framework.

The SB adheres to and comply with requirements and principles of the Law of Georgia on Commercial Banks Activities, the Corporate Governance Code for Commercial Banks, the Code of Ethics and Standards of Professional Conduct, and internationally recognized standards in their work.

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.

THE BOARD MEMBERS

The Board consists of six members, two of which are independent members of the Board. All members of the Supervisory Board are selected in accordance with the eligibility criteria set by the National Bank of Georgia. Board members are elected by the General Meeting of Shareholders.
The board's composition is an appropriate mix of knowledge, skills and experience that aligns with the Bank's strategy. The diversity of gender, age, nationality and functionality ensures different views in the process of discussion, evaluation from different perspectives and increases Board's performance.

The members of our Supervisory Board are:
Mr. Zhang Jun – the Executive Chairman of the Board
Mr. Zaza Robakidze – Independent Member of the Supervisory Board
Mr. Nikoloz Enukidze – Independent Member of the Supervisory Board
Mr. Zhou Ning – Vice Chairman

Mr. Mi Zaiqi - Vice Chairman
Ms. Mia Mi – the board member.

MEMBERS OF THE SUPERVISORY BOARD

ZHANG JUN - CHAIRMAN OF THE SUPERVISORY BOARD

Zhang Jun holds an MBA. 2010 to present: Deputy General Manager in finance and foreign investments at Xinjiang Hualing Trade and Industry (Group) Co., Ltd. 1998 to 2010: worked as Sales Department General Manager, Assistant to the Chairman of the Board, HR Director in Urumqi City Commercial Bank. 1992 to 1997: Deputy Director in Chengxin Credit Union of Urumqi. Mr. Zhang held senior managerial positions at Urumqi Branch of the People's Bank of China, Urumqi City Commercial Bank and other financial institutions for many years. He has extensive practical experience in the operation and management of commercial banks, hence the profound and clear view of the strategic development of small and medium-sized commercial banks.

ZAZA ROBAKIDZE - INDEPENDENT MEMBER OF THE SUPERVISORY BOARD

Zaza Robakidze, a proficient banking expert with over 25 years of sector experience, accepted the position of the Member of Supervisory Board in late 2018. He has also been serving as Chairman of Basisbank's Audit Committee since 2012. Zaza Robakidze spent several years working at the National Bank of Georgia on various positions, from Economist to Head of Supervision Department. Zaza Robakidze holds a Master's Degree in Economics.

NIKOLOZ ENUKIDZE - INDEPENDENT MEMBER OF THE SUPERVISORY BOARD

Nikoloz Enukidze holds degree in Physics from Tbilisi State University (1993) and a Master's degree in Business Administration (MBA) from the University of Maryland. He served as the Deputy Chairman of the Supervisory Board at Bank of Georgia in 2006-2008, and Chairman of the Supervisory Board of the same bank in 2008-2010. Nikoloz Enukidze held various leading positions at TBC Bank in 2013-2021, including those of the Chairman of the Risk Committee and Chairman of the Supervisory Board. From 2017 to present, he has been working as independent non-executive member of the Supervisory Board of Yelo Bank (Azerbaijan).
Previously, Nikoloz Enukidze worked as Managing Director for Corporate Finance at Concorde Capital, a leading Ukrainian investment bank, Assistant Director for Corporate Finance at ABN AMRO in London and Senior Manager for Business Development at Global One Communications LLC in the USA.

ZHOU NING - VICE CHAIRMAN OF THE SUPERVISORY BOARD

Zhou Ning holds an MBA from Fuqua School of Business in USA, MS in Engineering from Virginia Polytechnic Institute, and BS in Engineering from the University of Science and Technology of China. 2005 to present: Managing Director in Tuhong International Co. Having implemented a number of financial advisory projects at Urumqi City Commercial Bank, Bank of Deyang, Yantai Bank, Hang Seng Bank, Wing Lung Bank, Xiamen Bank, Hong Kong Fubon Bank and Bank of Tianjin, Mr. Zhou has an in-depth understanding of strategy and business development of domestic and foreign small and medium banks.

MI ZAIQI - VICE CHAIRMAN OF THE SUPERVISORY BOARD

Holds a BA from University of California. 2011 to present: Deputy Director of GM Office in Xinjiang Hualing Trade and Industry Group Co., Ltd and Director of GM Office in Georgia Branch Office of Xinjiang Hualing Trade and Industry Group Co., Ltd. 2010-2011: worked as an assistant to GM in Xinjiang Hualing Real Estate Development Co., Ltd. 2005 to 2006: worked as an assistant to GM at Xinjiang Hualing Grand Hotel Co., Ltd.

MIA MI - MEMBER OF THE SUPERVISORY BOARD

Holds a Bachelor's Degree in Business Administration from University of Southern California, Los Angeles. Director of International Development at Hualing Group International Special Economic Zone in Georgia. Extensive experience in assisting Chairman of JSC Hualing International Special Economic Zone in 2 crucial actions: acquisition of Basisbank in 2012 and each year (2011-2015) organizing international construction materials fair, connecting buyers and sellers from across Central Asia. 2015-2017, Mia Mi held various positions in key departments at Basisbank, analyzing loan portfolio, communicating with Chinese corporate and retail clients as well as Banks shareholders, organizing major corporate events and assisting HR in recruiting talents.

SUPERVISORY BOARD - LEVEL COMMITTEES. The Board delegates specific areas of responsibility to its committees: the Audit Committee and the Risk Management Committee. The functions of the committees are separated from each other. The committees report regularly to the Supervisory Board and facilitate informed decisions by the Board. The Committees have unrestricted access to the Bank's internal information and documents related to any matter within the competence of the Committee.

The committees have full access to the Management Board and the risk management functions; however, they have the opportunity to meet independently, without the presence of the members of the Management Board, the employees of any unit of the bank as well as and external auditors, and to request and receive reports.
The committees have the right and opportunity to independently invite external consultants, and, if necessary, to receive consultations and services on legal, technical, accounting, financial, risk management, statistical and other issues.

AUDIT COMMITTEE. The Supervisory Board members establish the Audit Committee; two of the three members are independent.

The Audit Committee is responsible for:

- Ensuring the adequacy and efficiency of the functions of the bank's internal and external auditors; within that, setting of the scale and scope of the internal audit;
- Oversight and monitoring the quality of the Bank's accounting and financial reporting;
- Ensuring that the Management Board takes necessary steps to correct the identified control weaknesses, non-compliance with the legislation and other deficiencies;
- Ensuring the framework of the risk management and efficiency of internal controls;
- Review of the annual consolidated and separate financial and non-financial statements of the banks, discussion of the audited reports with the auditors, the pre-audit and post-audit processes and key issues and findings, and preparing of reports and recommendations for the Supervisory Board.
- Review of all internal documentations, the appropriateness of internal processes and control function, monitoring of the financial reporting process, data validation process, etc.

The members of the Audit Committee are Zaza Robakidze (the Chairman of the Audit committee and an independent member of the Board), Mi Zaiqi (The Board Member), and Nikoloz Enukidze - Independent Member of the Supervisory Board.

RISK MANAGEMENT COMMITTEE - The Risk Management Committee is established by three members of the Supervisory Board, two of them are independent members.
The Risk Management Committee is responsible for:
- Oversight of the Bank's risk strategies, policies, and their effective implementation
- Assessment and oversight of the Bank's risk profile and limits
- Oversight of the subsidiary's risk management function, risk management framework and the proper functioning of internal control systems.

Thus, through the Risk Committee, the Supervisory Board is actively involved in the risk management process, has the proactive information and recommendations on risk limits, monitoring and evaluation results, and observes the level at which the risk management strategies and policies are integrated in the daily activities of the bank management and other business units, and also whether they are acting in compliance with the laws and internal policies.

The members of the Risk Management Committee are: Nikoloz Enukidze - Independent Member of the Supervisory Board, Mia Mi - Member of the Supervisory Board and Zaza Robakidze - Independent Member of the Supervisory Board.

MANAGEMENT BOARD

The primary function of the Management is to effectively run the group's activity, ensure the uninterrupted growth and development of the bank and the group, ensuring sustainable positioning on the market in line with the objectives set by the Supervisory Board. The SB appoints the members, their functions, the structure and the role in governance and responsibilities in line with the applicable law and terms of reference. The remuneration is clearly defined by the SB. The accountability of the management, meetings, decision making framework is defined by the Regulation on the Directorate adopted by the Supervisory Board.

The management recognizes the importance of good corporate governance and risk management culture as well as its role in these processes. The management runs operations of the Bank and is responsible for managing its activities in accordance with the Bank's objectives, in compliance with applicable laws/guidelines as well as internal regulations. The Management Board works closely together with the Supervisory Board and reports to the Supervisory Board on all issues with relevance for the Bank concerning strategy, the intended business policy, planning, business development, risk situation, risk management, staff development, reputation and compliance, on systematic basis but at least quarterly.

The management is responsible for delivering business objectives in line with the group's strategy, ensuring the Bank's capital and liquidity planning, and that management policies and procedures are communicated and implemented throughout the bank and are supported by sufficient authority and resources. The management is also responsible to ensure that the bank operates consistently with the processes and procedures set out in its internal and external regulations, allocations of resources, planning, managing, accounting and reporting of financial and risk position, properly executing the management and control functions.

Management Board consists of General Director, his Deputies and other Directors.

Management Board of the Bank consists of 7 members: David Tsaava, General Director; Lia Aslanikashvili, Deputy General Director, Finance; Hui Li, Deputy General Director, Lending, David Kakabadze, Deputy General Director, Risk Management, Levan Gardapkhadze, Deputy General Director, Retail; George Gabunia, Chief Commercial Officer and Rati Dvaladze, Chief Operational Officer.

DAVID TSAAVA – GENERAL DIRECTOR

General Director of Basisbank since 2012. 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 19 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.

After obtaining a Bachelor's Degree in Banking and Finance from Tbilisi State University, David Tsaava got a Master's Degree at Sokhumi State University. Later, he obtained a PhD in Business Administration from Technical University of Georgia.

LIA ASLANIKASHVILI – DEPUTY GENERAL DIRECTOR, FINANCE

Basisbank's Deputy General Director, Finance since 2012. 2017-2018: General Director of BB Leasing, the subsidiary of Basisbank Group. 2017-2023 Deputy General Director Finance at BB Insurance and 2017-present: Deputy General Director, Finance at BB Leasing, the Basisbank Group member companies.

Lia Aslanikashvili has 24 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.

Lia Aslanikashvili holds a Master's degree in International Economic Relations from Tbilisi State University.

LI HUI - DEPUTY GENERAL DIRECTOR, LENDING

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.
Li Hui holds a Bachelor's Degree in Accounting from Financial University of China.

DAVID KAKABADZE – DEPUTY GENERAL DIRECTOR, RISK MANAGEMENT

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 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.

David Kakabadze holds a Master's Degree in Finance from Caucasus Business School.

LEVAN GARDAPKHADZE – DEPUTY GENERAL DIRECTOR, RETAIL BUSINESS

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 21 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.

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

GEORGE GABUNIA – CHIEF COMMERCIAL OFFICER (CCO)

Basisbank's CCO since 2019 has 19 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.

George Gabunia holds a Master's Degree in Banking from Tbilisi State University and a Bachelor's Degree in Finance and Banking form the same university.

RATI DVALADZE – CHIEF OPERATIONS OFFICER (COO)

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 also is an educator, delivering lectures.

Rati Dvaladze obtained a Master's Degree in Information Technology Management from Free University and a Master's Degree in Physics and Mathematics from Tbilisi State University. He also holds a Bachelor's Degree in Mathematics.

CONFLICT 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 conflict of interest, including the following tools: the bank records the related parties and sets controls on the transactions with the related parties. 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 instructions for the creation of the robust control system.

The transactions with the related parties are subject to compulsory review and approval by the Management Board/Supervisory Board (based on the amounts). The bank strictly adheres to the arm's length principle and ensures the conformity of the related party transactions with these principles.

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE

('ESG') REVIEW

Basisbank has established standards for managing the Environmental and Social Impact of Lending, according to which the bank is obliged to commit to financing environmentally and socially sustainable projects, ensure that the clients comply with existing and applicable local laws and regulations concerning environmental protection, health and safety.

The internal E&S Policy defines principles of sustainable financing and sets the list of activities, which are excluded from financing. The excluded activities list includes activities associated with Weapons and munitions/paramilitary materials, forced / Child Labour, gambling etc.

E&S assessment consists of the following parts: (1) checking against the excluded activities list, (2) assessment - each credit facility issued to business clients is assigned to individual environmental risk categories. The risk categorization is based on EBRD's risk categorization document and (3) monitoring. Before financing, the Bank checks the E&S situation of the project and requests all the necessary information/permits. On the basis of these information, the project is assigned in high, medium of low E&S risk category. In case if deficiencies in environmental /social performance of client are detected, the Bank may include respective covenants to the agreement with client. Progress is monitored during monitoring visits.

As a responsible employer, Basisbank's Supervisory and Management Boards establish and communicate enterprise-wide standards for ethical behaviour and integrity. The Bank's policies and procedures ensure whistleblower protection, equality, employee protection, workplace health and safety. The Bank as an employer is committed to an environment free from harassment, discrimination and to a work environment in which all individuals are treated with respect and dignity at all levels of employment.

The Bank's Management Board dedicated to maintaining compliance with all applicable labour laws and regulations as well as International labour standards.

ANTI-FINANCIAL CRIME (AFC) FRAMEWORK

Basisbank has developed a holistic approach to combating financial crime and has established a Group-wide Anti-Financial Crime (AFC) framework. This framework consists of the following key issues: anti-money laundering and counter-terrorist financing (AML/CTF), international sanctions compliance, anti-bribery and anti-corruption (ABC) and the avoidance of conflicts of interest.

In view of the policies outlined above, as well as in line with current practice, it should be noted that Basisbank uses a zero tolerance approach to intentional involvement in activities that are in some way or may be related to: money laundering, terrorism financing, sanctions avoidance or sanctions circumvention, bribery, fraud, corruption, insider trading and conflicts of interest.

The Supervisory Board and the Directorate explicitly require all employees (including any level employees, middle and senior level managers, permanent and temporary staff), consultants, outsource service providers and any other bank-related entity, to manage their own business fairly and in accordance with the law, adhere to the fundamental values of integrity, transparency and accountability and foster a culture of compliance where financial crimes will never be acceptable.

The Bank encourages the use of a whistleblowing system that allows both employees and customers and third parties to report violations and possible actions that are contrary to the Bank's stated policies, applicable laws, and standards of ethical conduct.

Possible incidents will be analyzed and investigated by dedicated internal Commission composed of the Head of Audit Committee, Heads of HR and Head of Compliance functions, as soon as possible, applying the principles of confidentiality and personal data protection to all those involved in the investigation process.

Internal audit, AML/CFT, Compliance and Operational Risk Management Units are responsible for ensuring compliance with the AFC framework, making sure that the internal regulations and working principles are integrated into all of the Bank's activities.

RISK MANAGEMENT REVIEW

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BASISBANK

RISK MANAGEMENT AND CONTROL SYSTEM

Risk management and control systems are 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.

The Risk Strategy, reviewed and approved on the Board level, is derived from the business strategy. The Risk Strategy defines key priorities, sets targets for the execution and deals with changes in economic, social and regulatory environment; ensures a medium-low risk profile as defined by the risk appetite framework of the bank, taking into account the principles of market best practices and regulatory expectations. Risk Strategy is approved by the Supervisory Board and is modified at any time when strategy is revised, but at least annually and it is essential to be available for the whole institution.

The Risk Strategy defines the group'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.

Risks are managed via a framework of principles formalized in policies and procedures, and the organizational structure with clearly delegated authority levels and measurement and monitoring processes that are closely aligned with the activities of divisions and business units. This dedicated governance framework ensures that all inherent risks are controlled in a proper way within the everyday operation of the Bank.

Risk Governance

The group follows strong risk governance framework which pursues effective control and management of risk profile as defined by the Board.
At a strategic level, risk management objectives supported by the risk governance structure are:

- To define Bank's strategy based on the Group's Risk Appetite and Capital Plan
- To optimize risk return decisions by taking them as closely as possible to the business.
- To ensure business growth plans are property supported by effective risk infrastructure.
- To manage risk profile so that financial soundness remains stable under a range of adverse business conditions.

This governance framework is underpinned by the distribution of roles among the three lines of defence, a robust structure of committees, and risk sharing responsibility from top Management level down through to each business line, unit manager and/or risk officer.

Lines of defence

The risk control is organized across three lines of defence:

- First Line: Business unit level - operational day-to day management of risks are the task of business units and back support functions that originate risks, and therefore have primary responsibility in the management of those risks. Each risk owner establishes and reviews the risk management tools and structure for the risks generated as a part of their activity, ensuring that daily risk management is regulated in accordance with the policies of the Bank and executed according to the detailed operational level regulations of the Bank.
- Second Line: Risk Management, Compliance and AML/CFT functions – internal control and compliance oversight is the responsibility of this functions, as well as identification and challenging the risks. The limit system is operated by Risk Management who has to report the result to the Executive Board on a regular basis. In case of limit breaches, mitigation actions need to be defined by the Executive Board. The risk management also monitors activities of the first line of defence. 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, advice and expert opinion in risk-related matters.
- Third Line: Internal audit – responsible for assurance to senior management and the board that the first and second lines' efforts are consistent with expectations, Internal Audit function controls and regularly checks that the policies and procedures are adequate and effectively implemented in the management; controls that all risks are consistent with the bank's risk appetite statement and internal regulations; monitors compliances with all regulatory and other mandatory requirements.

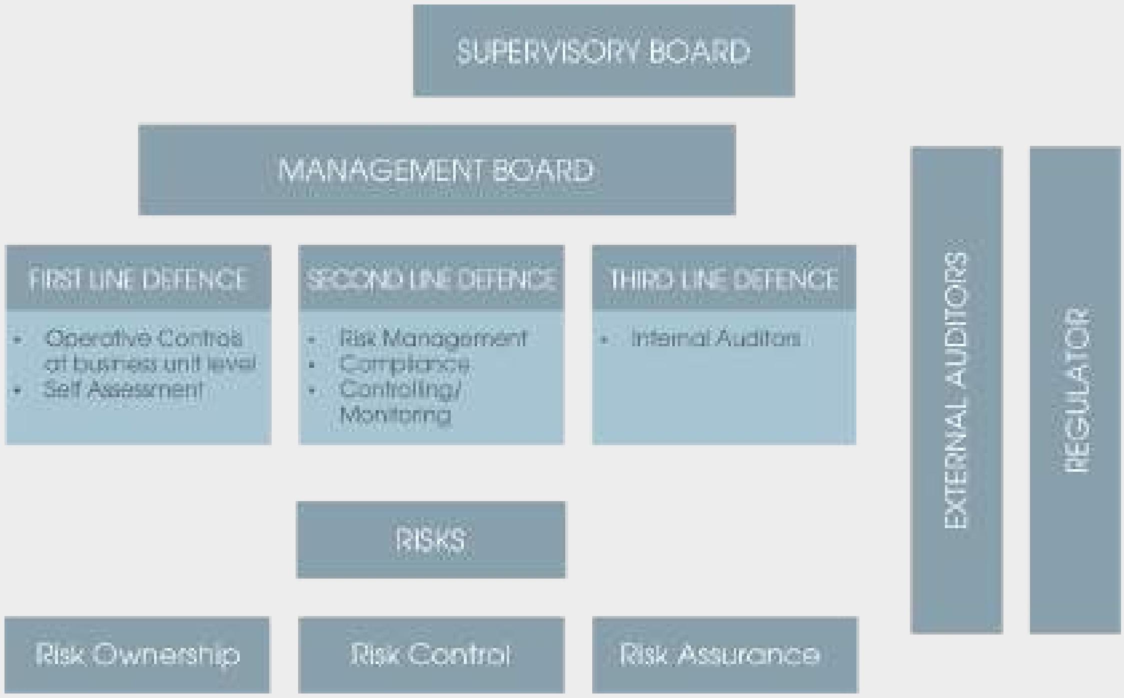
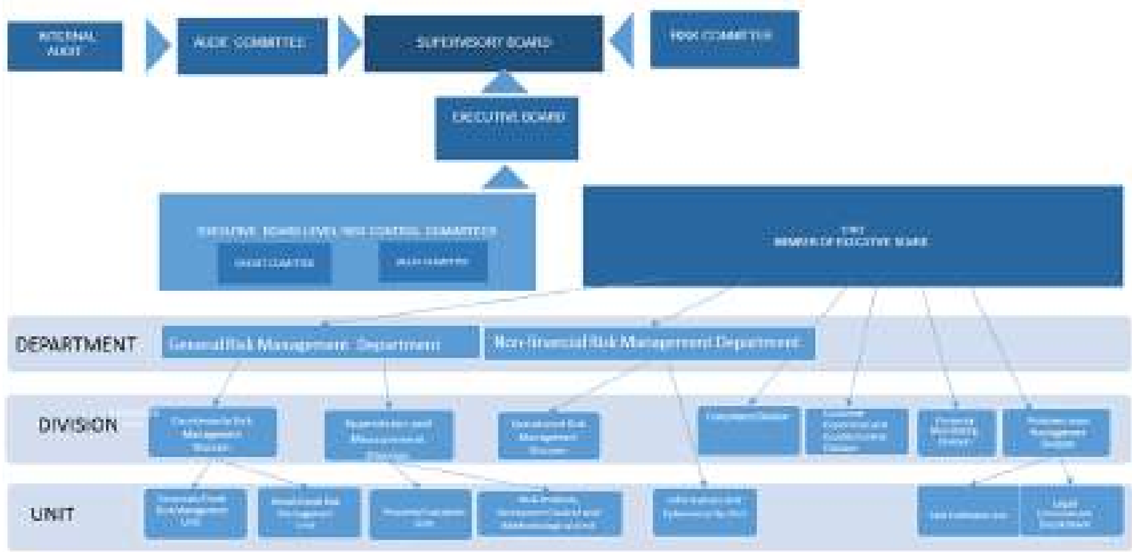


Chart 1: Risk Governance



Risk governance structure within Basisbank

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 systems is split between following risk management units:

- The Supervisory Board,
- The Management Board,
- Audit Committee,
- Risk Committee,
- Assets and Liabilities Management Committee ("ALCO"),
- Risk Management departments,
- AML/CFT Department,
- Compliance Unit,
- Treasury department,
- Credit Committees.

The Supervisory Board and the Executive Board have a sound understanding of risk management and its importance to the sustainable and strategic development of the Bank.

At Supervisory Board level - the independent Audit Committee and Risk Committee, which report directly to the Board and give unbiased information 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 external regulations;

At Management board level - an Independent Risk Management unit, and risk-profile committees in credit, assets & liabilities management committees level, to ensure sound risk management practices and decision making process; Risk management analytical and decision making tools; Comprehensive system of financial and managerial reporting to meet regulatory requirement and needs of Management Board; Detection and classification of different types of risks which the group potentially faces; Policies, procedures and guidelines, which govern management of risks across the organization.

Supervisory Board - is setting "the tone on the top" by establishing and fostering a high ethical and responsible culture in the bank. 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 approves and exercises control over the implementation of the Bank's strategy and its budget, sets the general approach and principles for risk management by assessing the Bank's risk profile, the adequacy and effectiveness of the Bank's risk management framework, approves individual risk strategies, setts risk appetite and the risk control framework.

The Risk Management policies are approved by the Supervisory Board of the Bank aim to identify, analyse 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.

Audit Committee - is an independent control function, which regularly reviews internal controls and processes; reviews bank's internal control system, evaluates its objectivity and correctness; provides oversight of the bank's internal and external auditors' recommendations; approving, or recommending to the Board on monitoring the financial accounting process; provides oversight of the effectiveness of the risk management system, particularly of the internal control system and the internal audit system. The audit committee reports to the Board on quarterly basis on key risk portfolios, on risk strategy and supports the Supervisory Board in monitoring the implementation of this strategy; monitors the Management Board's measures that promote the company's compliance with legal requirements, regulations and internal policies.

Risk Committee monitors the Bank's risk profile, evaluates adequacy requirements for principal risks, including evaluation, monitoring and limits of the risks; debates and agrees actions on the risk profile and risk strategy across the Bank; discusses all risk policies and related documents proposed for approval to the Supervisory Board prior to their submission; evaluates effectiveness of the bank's internal control and risk management systems together with the Internal Audit Committee; reviews test results of risk management environment conducted by external audit and develops corresponding recommendations; periodically reviews existing limit system.

Management Board is responsible for managing the Bank in accordance with the law and its' Terms of Reference in performing its activities in accordance with the goals and objectives of the Bank. Management Board is responsible for establishing effective business organization and adequate segregation of duties and subordination; structuring the business to reflect risk, ensuring existence of adequate procedures, including approval of all policies prior to submission to the Board, reviewing and approval of procedures before implementation.

Management oversight and control culture involves inclusion of key items of internal control into the regular tasks of the Management Board. The scope of Management Board's control function includes review of performance to streamline the progress toward the strategic goals, control activities at division and departmental level, regular reviews of the bank's strategy and risk and capital limits to ensure compliance with exposure and capital limits; follow-up on non-compliance to ensure that management at an appropriate level is aware of the transaction or situation and to establish accountability; requiring approval and authorization for transactions above certain limits; review of evaluations of internal controls, ensuring prompt follow-ups on recommendations and concerns expressed by auditors and supervisory authorities related to internal control weaknesses.

An effective internal control system requires that significant risks are identified and assessed on an ongoing basis. This process should cover all risks assumed by the banks and operate at all levels within it. Individual policies for Credit, Operational and AML policies enable the Bank to measure, aggregate and report risk internally, as well as use this information for regulatory purposes. Further, Bank's internal methodologies and manuals provide description of processes from credit decisions - granting, pricing and approval, to portfolio management and capital adequacy.
The Management Board establishes committees and functional units within the bank to ensure overall oversight and management of risk.

ALCO Committee reviews current and prospective liquidity positions and monitors alternative funding sources; reviews maturity/re-pricing schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing; develops parameters for the pricing and maturity distributions of deposits, loans and investments; develops alternative strategies which take into account changes in interest rate levels and trends, deposit and loan products and related market/banking regulations, etc.; performs an independent review of the validation and reasonableness of the inputs, assumptions, and output of the ALM model(s) and procedures; approves limit structure on counterparty risk.

Credit Committee acts in the best interest of the Bank and in compliance with internal policies and procedures; evaluates potential clients' financial standing and their ability to repay the loan; reviews loan applications and makes decisions within the authority delegated to the committee; reviews loan collection practices to improve loan underwriting and collection efforts.

Deputy General Director - Risk Management (CRO) is a member of the Executive Board, is a top-level executive responsible for overall risk management in credit, market and operational 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. Responsibilities of CRO include comprehensive control of risk and continuing development of methods for risk measurement; setting risk limits and creating risk maps;

communicating a clear vision of the firm's risk profile to the board and to key stakeholders. CRO has unimpeded direct access to Supervisory board, regularly reports to SB about the Bank's risk profile, its adherence to defined risk appetite, significant internal and external developments which could have material effect on bank's risks.

General Risk Management Department evaluates credit, market and liquidity risks related to various transactions or operations and draws up suggestions about modifications necessary in structure, procedures, makes assessment of expected credit losses (ECL); manages and evaluates credit, market and liquidity risks; elaborates ICAAP (internal capital adequacy assessment process), by coordinating them with the risk owners; elaborates and introduces methods of risk mitigation, specifically related to credit risk management; evaluates bank's lending performance and compares it to the past periods;

Non-financial risk management Department is an integrated part of the Bank's overall risk management activities and aims to establish sound and effective non-financial risk management practice across the Bank. Non-financial risk by definition includes operational risks as defined in the Basel III operational risk event types, but also other important risks such as cyber and information security and third party risk. The purpose of Non-Financial Risk management is to ensure enforcement of effective risk identification, assessment, monitoring and reporting tools and methodologies in order to minimize non-financial losses while supporting business development and growth; It ensures to minimize internal fraud incidents and establish environment, which aligns with the bank's business objectives.

The bank differentiates two main Non-financial risk functions: Operational Risk and Information and cybersecurity risk.

Treasury department – responsible for daily control and management of A&L structure, liquidity and funding position, interest rate gap exposures and management of foreign exchange risk exposure, reporting directly to CFO and ALCO committee for approval; Treasury department maintains appropriate limits on risk taking, adequate systems and standards for measuring risk, standards for valuing position and measuring performance, a comprehensive risk reporting and management review process, as well as effective internal controls.

Risk Strategy

At a strategic level, risk management objectives supported by the risk governance structure are:

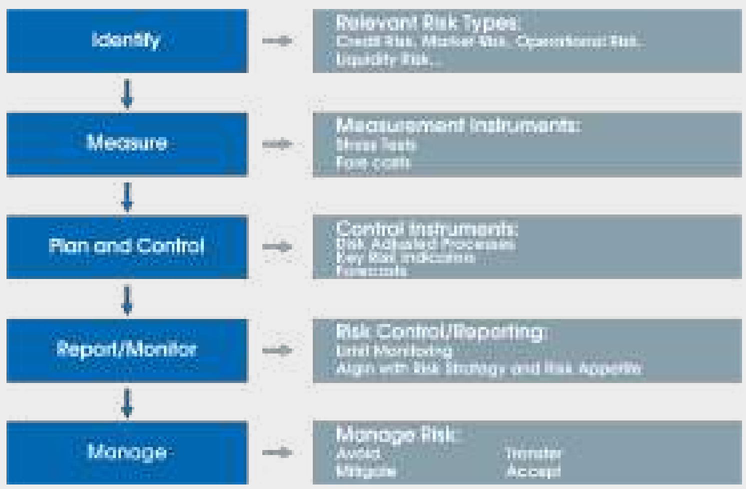
- To define Bank's strategy based on the Group's Risk Appetite and Capital Plan
- To optimize risk return decisions by taking them as closely as possible to the business;
- To ensure business growth plans are property supported by effective risk infrastructure;
- To manage risk profile so that financial soundness remains stable under a range of adverse business conditions.

Information and communication is essential for effective Risk Governance. In Basisbank it involves inclusion of key types of data in the record keeping process, such as internal financial, operational and compliance data, as well as external market information on events and conditions relevant to decision making. An effective internal control system requires that significant risks are identified and assessed on an ongoing basis.

Individual policies for Credit, Operational and Anti-Money Laundering (AML) policies enable the Bank to measure, aggregate and report risk internally, as well as use this information for regulatory purposes. Further, Bank's internal methodologies and manuals provide description of processes from credit decisions - granting, pricing and approval, to portfolio management and capital adequacy.
Risk Governance Continuity

The Bank maintains and adheres to the best Corporate Governance standards. Basisbank is a signatory to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia (CG Code) in 2009. Our operations are regulated and supervised within banking supervision framework by NBG which focuses on licensing, capital adequacy, liquidity requirement, risks' concentration, Corporate Governance Code as well as organizational and reporting requirements. Supervision framework also provides guidelines for the regulation of Risk management in Commercial banks, risk governance principles, internal control systems, etc.

Management reporting system is built up to serve as an effective tool for risk governance. 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 five discrete processes: identify, assess, control, report and manage/challenge. 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.



Risk Appetite and Key Risk Types

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.

Management of each material risk types are defined within the Risk framework of the Bank. Risk appetite of Basisbank has been set as a limit system which enables the Bank to continuously monitor the exposure to the relevant risk factors. The limit system considers all relevant risk types identified during the ICAAP processes.

The limits are defined by the Management Board and have to be in line with strategic planning and external requirements (legal requirements on capital and liquidity; Group level/owner requirements). 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.

The risk map of the institution shows the complete picture of all risk types evaluated in Basisbank under the ICAAP. For each type of risk its relevancy is assessed and the methodological approach to measure and mitigate the risk is outlined in the ICAAP policy document.

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 ICAAP 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.
Key Risk Types: Identification and Assessment

The Group is committed to have a comprehensive risk management process in place that effectively identifies, measures, monitors and controls all risk exposures, as the Group wants to avoid high volatility in its earnings and net value due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions. The Group 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.

On bank level the group monitors the following risk exposures:Financial risk comprises credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits.

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 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. The Bank's credit strategy is to create a diversified and profitable loan portfolio while maintaining maximum quality.

Credit risk management. The estimation of credit risk for risk management purposes is complex and involves 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, associated loss ratios and default correlations between counterparties.

Management of Credit Risk in Basisbank includes different activities embedded in the daily activities.

Establishment of an appropriate credit risk management environment - In Basisbank this is achieved through written Credit Policy and Credit Manual related to target markets. In this formalized documents portfolio mix, price and non-price terms, the structure of limits, approval authorities and processing of exceptions and management reporting issues are addressed and outlined.

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 monitored on a regular basis and are subject to an annual, or more frequent, review.

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 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 Risk Management Division) take part in credit risk assessment of the client. For Individual borrowers the bank has developed simplified 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.

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.

Risk Mitigation and Residual risk. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees to mitigate the credit risk. The limits for collateral coverage are different depending on product type and borrower segment. To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. The Group obtains collateral valuation at the time of granting loans and annually 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. Apart from top-100 borrower groups, for the loans with carrying amount more than GEL 100 thousand, 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. For Financial Reporting Year 2022 the Group has refrained to re-evaluate all 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, as a result of migration wave. The Group has performed re-evaluation of a representative sample of underlying collaterals on migrated VTB portfolio, in order to confirm that the valuations are fair, with the satisfactory results. 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.

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 2022the 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 2022 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 regularly performs regular stress tests to monitor impact of adverse 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.

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.

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.

Market and liquidity risks are managed by the Asset and Liability Management Committee (ALCO) in coordination with the Treasury Department and the Risk Management department. 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.

Market Risk. The most likely sources of market risk are interest rate risk and foreign exchange rate risk. 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.

Foreign exchange risk rises from an open or imperfectly hedged positions in a particular currency 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).

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. The Bank maintains a comprehensive interest rate 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.

Liquidity Risk. Liquidity risk is defined as the risk of inability of the bank to honour its financial obligations 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' behaviour.

The bank relies on Basel 3 liquidity management methodologies and on other internal assessment models developed in line with best international practice and manages liquidity risk according to the internal policies of Anti-Money

Laundering (AML) and Liquidity Management, with detailed definition of processes and limit systems connected to liquidity management (cumulative maturity mismatch limit, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR)).

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.

Operational Risk.

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. 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.

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.

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 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 defence.

The Bank's Operational Risk policy 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 policies of the bank. It aims to establish sound and effective operational risk management practice across the bank activities. The policy 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.

Operational risk management is also responsible for the day-to-day management of operational risks using various techniques and assessment tools To manage operational risk. The Bank has implemented policies and procedures to anticipate, analyse, mitigate, control and communicate operational risks and the effectiveness of the corresponding control environment across the Bank. 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. Policies and standards are reviewed and approved by the relevant governance bodies to ensure they are aligned with recognised industry standards and are made available to all relevant employees through internal channels.

The Bank has started to implement the risk and control self-assessment (RCSA) process, which enables to identify, analyse, assess and examine different mitigation plans for operational risks and the corresponding controls, providing reasonable assurance that all business objectives will be met

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 banks cyclically identifies and reassess critical business processes, as key internal and external dependencies. The identified feasibly scenarios are assessed for their financial, operational and reputational impact, and the resulting risk assessment is the foundation for recovery objectives that designs a recovery plan.

Through effective alignment of roles and responsibilities related to operational risks among the three lines of defence, the Bank identifies, monitors, measures, reports on and manages risks and related controls.

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

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

Operational risk management identifies potential breaches of PDP law via analysing 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.

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 GoG 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.

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.

Information security/Cybersecurity Risk 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.

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.

Information Security/Cybersecurity function is in charge of 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.
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.

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 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.

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.
During the year the internal as well as external audit and Risk Committee worked in synergy to oversee the development of a risk-based information security approach, which included the improvement of policies and documentation.

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.

Anti-Money Laundering and Counter Terrorist Financing (AML/CTF), including international sanctions compliance; Anti-Bribery and Anti-Corruption (ABC); Potential Conflict of Interest: Basisbank has adopted a holistic approach to Financial Crime and created the group-wide anti-financial crime (AFC) framework, which sets the control requirements in the following key risk areas: AML/CTF, Sanctions compliance, ABC and avoiding potential conflict of interest. This combined approach allows the Bank better to understand their risk exposure and prioritize the management focus. In line with its AFC framework, Basisbank takes a zero-tolerance approach to intentional facilitation of money laundering and terrorist financing, as well as to bribery, fraud and corruption.

For preventing money laundering and terrorist financing across the Bank, as well as ensuring compliance with international sanctions requirements, there is dedicated independent structural unit- AML/CTF Department, consisting of three divisions: KYC, International sanctions and Financial monitoring. During AML/CFT/International sanctions control, the following measures/instruments are used: Know Your Customer standard, Customer Due Diligence and Enhanced Due Diligence measures; ML/TF Risk assessment/reassessment; Information renewal according to the risk level; sanctioned and PEP List screening; red flag control etc. For online screening against sanctioned and PEPs lists the Bank uses automated and comprehensive solution of LexisNexis- Firco Compliance Link. The Bank does not tolerate any form of corruption, bribery or fraud, money laundering, terrorism financing, sanctions avoidance/ circumvention or any other type of illicit, fraudulent or unethical behaviour. All employees are personally accountable to protect the Bank, its reputation and themselves from the risks arising from bribery and corruption and avoid the consequences of non-compliance. Anti-Bribery & Anti-Corruption Policy defines main principles, rules and standards of behaviour upon which are based Bank's everyday activities, in order to reasonably prevent, detect and report bribery and corruption incidents enterprise wide. Internal audit, AML/CTF Department, Compliance and Operational Risk Management Units are responsible for ensuring compliance with the AFC framework, making sure that the internal regulations and working principles are integrated into all of the Bank's activities.

Corporate Compliance Risk: is a risk of sanctions, financial or reputational losses and legal litigations which could be affected by ignoring current legislation and standards of conduct. Compliance risk management system comprises of compliance policy, description of legal and statutory acts regulating the banking activity, regularly revising of compliance with specified requirements as well as reporting to Supervisory Board and Directorate and facilitating in making informed decisions by the Management. For enforcement of compliance policy as well as for effective functioning of compliance risk management, the Bank established the Compliance Division and AML/CFT Department. In line with the Bank's integrated control framework, the bank carefully evaluates the impact of each legislative and regulatory change as part of its formal risk identification and assessment processes. Among other duties, the unit is anticipating, detecting, assessing and controlling significant/potential risks related to non-compliance.

The Bank wants to avoid high volatility in its earnings and net value due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions. Therefore, the Bank 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.

Within the scope of ICAAP framework, the Bank assess other risks to which the bank can be exposed, some of these risks are described below:

Business Risk means current or prospective risk of earnings and capital decrease arising from changes in the business environment and from adverse business decisions, or from the overlooking of changes in the business environment, inadequate implementation of decisions or poor reactions to changes in the competitive environment.
The **management of environmental and social risks** includes, on the one hand, efficient consumption of natural resources and responsible waste management in the daily business activities of the bank, and integration of responsible financing principles in the bank's lending activity on the other.

In order to effectively implement responsible financing principles, 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 labour, 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 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 bank refers to the IFC's Environmental and Social Performance Standards for its assessments. The bank is also empowered to set covenants for the client for the purpose of enhancing the client's environmental and social responsibility (e.g. improvement of the fire safety system and upgrade of working conditions).

Country Risk refers to potential losses that may be generated by an (economic, political, etc.) event that occurs in a specific country, where the event can be controlled by that country's government but not by the credit grantor/investor. The Bank implemented limit system by introducing Country Risk Management Policy in order to measure its exposure to country risk based on the external rating of the countries.

Reputation Risk may originate in the lack of compliance with industry service standards, failure to deliver on commitments, lack of customer-friendly service and fair market practices, low or inferior service quality, unreasonably high costs, a service style that does not harmonize with market circumstances or customer expectations, inappropriate business conduct or unfavourable authority opinion and actions.

The Bank wants to avoid high volatility in its earnings and net value due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions. Therefore, the Bank 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 JSC

Responsibilities of Management for the Preparation of the Management Report for the Year Ended 31 December 2022

Management of BasisBank JSC (referred to as the “Bank” hereinafter) and its subsidiaries (together referred to as the “Group”) is responsible for the preparation of the Management Report for the year ended 31 December 2022 in accordance with the requirements of 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 2022 in accordance with the requirements of 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 2022;
- Providing information in the Management Report for the year ended 31 December 2022, which is consistent, in all material respects, with the audited consolidated and separate financial statements for the year ended 31 December 2022.

The Management Report for the year ended 31 December 2022 was approved by the Management Board of the Bank and the Group on 29 September 2023.

On behalf of the Management Board:

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

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ბაზისბანკი BASISBANK
203841833

Deloitte & Touche LLC
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INDEPENDENT ASSURANCE REPORT

To the Shareholders and Management of BasisBank JSC:

Introduction

We have performed an independent reasonable assurance engagement in respect of the Management Report of BasisBank JSC (the "Bank") and its subsidiaries (the "Group") for the year ended 31 December 2022 prepared in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

Management's Responsibility for the Management Report

Management is responsible for the preparation of the Management Report in accordance with 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.

Scope of Reasonable Assurance Engagement

Our responsibility is to issue a report on the Management report based on our reasonable assurance engagement. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) applicable to assurance engagements. The firm applies a system of quality management that is designed to meet the objectives of International Standard on Quality Management 1 (ISQM 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We have previously audited, in accordance with International Standards on Auditing, the consolidated and separate financial statements of the Group and the Bank for the year ended 31 December 2022 and have expressed an unqualified opinion thereon dated 15 May 2023. The audited consolidated and separate financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated and separate financial statements for the year ended 31 December 2022. The events described in the Management Report that occurred after the date of our report on the audited consolidated and separate financial statements were not audited by us.

We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Group's policies, procedures, methodologies and of the reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information with those reported in the audited consolidated and separate financial statements.

Conclusion

In our opinion:

- The Management Report for the year ended 31 December 2022 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The Management Report for the year ended 31 December 2022 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the Management Report is consistent, in all material respects, with the audited consolidated and separate financial statements for the year ended 31 December 2022.

Jamal Hasanov
On Behalf of Deloitte & Touche LLC

29 September 2023
Tbilisi, Georgia

ბაზისბანკი
BASISBANK

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENT OF BASISBANK GROUP

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BasisBank Group

Consolidated and Separate Financial Statements and
Independent Auditor’s Report
for the Year Ended 31 December 2022

BasisBank Group

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Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated and Separate Financial Statements for the Year Ended 31 December 2022

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 Bank and the Group as at 31 December 2022, 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 2022 were approved by the Management Board of the Group on 15 May 2023.

On behalf of the Management Board:

____________________________	____________________________
David Tsaava	**Lia Aslanikashvili**
General Director	**Deputy General Director, Finances**
15 May 2023, Tbilisi Georgia	15 May 2023, 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 2022

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 Bank and the Group as at 31 December 2022, 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 2022 were approved by the Management Board of the Group on 15 May 2023.

On behalf of the Management Board:

David Tsaava	**Lia Aslanikashvili**
General Director	**Deputy General Director, Finances**
15 May 2023, Tbilisi Georgia	15 May 2023, Tbilisi Georgia

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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 2022, 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 a summary of significant accounting policies.

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 2022, 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' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Report 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.

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.

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.

Tamar Natsvlishvili
On Behalf of Deloitte & Touche LLC

Deloitte & Touche LLC

Tbilisi, Georgia
15 May 2023

Consolidated and Separate Statements of Financial Position
As at 31 December 2022

In thousands of Georgian Lari	Note	31 December 2022 Bank Separate	31 December 2022 Consolidated	31 December 2021 Bank Separate	31 December 2021 Consolidated
ASSETS					
Cash and cash equivalents	7	277,659	278,068	189,311	191,793
Mandatory cash balances with the NBG	8	218,587	218,587	177,579	177,579
Due from other banks	9	-	12,618	-	12,899
Investments in debt securities	10	394,063	394,363	210,399	210,699
Investment in subsidiaries	37	20,797	-	20,796	-
Loans and advances to customers	11	2,086,777	2,086,777	1,239,733	1,239,733
Finance lease receivables	12	-	17,680	-	9,036
Insurance assets	13	-	15,460	-	11,817
Investment properties		-	1,657	-	-
Other financial assets		3,484	3,761	1,272	1,356
Other assets	14	30,930	34,585	28,479	32,027
Premises, equipment and intangible assets	15	105,081	105,223	36,517	38,355
Right-of-use assets	16	21,582	21,582	4,370	4,370
TOTAL ASSETS		**3,158,960**	**3,190,361**	**1,908,456**	**1,929,664**
LIABILITIES					
Due to other banks	17	303,462	310,707	220,524	222,831
Customer accounts	18	1,965,810	1,960,740	881,804	880,179
Borrowed funds	19	342,937	342,937	429,490	429,490
Lease liabilities	16	18,576	18,576	4,745	4,745
Insurance liabilities	20	-	15,381	-	11,559
Other financial liabilities	21	5,858	6,402	2,660	3,131
Current income tax liability	22	913	913	3,214	3,214
Deferred income tax liability	29	11,449	11,449	676	676
Provisions for liabilities and charges	33	1,297	1,297	1,172	1,172
Other liabilities	22	9,476	10,552	5,012	5,700
Subordinated debts	23	56,933	56,933	15,562	15,562
TOTAL LIABILITIES		**2,716,711**	**2,735,887**	**1,564,859**	**1,578,259**
EQUITY					
Share capital	24	17,091	17,091	16,057	16,057
Share premium	24	101,066	101,066	74,923	74,923
Share-based payment reserve	25	2,606	2,606	2,440	2,440
Revaluation reserve for premises		10,870	11,708	13,588	14,426
Revaluation reserve for debt securities carried at FVOCI		3,472	3,472	(918)	(918)
Retained earnings		307,144	318,531	237,507	244,477
TOTAL EQUITY		**442,249**	**454,474**	**343,597**	**351,405**
TOTAL LIABILITIES AND EQUITY		**3,158,960**	**3,190,361**	**1,908,456**	**1,929,664**

Approved for issue and signed on 15 May 2023, Tbilisi, Georgia

_____________________________ _____________________________

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 9-136 form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Statements of Financial Position
As at 31 December 2022

In thousands of Georgian Lari	Note	31 December 2022 Bank Separate	31 December 2022 Consolidated	31 December 2021 Bank Separate	31 December 2021 Consolidated
ASSETS					
Cash and cash equivalents	7	277,659	278,068	189,311	191,793
Mandatory cash balances with the NBG	8	218,587	218,587	177,579	177,579
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Finance lease receivables	12	-	17,680	-	9,036
Insurance assets	13	-	15,460	-	11,817
Investment properties		-	1,657	-	-
Other financial assets		3,484	3,761	1,272	1,356
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Subordinated debts	23	56,933	56,933	15,562	15,562
TOTAL LIABILITIES		**2,716,711**	**2,735,887**	**1,564,859**	**1,578,259**
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Share capital	24	17,091	17,091	16,057	16,057
Share premium	24	101,066	101,066	74,923	74,923
Share-based payment reserve	25	2,606	2,606	2,440	2,440
Revaluation reserve for premises		10,870	11,708	13,588	14,426
Revaluation reserve for debt securities carried at FVOCI		3,472	3,472	(918)	(918)
Retained earnings		307,144	318,531	237,507	244,477
TOTAL EQUITY		**442,249**	**454,474**	**343,597**	**351,405**
TOTAL LIABILITIES AND EQUITY		**3,158,960**	**3,190,361**	**1,908,456**	**1,929,664**

Approved for issue and signed on 15 May 2023, Tbilisi, Georgia

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 9-136 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 2022

		2022		2021	
In thousands of Georgian Lari	Note	Bank Separate	Consolidated	Bank Separate	Consolidated
Interest income calculated using the effective interest method	26	256,269	258,167	132,086	133,790
Interest expense	26	(132,431)	(132,326)	(65,971)	(65,872)
Net margin on interest and similar income		**123,838**	**125,841**	**66,115**	**67,918**
Credit loss allowance for financial assets	7, 8, 9, 10, 11	(50,174)	(50,087)	(860)	(920)
Net margin on interest and similar income after credit loss allowance		**73,664**	**75,754**	**65,255**	**66,998**
Fee and commission income	27	13,269	13,226	8,663	8,602
Fee and commission expense	27	(5,051)	(5,051)	(3,893)	(3,893)
Net insurance revenue		-	3,050	-	2,408
Net insurance claims incurred		-	(1,114)	-	(398)
Finance income from leases		-	3,352	-	1,920
Gains less losses from financial derivatives		(1,558)	(1,558)	(1,267)	(1,267)
Gains less losses from trading in foreign currencies		18,498	18,441	3,386	3,406
Foreign exchange translation gains less losses		(9,002)	(9,002)	1,570	1,570
Expected credit loss for credit related commitments		(161)	(161)	(60)	(60)
Gain from the acquisition of loan portfolio	38	57,774	57,774	-	-
Other operating income, net		4,036	4,101	1,441	1,505
Administrative and other operating expenses	28	(69,630)	(72,110)	(38,157)	(41,160)
Profit before tax		**81,839**	**86,702**	**36,938**	**39,631**
Income tax expense	29	(12,202)	(12,648)	(815)	(1,050)
PROFIT FOR THE YEAR		**69,637**	**74,054**	**36,123**	**38,581**
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		4,390	4,390	(1,091)	(1,091)
Items that will not be reclassified to profit or loss::					
Change in revaluation reserve for premises	29	(2,718)	(2,718)	4,423	4,423
Other comprehensive income for the year		**1,672**	**1,672**	**3,332**	**3,332**
Total comprehensive income for the year		**71,309**	**75,726**	**39,455**	**41,913**

Approved for issue and signed on 15 May 2023, Tbilisi, Georgia

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David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 11-136 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 2022

In thousands of Georgian Lari	Note	2022 Bank Separate	2022 Consolidated	2021 Bank Separate	2021 Consolidated
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Interest expense	26	(132,431)	(132,326)	(65,971)	(65,872)
Net margin on interest and similar income		**123,838**	**125,841**	**66,115**	**67,918**
Credit loss allowance for financial assets	7, 8, 9, 10, 11	(50,174)	(50,087)	(860)	(920)
Net margin on interest and similar income after credit loss allowance		**73,664**	**75,754**	**65,255**	**66,998**
Fee and commission income	27	13,269	13,226	8,663	8,602
Fee and commission expense	27	(5,051)	(5,051)	(3,893)	(3,893)
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Consolidated Statement of Changes in Equity for the Year Ended 31 December 2022

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 1 January 2021		**16,057**	**74,923**	**1,842**	**173**	**10,003**	**205,896**	**308,894**
Profit for the year		-	-	-	-	-	38,581	38,581
Other comprehensive income		-	-	-	(1,091)	4,423	-	3,332
Total comprehensive income for 2021		-	-	-	(1,091)	4,423	38,581	41,913
Share Based Payment accruals	25	-	-	598	-	-	-	598
Balance at 31 December 2021		**16,057**	**74,923**	**2,440**	**(918)**	**14,426**	**244,477**	**351,405**
Profit for the year		-	-	-	-	-	74,054	74,054
Other comprehensive income		-	-	-	4,390	(2,718)	-	1,672
Total comprehensive income for 2022		-	-	-	4,390	(2,718)	74,054	75,726
Share issue	24	1,034	26,143	-	-	-	-	27,177
Share Based Payment accruals	25	-		166	-	-	-	166
Balance at 31 December 2022		**17,091**	**101,066**	**2,606**	**3,472**	**11,708**	**318,531**	**454,474**

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Consolidated Statement of Changes in Equity for the Year Ended 31 December 2022

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Profit for the year		-	-	-	-	-	38,581	38,581
Other comprehensive income		-	-	-	(1,091)	4,423	-	3,332
Total comprehensive income for 2021		-	-	-	(1,091)	4,423	38,581	41,913
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Balance at 31 December 2021		**16,057**	**74,923**	**2,440**	**(918)**	**14,426**	**244,477**	**351,405**
Profit for the year		-	-	-	-	-	74,054	74,054
Other comprehensive income		-	-	-	4,390	(2,718)	-	1,672
Total comprehensive income for 2022		-	-	-	4,390	(2,718)	74,054	75,726
Share issue	24	1,034	26,143	-	-	-	-	27,177
Share Based Payment accruals	25	-		166	-	-	-	166
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Separate Statements of Changes in Equity
As at 31 December 2022

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 1 January 2021		**16,057**	**74,923**	**1,842**	**173**	**9,165**	**201,384**	**303,544**
Profit for the year		-	-	-	-	-	36,123	36,123
Other comprehensive income		-	-	-	(1,091)	4,423	-	3,332
Total comprehensive income for 2021		-	-	-	(1,091)	4,423	36,123	39,455
Share Based Payment accruals	25	-	-	598	-	-	-	598
Balance at 31 December 2021		**16,057**	**74,923**	**2,440**	**(918)**	**13,588**	**237,507**	**343,597**
Profit for the year		-	-	-	-	-	69,637	69,637
Other comprehensive income		-	-	-	4,390	(2,718)	-	1,672
Total comprehensive income for 2021		-	-	-	4,390	(2,718)	69,637	71,309
Share issue	24	1,034	26,143	-	-	-	-	27,177
Share Based Payment accruals	25	-	-	166	-	-	-	166
Balance at 31 December 2022		**17,091**	**101,066**	**2,606**	**3,472**	**10,870**	**307,144**	**442,249**

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Separate Statements of Changes in Equity
As at 31 December 2022

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 1 January 2021		**16,057**	**74,923**	**1,842**	**173**	**9,165**	**201,384**	**303,544**
Profit for the year		-	-	-	-	-	36,123	36,123
Other comprehensive income		-	-	-	(1,091)	4,423	-	3,332
Total comprehensive income for 2021		-	-	-	(1,091)	4,423	36,123	39,455
Share Based Payment accruals	25	-	-	598	-	-	-	598
Balance at 31 December 2021		**16,057**	**74,923**	**2,440**	**(918)**	**13,588**	**237,507**	**343,597**
Profit for the year		-	-	-	-	-	69,637	69,637
Other comprehensive income		-	-	-	4,390	(2,718)	-	1,672
Total comprehensive income for 2021		-	-	-	4,390	(2,718)	69,637	71,309
Share issue	24	1,034	26,143	-	-	-	-	27,177
Share Based Payment accruals	25	-	-	166	-	-	-	166
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Consolidated and Separate Statements of Cash Flows for the Year Ended 31 December 2022

In thousands of Georgian Lari	Note	2022 Bank Separate	2022 Consolidated	2021 Bank Separate	2021 Consolidated
Cash flows from operating activities					
Interest income received		239,559	241,457	134,690	136,394
Interest paid		(121,474)	(121,369)	(68,214)	(68,115)
Fees and commissions received	27	13,269	13,226	8,663	8,602
Fees and commissions paid	27	(5,051)	(5,051)	(3,893)	(3,893)
Income received from financial derivatives		(987)	(987)	(2,708)	(2,708)
Income received from trading in foreign currencies		18,498	18,441	3,386	3,406
Other operating income received		3,971	4,036	1,441	1,505
Cash inflow from insurance		-	8,587	-	5,554
Cash outflow from insurance		-	(4,280)	-	(5,585)
Income received from leases		-	3,352	-	1,920
Proceeds from disposal of foreclosed properties		4,945	4,945	18,193	18,692
Staff costs paid		(35,293)	(37,846)	(18,866)	(21,009)
Administrative and other operating expenses paid		(19,055)	(18,982)	(16,149)	(16,990)
Income tax paid		(6,871)	(7,137)	-	(265)
Cash flows from operating activities before changes in operating assets and liabilities		**91,511**	**98,392**	**56,543**	**57,508**
Net (increase)/decrease in:					
- due from other banks and mandatory cash balances with NBG		(73,939)	(73,658)	7,409	7,934
- loans and advances to customers		(263,262)	(256,679)	(214,525)	(214,585)
- Insurance assets		-	(9,180)	-	(10,224)
- Finance lease receivables		-	(6,496)	-	1,062
- other financial assets		(2,189)	(12,136)	(56)	(4,028)
- other assets		(10,836)	(9,783)	(23,125)	(24,466)
Net increase/(decrease) in:					
- due to other banks		87,932	92,870	(83,733)	(81,426)
- customer accounts		560,256	556,813	(20,123)	(20,089)
- other financial liabilities		4,547	4,620	(3,258)	(3,171)
- insurance liabilities		-	6,988	-	10,672
- other liabilities		2,486	2,694	6,788	6,764
Net cash from/(used in) operating activities		**396,506**	**394,444**	**(274,080)**	**(274,049)**
Cash flows from investing activities					
Proceeds from disposal/redemption of debt securities		86,879	86,879	137,217	137,217
Acquisition of loan and deposit portfolios from JSC VTB Bank Georgia	38	(63,359)	(63,359)	-	-
Acquisition of debt securities		(262,804)	(262,804)	(46,805)	(46,805)
Acquisition of premises and equipment		(68,501)	(68,512)	(1,386)	(1,416)
Proceeds from disposal of premises and equipment		3	3	321	321
Disposal of investment properties		-	-	-	580
Acquisition of intangible assets		(2,635)	(2,635)	(4,527)	(4,527)
Net cash (used in)/from investing activities		**(310,417)**	**(310,428)**	**84,820**	**85,370**

Consolidated and Separate Statements of Cash Flows for the Year Ended 31 December 2022 (continued)

		2022		2021	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Consolidated**	**Bank Separate**	**Consolidated**
Cash flows from financing activities					
Proceeds from other borrowed funds	30	217,368	217,368	218,271	218,271
Repayment of other borrowed funds	30	(252,315)	(252,315)	(236,178)	(236,176)
Repayment of principal of lease liabilities	16	(4,701)	(4,701)	(1,127)	(1,127)
Proceeds from subordinated debts	30	46,232	46,232	-	-
Issue of ordinary shares	24	27,177	27,177	-	-
Net cash from/(used in) financing activities		**33,761**	**33,761**	**(19,034)**	**(19,032)**
Effect of exchange rate changes on cash and cash equivalents		**(31,499)**	**(31,499)**	**(5,585)**	**(5,585)**
Net increase/(decrease) in cash and cash equivalents		**88,348**	**86,275**	**(213,879)**	**(213,296)**
Cash and cash equivalents at the beginning of the year	7	**189,311**	**191,793**	**403,190**	**405,089**
Cash and cash equivalents at the end of the year	7	**277,659**	**278,068**	**189,311**	**191,793**

During the years ended December 31, 2022 and December 31, 2021 the Group performed the following non-cash transactions:

- 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 2021, no similar transactions were made.
- In 2022, loans to customers were settled by means of collateral repossession in the amount of GEL 4,281 thousand (2021: GEL 9,097 thousand)

Approved for issue and signed on 15 May 2023, Tbilisi, Georgia

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David Tsaava
General Director

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Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 11-136 form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Statements of Cash Flows for the Year Ended 31 December 2022 (continued)

		2022		2021	
In thousands of Georgian Lari	Note	Bank Separate	Consolidated	Bank Separate	Consolidated
Cash flows from financing activities					
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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 2022 and 2021 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.

Shareholders	% of ownership interest held as at 31 December	
	2022	2021
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.770%	92.305%
Mr. Mi Zaiqi	6.547%	6.969%
Other minority shareholders	0.682%	0.726%

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 909 employees as at 31 December 2022 (2021: 535 employees), of which 867 are the Bank’s employees and 42 of the subsidiaries (2021: 491 related to the Bank and 44 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:

Name	Country of incorporation	Principal activities	Ownership % at 31 December	
			2022	2021
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 2022 was GEL 3.8 million (2021 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 2022 was GEL 6 million (2021: 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. The share capital BB Leasing as at 31 December 2022 was GEL 11 million (2021: 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 40.

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.

The economic growth achieved in 2021 directly after the decline of 2020 due COVID_19 pandemic was maintained in 2022, at first estimations reaching 10.1%. The financial sector remains resilient and continues smooth lending to the economy. However, financial stability risks, which were successfully surmounted during the pandemic, have increased against the backdrop of the Russia-Ukraine war. The sanctions imposed on Russia further exacerbate risks by disruptions in supply chain, affecting food and energy product prices putting further pressure on global inflation.

Georgian dependency on Russian economy has been tested in previous years which helped to switch the focus and decrease dependence on Russian market. The goods and trade flows were directed to more predictable markets in EU and Asia. Despite the increased uncertainty amid the pandemic and the Russia-Ukraine war, non-financial companies remain resilient.

The two major sectors of Georgian economy, wine production and tourism industry, are still dependent on the Russian market, the second largest being Ukraine. In the tourism sector, Russia and Ukraine also account for significant portion of travellers.

The Bank reviewed its loan portfolio, in order to assess the share of exposure, which is linked to conflict regions. Companies (15% of business portfolio) active in HoReCa, Service, Production and Trade of Foods and Consumer goods, Energy(oil), Real estate Management, have been identified with some links either to Russia, or to Ukraine (either export or import country is Russia or Ukraine, shareholder is Russian or Ukrainian citizen). Most dependence was seen on export side, mostly wine exporters, but for majority of companies, export countries are diversified and Russia accounts for only 30% in total export and 15% Ukraine.

The Group had intensively monitored the identified companies ever since. The companies have managed to replace export and import destinations within two-three months after the beginning of the conflict and continued payments according to the initial schedule. Only one client active in wine production sector with significant dependence on UA/Russia (more than 90% of its export) was identified with increased credit risk and was transferred to watch category (Stage 2) with GEL 6,920 thousand exposure. All other companies have managed to maintain healthy financials and are classified as standard risk (Stage 1) portfolio. In fact, migration wave as a result of the war has positively contributed to economic growth in Georgia, especially sectors mostly affected negatively by the lockdown during Covid Pandemic such as HoReCa and Real Estate Management have seen fast recovery after pandemic.

Simultaneously analysis of retail portfolio has been performed to identify all clients which have some links to conflicting States (citizenship, address, income source) and their share is not significant.

3 Significant 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 conspolidated 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. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.
The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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 36.

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.

As an exception, for certain financial instruments, such as credit cards and overdrafts, that may include both a loan and an undrawn commitment component, the Group applies simplified methodology to measure expected credit losses over the expected lifetime basis. 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 higher by GEL 4,841 thousand as of 31 December 2022 (31 December 2021: higher by GEL 2,051 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, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The 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 Groups' loans and finance lease receivables include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Group or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Group. The cash flows are SPPI if such clauses merely reduce the Group's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Group's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.
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 assets determining that there are no reasonable expectation of recovery through cash flows are based on judgement.

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. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, aggregation of two or more financial assets into one financial asset or any other type of consolidation of financial assets, financial assets with no predetermined cash flows are replaced with schedule or vice-versa, when the rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

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. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

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 and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, 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 because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the consolidated and separate statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

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. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

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.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 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 fair value 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 expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee’s beneficiary. These fees are recognised within fee and commission income in profit or loss.

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. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell.

The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset’s recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income.

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.

The Group's land and buildings were appraised by an independent appraiser Veritas Brown Caucasus LLC (trading as Cushman & Wakefield) in 2021 using market based approach. The valuation results were reflected in these consolidated and standalone financial statements.

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.

Construction in progress include new premises purchased by the group in 2022. Construction in progress is stated at cost, net of accumulated impairment losses, if any.

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).

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

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.

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 without functional maturity is amortised on a straight line basis over expected useful lives of 10 years. Licenses without functional maturity is amortised on a straight line basis over expected useful lives of 8 years.

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.

Non-current assets and disposal groups classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. In the statement of financial position non-current assets held for sale are included in other assets.

Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Non-current assets and disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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. The non-derivative liability is carried at AC. If the Group purchases its own debt, the liability is removed from the consolidated and separate statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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 local financial institutions that are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

Accounting for subordinated loans from Shareholder. The shareholder ("Xinjiang Hualing Industry & Trade (Group) Co Ltd') provided subordinated loans to the group of USD 4,900 thousand, bearing a fixed interest rate of 7% per annum payable annually until maturity on 2026.

The loan was originally recognised and is subsequently carried on the statement of financial position at amortised contractual value. Terms and conditions of related party balances are disclosed in note 37.

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 36.

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.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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.

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 37.

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.

Insurance contracts. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance receivables. Insurance receivables are recognized based upon insurance policy as soon as the terms of the contract enters into force. Insurance receivables are measured at cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the profit or loss.

Insurance contract liabilities. Insurance contract liabilities include the provision for unearned premiums, provisions for claims and unexpired risk, and payables to reinsurance companies. The provision for unearned premiums is recognized when contracts are entered into and premiums are charged, and is brought to statement of profit and loss as insurance income over the term of the contract. Claims provisions contain provisions for reported claims, provisions for incurred but not reported claims, provisions for costs of processing claims. Provisions for reported claims are determined by individual assessment. Actuarial methods are applied upon determining provisions for the costs of processing claims and for incurred but unreported claims. At each reporting date the carrying amount of unearned premium is calculated on active policies based on the insurance period and time until the expiration date of each insurance policy. The Group reviews its unexpired risk based on the historical performance of separate business lines to determine the overall change in expected claims. The differences between the unearned premium provision, claims provisions and the expected claims are recognized in the profit or loss by setting up a provision for premium deficiency.

Payables to reinsurance companies are recognised on an accruals basis and measured at amortised cost.

Net insurance revenues. Net Insurance premiums written are recognized on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business commenced during the period, and exclude any sales-based taxes or duties.

Provision for unearned premiums. The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the profit or loss in the order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Incurred but not reported (IBNR) claims. The assumptions used in the estimation of insurance assets and liabilities are intended to result in reserves which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen. Reserve is made at the statement of financial position date for the expected ultimate cost of settlement of all claims notified in respect of events up to that date, whether reported or not, less amounts already paid. The Group makes estimate of the ultimate liability arising from claims under life insurance contracts that are incurred but not yet reported at the reporting date. The ultimate cost of IBNR is calculated by using actuarial method for life insurance. The primary underlying assumption of the method are mortality rates in Georgia, maximum delay period for reporting of claims and monthly probability of claim identification.

Net insurance claims. Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

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, the principal rate of exchange used for translating foreign currency balances were:

	December 31, 2022	**December 31, 2021**
USD 1 = GEL	2.7020	3.0976
EUR 1 = GEL	2.8844	3.5040

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 agency, 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.

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 37.

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, 2022			**December 31, 2021**		
	Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
In thousands of Georgian Lari	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS						
Cash and cash equivalents	278,068	-	278,068	191,792	-	191,792
Mandatory cash balances with the NBG	218,587	-	218,587	177,579	-	177,579
Due from other banks	12,618	-	12,618	12,899	-	12,899
Investments in debt securities	269,975	124,388	394,363	102,170	108,530	210,700
Loans and advances to customers	659,055	1,427,722	2,086,777	389,570	850,163	1,239,733
Finance leases to customers	7,019	10,661	17,680	603	8,432	9,035
Insurance assets	15,460	-	15,460	11,817	-	11,817
Investment properties	-	1,657	1,657	-	-	-
Other financial assets	3,626	135	3,761	1,243	114	1,357
Other assets	6,651	27,934	34,585	6,206	25,804	32,010
Premises and equipment	-	105,223	105,223	-	38,355	38,355
Right of use assets	-	21,582	21,582	-	4,370	4,370
TOTAL ASSETS	**1,471,059**	**1,719,302**	**3,190,361**	**893,896**	**1,035,768**	**1,929,664**
LIABILITIES						
Due to other banks	310,707	-	310,707	222,831	-	222,831
Customer accounts	1,781,523	179,217	1,960,740	730,307	149,871	880,178
Other borrowed funds	155,955	186,982	342,937	230,529	198,961	429,490
Lease Liabilities	3,251	15,325	18,576	1,152	3,593	4,745
Insurance Liabilities	15,381	-	15,381	11,560	-	11,560
Other financial liabilities	6,402	-	6,402	3,131	-	3,131
Current income tax liability	913	-	913	3,214	-	3,214
Deferred income tax liability	-	11,449	11,449	-	676	676
Provisions for liabilities and charges	1,297	-	1,297	1,172	-	1,172
Other liabilities	10,552	-	10,552	5,699	-	5,699
Subordinated debts	-	56,933	56,933	-	15,562	15,562
TOTAL LIABILITIES	**2,285,981**	**449,906**	**2,735,887**	**1,208,339**	**369,919**	**1,578,258**

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 2022 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 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

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 2022. In 2022 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 2022 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 2021:

Variable	Scenario	Assigned weight	Assumption for: 2022	2023	2024
CPI Inflation %	Base	50%	7.00%	2.50%	3.00%
	Upside	25%	5.50%	3.00%	3.00%
	Downside	25%	8.00%	4.00%	3.00%
Real GDP Growth rate %	Base	50%	5.00%	4.00%	4.50%
	Upside	25%	5.00%	5.00%	4.50%
	Downside	25%	2.00%	4.00%	5.00%
Nominal Effective Exchange Rate NEER (1995=100)	Base	50%	252.50	252.50	252.50
	Upside	25%	258.80	262.70	266.60
	Downside	25%	237.40	240.90	245.70
Real Estate price index in GEL (YoY	Base	50%	107.00	105.00	105.00
	Upside	25%	106.00	105.00	105.50
	Downside	25%	109.00	101.00	103.00
GEL/USD Nominal Exchange Rate (YoY)	Base	50%	100.00	100.00	100.00
	Upside	25%	96.00	98.00	98.00
	Downside	25%	110.00	98.00	97.00
Unemployment (%)	Base	50%	20.02	19.02	18.52
	Upside	25%	19.52	18.02	18.02
	Downside	25%	22.52	23.52	21.52

Change in the assigned weights to specific macroeconomic scenarios proves to be rather limited in the given composition of portfolio, in particular 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 203 thousand at 31 December 2022 (31 December 2021: by GEL 45 thousand). A corresponding change towards the upside assumptions would result in a decrease in ECL by GEL 79 thousand at 31 December 2022 (31 December 2021: by GEL 7 thousand).

A 10% increase in PD estimates would result in an increase in total expected credit loss allowances of GEL 582 thousand at 31 December 2022 (31 December 2021: GEL 384 thousand). A 10% decrease in PD estimates would result in an decrease in total expected credit loss allowances of GEL 581 thousand at 31 December 2022 (31 December 2021: GEL 371 thousand).

A 10% increase in LGD estimates would result in an increase in total expected credit loss allowances of GEL 2,373 thousand at 31 December 2022 (31 December 2021: GEL 629 thousand). A 10% decrease in LGD estimates would result in a decrease in total expected credit loss allowances of GEL 2,369 thousand at 31 December 2022 (31 December 2021: GEL 621 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 232 thousand at 31 December 2022 (31 December 2021: increase or decrease by GEL 185 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.

In 2022, a 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.

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.

Insurance contract liabilities. Major assumptions refer to uncertainty regarding insurance contract liabilities. For insurance contract provisions estimates have to be mostly for unearned premium and claims ("UPR") and for the expected ultimate cost of claims incurred but not yet reported at the reporting date ("IBNR"). The Group makes estimates of UPR and IBNR claims reserves on an undiscounted basis. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, UPR reserve form a significant part of the insurance contract liabilities.

5 Adoption of New or Revised Standards and Interpretations

In the current year, the Bank 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, 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 3 *Reference to the Conceptual Framework*

The Group has adopted the amendments to IFRS 3 *Business Combinations* for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Amendments to IAS 16 *Property, Plant and Equipment— Proceeds before Intended Use*

The Group has adopted the amendments to IAS 16 *Property, Plant and Equipment* for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

Amendments to IAS 37 *Onerous Contracts—Cost of Fulfilling a Contract*

The Group has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle	The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards. **IFRS 1 *First-time Adoption of International Financial Reporting Standards*** The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a). **IFRS 9 *Financial Instruments*** The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. **IFRS 16 *Leases*** The amendment removes the illustration of the reimbursement of leasehold improvements. **IAS 41 *Agriculture*** The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

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:

IFRS 17 (including the June 2020 and December 2021 amendments to IFRS 17)	Insurance Contracts
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-current
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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, except as noted below:

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the Board issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the Board issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17) to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The management of the Group is currently assessing the impact of the amendments on the Group's and the Bank's financial statements.

The management anticipate that the application of these amendments may have an impact on the consolidated and separate financial statements in future periods.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

The management anticipate that the application of these amendments may have an impact on the consolidated and separate financial statements in future periods.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

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 Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replaces 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. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error;
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The Board added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The Board has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments *to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

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 nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

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.

The Board also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

7 Cash and Cash Equivalents

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Cash on hand	76,580	33,317
Cash balances with the NBG (other than mandatory reserve deposits)	107,632	51,515
Correspondent accounts and overnight placements with other banks	93,938	106,834
Placements with other banks with original maturities of less than three months	388	383
Less credit loss allowance	(470)	(256)
Total cash and cash equivalents	**278,068**	**191,793**

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 2022 amount GEL 277,659 thousand (2021: GEL 189,311 thousand). Subsidiaries attributed GEL 409 thousand to the Group's balance at 31 December 2022, (2021: GEL 2,482 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2022. 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	-	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**

The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2021 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	-	100,025	-	100,025
- Good	51,403	4,476	-	55,879
- Satisfactory	-	90	-	90
- Special monitoring	-	68	-	68
- Unrated	-	2,031	383	2,414
Total cash and cash equivalents, excluding cash on hand	**51,403**	**106,690**	**383**	**158,476**

7 Cash and Cash Equivalents (Continued)

At 31 December 2022 the Group had no counterparty bank (2021: one bank) with aggregated cash and cash equivalent balance above 10% of equity (2021: with aggregate amount of GEL 71,717 thousand or 37% 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 37.

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.

In July 2022, Fitch Ratings revised Georgia's outlook from 'Negative' to 'Stable' and affirmed the long-term credit rating of "BB".

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 2022, ECL for the Mandatory cash balances with the NBG amounts to GEL 476 thousand (2021: GEL 386 thousand). Refer to Note 31 for the ECL measurement approach.

9 Due from Other Banks

In thousands of Georgian Lari	**December 31, 2022**	**December 31, 2021**
Placements with other banks with original maturities of more than three months	12,618	12,932
Less credit loss allowance	-	(33)
Total due from other banks	**12,618**	**12,899**

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, 2022**	**December 31, 2021**
- Excellent	-	4,063
- Good	-	-
- Not rated	12,618	8,836
Total due from other banks	**12,618**	**12,899**

10 Investments in Debt Securities

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Debt securities at FVOCI	146,235	39,185
Debt securities at AC	248,128	171,514
Total investments in debt securities	**394,363**	**210,699**

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	175,588	321,823
Georgian government treasury bills	-	39,537	39,537
Corporate bonds	-	33,512	33,512
Total investments in debt securities at 31 December 2022	**146,235**	**248,637**	**394,872**
Credit loss allowance	-	(509)	(509)
Total investments in debt securities at 31 December 2022 (carrying value)	**146,235**	**248,128**	**394,363**

The table below discloses investments in debt securities at 31 December 2021 by measurement categories and classes:

In thousands of Georgian Lari	Debt securities at FVOCI	Debt securities at AC	Total
Georgian government treasury bonds	39,270	142,738	182,008
Georgian government treasury bills	-	10,756	10,756
Corporate bonds	-	18,542	18,542
Total investments in debt securities at 31 December 2021	**39,270**	**172,036**	**211,306**
Credit loss allowance	(85)	(522)	(607)
Total investments in debt securities at 31 December 2021 (carrying value)	**39,185**	**171,514**	**210,699**

For the purpose of ECL measurement as at 31 December 2022 and 2021 the securities at FVOCI and AC originated in 2021 and 2022 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. ECL recognized for debt securities at FVOCI as at 31 December 2022 was GEL 304 thousand (2021: GEL 85 thousand).

The credit quality of debt securities at FVOCI and AC at 31 December 2022 and 2021 is classified as good.The debt securities at FVOCI and AC as at 31 December 2022 are not collateralised (2021: not collateralised).

At 31 December 2022 debt securities with a gross carrying value of GEL 192,306 thousand have been pledged for the short-term loans received NBG as collateral (2021: GEL 122,001 thousand). Refer to Notes 17 and 0. 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, 2022	December 31, 2021
Gross carrying amount of loans and advances to customers at AC	2,121,190	1,263,319
Less credit loss allowance	(34,413)	(23,586)
Total carrying amount of loans and advances to customers at AC	**2,086,777**	**1,239,733**

As at 31 December 2022 and 2021 the Group identified 100% of portfolio of loans and advances to customers to meet the SPPI requirement for AC classification under IFRS 9.

In March 2022, Basisbank acquired retail and corporate loan portfolios JSC VTB Bank Georgia with gross values of GEL 585,537 thousand and GEL 201,557 thousand, respectively. The information on acquision is disclosed in Note 38.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2022 and 31 December 2021 are disclosed in the table below:

	December 31, 2022			December 31, 2021		
In thousands of Georgian Lari	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Loans to Legal entities	**1,361,003**	**(10,776)**	**1,350,227**	**1,017,862**	**(19,530)**	**998,332**
Loans to Large entities	1,105,680	(8,377)	1,097,303	810,236	(14,831)	795,405
Loans to SME	255,323	(2,399)	252,924	207,626	(4,699)	202,927
Loans to individuals	**760,187**	**(23,637)**	**736,550**	**245,457**	**(4,056)**	**241,401**
Mortgage loans	506,736	(11,063)	495,673	174,191	(2,180)	172,011
Consumer loans	222,175	(9,373)	212,802	68,665	(1,343)	67,322
Credit cards	31,276	(3,201)	28,075	2,601	(533)	2,068
Total loans and advances to customers at AC	**2,121,190**	**(34,413)**	**2,086,777**	**1,263,319**	**(23,586)**	**1,239,733**

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 1 million;

Mortgage loans with outstanding principal of GEL 109,739 thousand and SME loans with outstanding principal of GEL 28,246 thousand are pledged for the short term loan from NBG at 31 December 2022 (2021: mortgage loans GEL 62,395 thousand and SME loans GEL 39,306 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, 2022			December 31, 2021		
In thousands of Georgian Lari	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Corporate Loans	1,260,305	66,698	34,000	930,402	42,790	44,670
Loans to Retail Sector	**677,203**	**34,008**	**48,976**	**223,238**	**6,973**	**15,246**
Mortgage Loans	449,356	22,038	35,342	159,116	3,543	11,532
Consumer Loans	199,580	9,900	12,695	62,758	2,965	2,942
Credit Cards	28,267	2,070	939	1,364	465	772
Less: Provision for loan impairment	(6,933)	(1,179)	(26,301)	(4,527)	(3,897)	(15,162)
Total loans and advances to customers at AC	**1,930,575**	**99,527**	**56,675**	**1,149,113**	**45,866**	**44,754**

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, 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	(1,959)	-	(1,099)	(84,310)	84,310	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	5,099	503	(7,739)	(2,137)	(19,029)	(15,855)	34,884	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1,271)	4,243	-	2,972	39,664	(39,652)	(12)	-
-to lifetime (from Stage 3 credit impaired to Stage 2)	-	(1,084)	1,616	532	-	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)
Total movements with impact on credit loss allowance charge for the period	**968**	**2,326**	**(2,615)**	**679**	**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	733	1,100	750	2,583	(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**

11 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Legal entities								
At 31 December, 2020	**(1,908)**	**(891)**	**(18,626)**	**(21,425)**	**755,338**	**63,715**	**66,285**	**885,338**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	442	(1,231)	-	(789)	(49,676)	49,676	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1,390	105	(3,681)	(2,186)	(12,392)	(11,849)	24,241	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1,041)	826	47	(168)	47,254	(46,290)	(964)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(5,423)	5,623	200	-	20,956	(20,956)	-
New originated or purchased	(6,862)	-	-	(6,862)	714,851	-	-	714,851
Net Repayments and other movements*	3,913	2,054	2,963	8,930	(486,624)	(28,751)	(20,126)	(535,501)
Total movements with impact on credit loss allowance charge for the period	**(2,158)**	**(3,669)**	**4,952**	**(875)**	**213,413**	**(16,258)**	**(17,805)**	**179,350**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	1,278	1,278	-	-	(1,278)	(1,278)
Foreign exchange gains and losses and other movements	112	702	677	1,491	(38,349)	(4,667)	(2,532)	(45,548)
At 31 December, 2021	**(3,954)**	**(3,858)**	**(11,719)**	**(19,531)**	**930,402**	**42,790**	**44,670**	**1,017,862**

* 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, 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	(762)	-	(529)	(43,230)	43,230	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	310	993	(8,500)	(7,197)	(3,960)	(29,690)	33,650	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(20)	168	-	148	7,747	(7,747)	-	-
-to lifetime (from Stage 3 credit impaired to Stage 2)	-	(20)	616	596	-	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)
Total movements with impact on credit loss allowance charge for the period	**(926)**	**(148)**	**(9,697)**	**(10,771)**	**322,398**	**19,825**	**26,257**	**368,480**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	14	1,531	1,545	-	(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**
Mortgage loans								
At 31 December, 2020	**(108)**	**(7)**	**(2,840)**	**(2,955)**	**135,879**	**5,568**	**12,073**	**153,520**
Changes in Assumptions								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	11	(47)	-	(36)	(6,052)	6,052	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	15	24	(1,163)	(1,124)	(1,300)	(4,515)	5,815	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(10)	10	391	391	4,400	(3,004)	(1,396)	-
-to lifetime (from Stage 3 credit impaired to Stage 2)	-	(13)	280	267	-	1,493	(1,493)	-
New originated or purchased	(230)	-	-	(230)	80,461	-	-	80,461
Net Repayments and other movements*	146	18	1,041	1,205	(50,811)	(1,907)	(2,798)	(55,516)
Total movements with impact on credit loss allowance charge for the period	**(68)**	**(8)**	**549**	**473**	**26,698**	**(1,881)**	**128**	**24,945**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	188	188	-	-	(188)	(188)
Foreign exchange gains and losses and other movements	7	1	108	116	(3,462)	(144)	(480)	(4,086)
At 31 December, 2021	**(169)**	**(14)**	**(1,995)**	**(2,178)**	**159,115**	**3,543**	**11,533**	**174,191**

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	(2,791)	-	(1,855)	(29,255)	29,255	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	431	3,471	(17,978)	(14,076)	(1,053)	(25,334)	26,387	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(75)	224	5	154	2,855	(2,841)	(14)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(13)	263	250	-	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)
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**
Consumer loans								
At 31 December, 2020	**(320)**	**(20)**	**(1,174)**	**(1,514)**	**51,625**	**3,575**	**4,249**	**59,449**
Changes in Assumptions								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	13	(48)	-	(35)	(3,841)	3,841	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	70	10	(621)	(541)	(501)	(1,842)	2,343	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(6)	13	41	48	1,894	(1,730)	(164)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(19)	160	141	-	807	(807)	-
New originated or purchased	(259)	-	-	(259)	57,408			57,408
Net Repayments and other movements*	109	46	(374)	(219)	(43,453)	(1,660)	(1,619)	(46,732)
Total movements with impact on credit loss allowance charge for the period	**(73)**	**2**	**(794)**	**(865)**	**11,507**	**(584)**	**(247)**	**10,676**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	1,030	1,030	-	-	(1,030)	(1,030)
Foreign exchange gains and losses and other movements	1	-	5	6	(374)	(26)	(30)	(430)
At 31 December, 2021	**(392)**	**(18)**	**(933)**	**(1,343)**	**62,758**	**2,965**	**2,942**	**68,665**

11 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	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	(2,350)	-	(2,103)	(7,300)	7,300	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	270	1,603	(3,748)	(1,875)	(896)	(4,653)	5,549	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(43)	164	112	233	1,524	(1,335)	(189)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(18)	336	318	-	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)
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)

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	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, 2020	**(17)**	**(6)**	**(148)**	**(171)**	**2,014**	**649**	**348**	**3,011**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	6	(3)	-	3	(739)	739	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	301	2	(283)	20	(667)	(386)	1,053	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1)	13	-	12	256	(256)	-	-
New originated or purchased	(336)	-	-	(336)	2,747	-	-	2,747
Net Repayments and other movements*	38	(13)	(247)	(222)	(2,338)	(304)	(473)	(3,115)
Total movements with impact on credit loss allowance charge for the period	**8**	**(1)**	**(523)**	**(516)**	**(741)**	**(190)**	**563**	**(368)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	161	161	-	-	(160)	(160)
Foreign exchange gains and losses and other movements	(3)	-	(4)	(7)	91	6	21	118
At 31 December, 2021	**(12)**	**(7)**	**(514)**	**(533)**	**1,364**	**465**	**772**	**2,601**

11 Loans and Advances to Customers (Continued)

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**	**23,586**
Total movements with impact on credit loss allowance charge for the period	(1,636)	10,377	36,279	8,225	53,246
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**

Significant changes that contributed to the changes in loss allowance charges were:

- 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 acquisitions the portfolio originated by the Group led to the decrease of loss allowance by GEL 6,082 thousand;
- The write-off of portfolio for GEL 42,770 thousand reduced the provisions with the corresponding increase of loss allowance charges for loans and advances to customers. Out of total write off charges GEL 9,210 thousand were attributed to loans originated in the Group and GEL 33,560 thousand to loans acquired from JSC "VTB Bank Georgia"; 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 written off in total amount of GEL 3,344 thousand contributed to the decrease of loss allowance charges, out of which GEL 1,894 thousand were attributed to loans originated in the Group and GEL 1,450 thousand to loans acquired from JSC "VTB Bank Georgia".

Movements in provision for impairment in 2021 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 2021	**21,425**	**2,955**	**1,514**	**171**	**26,065**
Total movements with impact on credit loss allowance charge for the period	502	(513)	508	373	870
Foreign exchange gains and losses and other movements	(1,492)	(116)	(6)	7	(1,607)
Write-offs	(1,278)	(188)	(1,030)	(161)	(2,657)
Recovery	373	42	357	143	915
Provision for loans as at 31 December 2021	**19,530**	**2,180**	**1,343**	**533**	**23,586**

11 Loans and Advances to Customers (Continued)

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Write-offs of allowances related to assets that were written off during the period.

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 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**
Loans to legal entities				
- 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 Legal entities carried at amortised cost is as follows at 31 December 2021:

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**
Loans to legal entities				
- Excellent	11,365	-	-	11,365
- Good	919,037	-	-	919,037
- Satisfactory	-	41,859	3,209	45,068
- Special monitoring	-	932	-	932
- Default	-	-	41,460	41,460
Gross carrying amount	**930,402**	**42,791**	**44,669**	**1,017,862**
Credit loss allowance	(3,953)	(3,856)	(11,721)	(19,530)
Carrying amount	**926,449**	**38,935**	**32,948**	**998,332**

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 impaired)	Total
Mortgage loans				
- Excellent	425,244	-	-	425,244
- Good	24,112	-	-	24,112
- Satisfactory	-	20,025	-	20,025
- Special monitoring	-	2,013	-	2,013
- Default	-	-	35,342	35,342
Gross carrying amount	**449,356**	**22,038**	**35,342**	**506,736**
Credit loss allowance	(997)	(99)	(9,967)	(11,063)
Carrying amount	**448,359**	**21,939**	**25,375**	**495,673**
Consumer loans				
- Excellent	75,931	-	-	75,931
- Good	123,649	-	-	123,649
- Satisfactory	-	7,505	-	7,505
- Special monitoring	-	2,395	-	2,395
- Default	-	-	12,694	12,694
Gross carrying amount	**199,580**	**9,900**	**12,694**	**222,174**
Credit loss allowance	(1,622)	(145)	(7,605)	(9,372)
Carrying amount	**197,958**	**9,755**	**5,089**	**212,802**
Credit cards				
- Excellent	37	-	-	37
- Good	28,230	-	-	28,230
- Satisfactory	-	1,967	-	1,967
- Special monitoring	-	103	-	103
- Default	-	-	939	939
Gross carrying amount	**28,267**	**2,070**	**939**	**31,276**
Credit loss allowance	(2,066)	(508)	(627)	(3,201)
Carrying amount	**26,201**	**1,562**	**312**	**28,075**

11 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2021:

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	132	-	-	132
- Good	158,983	-	-	158,983
- Satisfactory	-	2,637	-	2,637
- Special monitoring	-	906	-	906
- Default	-	-	11,533	11,533
Gross carrying amount	**159,115**	**3,543**	**11,533**	**174,191**
Credit loss allowance	(170)	(15)	(1,995)	(2,180)
Carrying amount	**158,945**	**3,528**	**9,538**	**172,011**
Consumer loans				
- Excellent	1,142	-	-	1,142
- Good	61,617	-	-	61,617
- Satisfactory	-	2,358	-	2,358
- Special monitoring	-	607	-	607
- Default	-	-	2,941	2,941
Gross carrying amount	**62,759**	**2,965**	**2,941**	**68,665**
Credit loss allowance	(392)	(18)	(933)	(1,343)
Carrying amount	**62,367**	**2,947**	**2,008**	**67,322**
Credit cards				
- Good	1,364	-	-	1,364
- Satisfactory	-	465	-	465
- Default	-	-	771	771
Gross carrying amount	**1,364**	**465**	**772**	**2,601**
Credit loss allowance	(12)	(7)	(514)	(533)
Carrying amount	**1,352**	**459**	**257**	**2,068**

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, 2022		December 31, 2021	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	909,864	42%	246,046	20%
Real Estate Management	156,315	7%	126,123	10%
Construction & Production of Construction materials	148,324	7%	78,510	6%
Trade	138,445	7%	117,819	9%
Energy	118,744	6%	55,624	4%
Tourism & Restaurants	104,374	5%	147,818	13%
Financial Institutions	90,878	4%	69,236	5%
Real Estate Development	89,572	4%	91,859	7%
Health Care	81,803	4%	62,362	5%
Production & Manufacturing	61,698	3%	55,854	4%
Service	59,097	3%	51,750	4%
Agricultural	47,168	2%	61,848	5%
Transportation	40,738	2%	-	0%
Wine production	36,162	2%	43,253	3%
State	19,409	1%	49,126	4%
Pharmacy	14,015	1%	-	0%
Other	4,584	0%	6,091	1%
Total loans and advances to customers carried at AC	**2,121,190**	**100%**	**1,263,319**	**100%**

At 31 December 2022 the Group had 6 borrowers' groups (2021: 9 borrowers) with aggregated loan amounts above 5% of the Bank's regulatory capital. The total aggregate amount of these loans was GEL 168,885 thousand (2021: GEL 186,653 thousand) or 8% of the gross loan portfolio (2021: 15%).

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, although value of collateral has increased significantly as a result of migration of JSC "VTB Bank's" portfolio.

In order to confirm that the quality, as well as fair value of the collateral held as security for the migrated loans is adequate and corresponds to that of the Group's, the Group has performed number of controls during 2022:

- All loans of migrated business clients have been analyzed individually to confirm that Loan to Value (LVT) ratio of the loans is acceptable according to the Group's underwriting policy;
- The Group has performed re-evaluation of the representative sample of real estate collaterals held as security for the migrated retail loans. The valuations of all collaterals were in line with the Group's valuation standards and acceptable, fair value of collateral was in all cases assessed adequately reflecting the trends on the market;
- The Group has performed analyses on selection of sample loans to confirm that the real estate collaterals pledged were properly registered in the public registry.

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 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**

Information about collateral for loans to customers is as follows at 31 December 2021:

In thousands of Georgian Lari	Loans to legal entities	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:					
- real estate	751,222	172,670	34,100	-	957,992
- cash deposits	33,925	586	1,380	-	35,891
- Transport and equipment	35,204	-	299	-	35,503
- other assets	37,697	14	1	-	37,712
Total	858,048	173,270	35,780	-	1,067,098
Unsecured exposures	159,814	921	32,884	2,602	196,221
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,017,862**	**174,191**	**68,665**	**2,601**	**1,263,319**

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.

In 2022, third party guarantees received in the aggregate amount of GEL 2,469 thousand (2021: GEL 5,278 thousand), were not considered in the above table.

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 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 effect of collateral on credit impaired assets at 31 December 2021 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	12	-	44,657	181,568
Loans to individuals carried at AC				
Mortgage loans	172	171	11,361	26,624
Consumer loans	926	37	2,014	10,068
Credit cards	771	-	-	-

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 2022 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 2022. The findings are in line with the Real-Estate Market Researches published for Georgian Real Estate Market. The observable overall increasing trend in real estate market prices (residential as well as commercial real estate) is driven by the increased demand caused by the migration waive due to Russia/Ukraine war in 2022. The Group has refrained to re-evaluate 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, which is considered as one-time effect. 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.

11 Loans and Advances to Customers (Continued)

The Group has performed re-evaluation of a representative sample of underlying collaterals on migrated VTB portfolio, in order to confirm that the valuations are fair, with the satisfactory results

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2022 and 31 December 2021:

In thousands of Georgian Lari	**December 31, 2022**	**December 31, 2021**
Loans to Legal entities	5,493	1,278
Loans to individuals		
Mortgage loans	1,545	188
Consumer loans	35,588	1,030
Credit cards	144	161
Total	**42,770**	**2,657**

The Group wrote off significant amount of migrated unsecured loans aged for more than 360 days in order to align to the migrated portfolio to the write off policy of the Group. The Group's unsecured loans are written off after reaching 180 days past due.

The Group's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

Refer to Note 36 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 37.

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:

Loans to legal entities 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 legal entity lending	**1,361,003**	**(10,776)**	**1,350,227**	**0.8%**

In 2021 the Group has calculated ECL based on individual assessment of expected cash flows for all borrower groups over significance threshold and with one of the SICR or default triggers. However in 2022 the Group has changed this approach and calculated ECL based on individual assessment of cash flows only for stage 3 loans. Stage allocation of all borrower groups over the significance threshold is still done via individual assessment. Only Stage 3 loans, for which ECL has been calculated individually, are given under section “individually assessed” in 2022, whilst in 2021 corresponding section included Stage 1 and Stage 2 loans also. Out of GEL 173,772 thousand exposure, with respective ECL of GEL 15,536 thousand disclosed under “individually assessed loans” category in 2021 (see the table below), only GEL 29,505 thousand exposure, with respective ECL of GEL 9,991 thousand were attributed to stage 3 loans, corresponding to the scope disclosed under “individually assessed loans” category in 2022.

11 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to standard lending as at December 31, 2021 is presented as follows:

Loans to legal entities As at December 31, 2021	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	825,402	(2,607)	822,795	0.3%
Overdue:				
up to 30 days	10,676	(452)	10,224	4.2%
31 to 60 days	776	(32)	744	4.1%
61 to 90 days	445	(23)	422	5.2%
91 to 180 days	442	(104)	338	23.5%
over 180 days	6,349	(776)	5,573	12.2%
Total collectively assessed loans	**844,090**	**(3,994)**	**840,096**	**0.5%**
Individually assessed				
Not past due	156,520	(10,227)	146,293	6.5%
Overdue:				
up to 30 days	4,540	(1,813)	2,727	39.9%
31 to 60 days	3,209	(344)	2,865	10.7%
61 to 90 days	-	-	-	0.0%
91 to 180 days	4,792	(1,514)	3,278	31.6%
over 180 days	4,711	(1,638)	3,073	34.8%
Total individually assessed loans	**173,772**	**(15,536)**	**158,236**	**8.9%**
Total legal entity lending	**1,017,862**	**(19,530)**	**998,332**	**1.9%**

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%**

11 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to mortgage loans as at December 31, 2021 is presented as follows:

Mortgage loans As at December 31, 2021	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	164,713	(1,242)	163,471	0.8%
Overdue:				
up to 30 days	4,760	(159)	4,601	3.3%
31 to 60 days	578	(37)	541	6.4%
61 to 90 days	518	(19)	499	3.7%
91 to 180 days	972	(157)	815	16.2%
over 180 days	2,650	(566)	2,084	21.4%
Total collectively assessed loans	**174,191**	**(2,180)**	**172,011**	**1.3%**
Total mortgage loans	**174,191**	**(2,180)**	**172,011**	**1.3%**

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%**

11 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to consumer loans as at December 31, 2021 is presented as follows:

Consumer loans As at December 31, 2021	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	64,827	(686)	64,141	1.1%
Overdue:				
up to 30 days	1,697	(58)	1,639	3.4%
31 to 60 days	481	(28)	453	5.8%
61 to 90 days	332	(12)	320	3.6%
91 to 180 days	732	(460)	272	62.8%
over 180 days	596	(99)	497	16.6%
Total collectively assessed loans	**68,665**	**(1,343)**	**67,322**	**2.0%**
Total consumer loans	**68,665**	**(1,343)**	**67,322**	**2.0%**

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%**

11 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to credit cards as at December 31, 2021 is presented as follows:

Credit cards As at December 31, 2021	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	2,507	(474)	2,033	18.7%
Overdue:				
up to 30 days	32	(21)	11	65.6%
31 to 60 days	16	(11)	5	68.8%
61 to 90 days	24	(16)	8	66.7%
91 to 180 days	20	(13)	7	65.0%
over 180 days	2	2	4	100.0%
Total collectively assessed loans	**2,601**	**(533)**	**2,068**	**20.3%**
Total credit cards	**2,601**	**(533)**	**2,068**	**20.3%**

12 Finance Lease Receivables

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Finance lease receivables	17,834	9,212
Less credit loss allowance	(154)	(176)
Total finance lease receivables	**17,680**	**9,036**

The table below contains an analysis of the credit risk exposure of financial leases at amortised cost. The carrying amount of finance lease receivables at AC at 31 December 2022 below also represents the Group's maximum exposure to credit risk on these assets:

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
Finance lease receivables				
- Excellent	7,004	653	-	7,657
- Good	4,357	473	151	4,981
- Satisfactory	-	2,086	-	2,086
- Special monitoring	1,287	1,673	55	3,015
- Default	-	-	95	95
Gross carrying amount	**12,648**	**4,885**	**301**	**17,834**
Credit loss allowance	(38)	(10)	(106)	(154)
Carrying amount	**12,610**	**4,875**	**195**	**17,680**

The quality of financial leases at AC as 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
Finance lease receivables				
- Excellent	8,057	-	-	8,057
- Good	255	-	-	255
- Satisfactory	-	257	-	257
- Special monitoring	-	427	-	427
- Default	-	-	216	216
Gross carrying amount	**8,312**	**684**	**216**	**9,212**
Credit loss allowance	(29)	(21)	(126)	(176)
Carrying amount	**8,283**	**663**	**90**	**9,036**

12 Finance Lease Receivable (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of finance lease receivables were as follows.

	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**
Finance lease receivables								
At 31 December, 2021	**(29)**	**(21)**	**(126)**	**(176)**	**8,312**	**684**	**216**	**9,212**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	5	(10)	-	(5)	(4,805)	4,805	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	(106)	(106)	(301)	-	301	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
New originated or purchased	(35)			(35)	13,602			13,602
Net Repayments and other movements*	21	21	126	168	(3,571)	(604)	(215)	(4,390)
Total movements with impact on credit loss allowance charge for the period	**(9)**	**11**	**20**	**22**	**4,925**	**4,201**	**86**	**9,212**
FX and other movements	-	-	-	-	(590)	-	-	(590)
At 31 December, 2022	**(38)**	**(10)**	**(106)**	**(154)**	**12,647**	**4,885**	**302**	**17,834**

12 Finance Lease Receivable (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**
Finance lease receivables								
At 31 December, 2020	**(4)**	**(19)**	**(88)**	**(111)**	**2,382**	**2,515**	**322**	**5,219**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	1	(1)	-	-	(264)	264	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	50	-	(126)	(76)	(90)	(125)	215	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	108	(108)	-	-
New originated or purchased	(80)	-	-	(80)	7,619	-	-	7,619
Net Repayments and other movements*	4	(1)	88	91	(1,390)	(1,862)	(321)	(3,573)
Total movements with impact on credit loss allowance charge for the period	**(25)**	**(2)**	**(38)**	**(65)**	**5,983**	**(1,831)**	**(106)**	**4,046**
FX and other movements	-	-	-	-	(53)	-	-	(53)
At 31 December, 2021	**(29)**	**(21)**	**(126)**	**(176)**	**8,312**	**684**	**216**	**9,212**

Refer to Note 31 for the ECL measurement approach.

12 Finance Lease Receivable (Continued)

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of Georgian Lari	**December 31, 2022**	**December 31, 2021**
Present value of lease payments receivable	17,834	9,212
Impairment loss allowance	(154)	(176)
Net investment in the lease	**17,680**	**9,036**
Amounts receivable under finance leases		
Year 1	8,697	4,799
Year 2	7,074	3,904
Year 3	4,013	2,399
Year 4	2,507	543
Year 5	1,118	256
Onwards	4	-
Total undiscounted lease payments	**23,413**	**11,901**
Undiscounted lease payments analysed as:		
Recoverable within 12 months	8,697	4,799
Recoverable after 12 months	14,716	7,102
Less: unearned finance income	(5,579)	(2,689)
Total	**17,834**	**9,212**

Finance lease receivables relate to leases of car and equipment. Estimated collateral held as at 31 December 2022 amount to GEL 25,539 thousand (2021: GEL 15,337 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.

The Group's finance lease arrangements do not include variable payments. The average interest rate contracted approximates 20.7% (2021: 22.3 %) per annum.

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.

13 Insurance assets

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Insurance receivables	5,873	5,679
Reinsurance assets	9,587	6,138
Total insurance contracts	**15,460**	**11,817**

Insurance assets are comprised of the following:

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Unearned Reinsurance Premium	7,111	5,312
Reinsurers' share of provisions	488	615
Reinsurance receivable, net	1,988	211
Premiums receivable, net	5,873	5,679
Total insurance assets	**15,460**	**11,817**

14 Other Assets

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Repossessed collateral	28,776	27,817
Prepayments for litigations	1,509	414
Input and withholding taxes	888	1,433
Prepayments for services	958	852
Other	2,454	1,511
Total other assets	**34,585**	**32,027**

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 2022 the value of repossessed collateral attributable to the Bank was GEL 25,831 thousand (2021: GEL 25,906). Information on related party balances is disclosed in Note 37.

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
Cost or valuation at 31 December 2020		23,338	12,657	251	2,839	-	39,085	5,475	44,560
Accumulated depreciation/amortization		(889)	(9,182)	(229)	(1,275)	-	(11,575)	(1,566)	(13,141)
Carrying amount at 31 December 2020		**22,449**	**3,474**	**22**	**1,564**	**-**	**27,510**	**3,909**	**31,419**
Additions		31	883	53	449	-	1,416	4,527	5,943
Disposals								(323)	(323)
Depreciation upon revaluation		(1,298)	-	-	-	-	(1,298)	-	(1,298)
Revaluation		4,423	-	-	-	-	4,423	-	4,423
Depreciation									
Depreciation charge	28	(431)	(1,294)	(6)	(380)	-	(2,111)	(1,350)	(3,461)
Reversals of accumulated depreciation		23	-	-	-	-	23	-	23
Depreciation upon revaluation		1,298	-	-	-	-	1,298	-	1,298
Disposals		-	10	-	-	-	10	321	331
Cost or valuation at 31 December 2021		26,494	13,540	300	3,292	-	43,626	9,681	53,307
Accumulated depreciation		-	(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 upon revaluation		-	-			-	-	-	-
Revaluation		-	-			-	-	-	-
Depreciation									
Depreciation charge	28	(510)	(1,858)	(53)	(1,098)	-	(3,519)	(1,647)	(5,166)
Reversals of accumulated depreciation		-	-	-	-	-	-	-	-
Depreciation upon revaluation		-	-	-	-	-	-	-	-
Disposals		-	67	-	242	-	309	1,232	1,541
Cost or valuation at 31 December 2022		59,773	18,929	575	4,885	28,042	112,204	11,596	123,800
Accumulated depreciation		(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**

15 Premises, Equipment and intaginble Assets (continued)

Premises have been valued at fair value in December 2021 by an independent firm of valuers. For 2022 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.

In 2022 the Bank purchased new land and construction in progress from its related party – JSC Hualing International Special Economic Zone - currently classified as construction in progress and land, where the Bank's new head office will be relocated. The Bank intends to finalise construction in 2024. The transaction price was based on the fair value determined by an independent firm of valuers and amounted to GEL 59,808 thousand including taxes.

At 31 December 2022, the carrying amount of premises would have been GEL 43,827 thousand (2021: GEL 13,998 thousand) had the assets been carried at cost the cost model. The amount reconciles to the carrying value of the premises as follows:

In thousands of Georgian Lari	**December 31, 2022**	**December 31, 2021**
Premises at revalued amount in the statement of financial position	59,263	26,494
Revaluation reserve presented in equity, net of tax	(11,708)	(14,426)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	(1,010)	1,930
Deferred tax on revaluation	(2,718)	-
Premises at cost less accumulated depreciation	**43,827**	**13,998**

As at December 31, 2022 and 2021 included in property and equipment were fully depreciated assets amounting GEL 9,337 thousand and GEL 7,803 thousand, respectively.

16 Right-of-use Assets and Lease Liabilities

The Group leases various offices. Rental contracts are typically made for fixed periods from 1 to 10 years, but may have extension options as described below.

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 2021	**4,153**
Additions	555
Disposals	793
Depreciation charge	(1,131)
Carrying amount at 31 December 2021	**4,370**
Additions	22,011
Modification Effect	652
Depreciation charge	(4,160)
Termination Effect	(1,291)
Carrying amount at 31 December 2022	**21,582**

Included in the current year additions are leases of 21 offices that represents GEL 20,091 thousands.

The movement in lease liabilities are analysed as follows:

In thousands or Georgian Lari	2022	2021
Lease liability as at 1 January	**4,745**	**4,812**
Recognition of lease liabilities	22,011	555
Interest expense on lease liabilities	800	287
Foreign exchange effect	(3,016)	(251)
Modifications	802	757
Termination of lease contract	(1,264)	-
Repayment of interest expense	(802)	(287)
Repayment of lease liabilities	(4,700)	(1,128)
Lease liability as at 31 December	**18,576**	**4,745**

16 Right-of-use Assets and Lease Liabilities (continued)

Amounts recognised in statement of profit and loss:

In thousands or Georgian Lari	December 31, 2022	December 31, 2021
Depreciation expense on right-of-use assets	4,160	1,131
Interest expense on lease liabilities	802	287
Expenses recognized in profit or loss statement related to low-value asset leases	144	25
Expenses recognized in profit or loss statement related short-term leases	232	137
Total	**5,338**	**1,580**

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

17 Due to Other Banks

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Correspondent accounts and overnight placements of other banks	1	1
Short-term placements of other banks	22,259	19,707
Short-term placements from NBG	288,447	203,123
Total due to other banks	**310,707**	**222,831**

The Group pledged debt securities as collateral with carrying amount of GEL 192,306 thousand, mortgage loans with nominal amount of GEL 109,739 thousand and SME loans with nominal amount of GEL 28,246 thousand for short term loan with NBG at the end of reporting period (2021: debt securities GEL 122,001 thousand, mortgage loans GEL 62,395 thousand and SME loans GEL 39,306 thousand). Refer to Note 33.

Refer to Note 36 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 37.

18 Customer Accounts

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
State and public organisations		
- Current/settlement accounts	136,382	53,542
- Term deposits	265,495	91,963
Other legal entities		
- Current/settlement accounts	446,912	245,970
- Term deposits	201,484	88,987
Individuals		
- Current/demand accounts	305,651	172,501
- Term deposits	604,816	227,216
Total customer accounts	**1,960,740**	**880,179**

State and public organisations exclude government-owned profit orientated businesses. The customer accounts balances under the bank's separate statement as at 31 December 2022 amount to GEL 1,965,810 thousand (2021: GEL 881,805 thousand).

In 2022, Basisbank acquired retail and business clients deposits from JSC VTB Bank Georgia for GEL 524,052 thousand and GEL 141,096 thousand respectively. The detailes of acquision are disclosed in Note 38.

Economic sector concentrations within customer accounts are as follows:

	December 31, 2022		December 31, 2021	
In thousands of Georgian Lari	Amount	%	Amount	%
Individuals	910,467	45%	399,717	44%
Transportation or Communication	208,387	10%	41,290	5%
Energy	168,821	9%	3,441	0%
Financial Institutions	157,712	8%	147,556	17%
Service	112,280	6%	55,931	6%
State	89,583	5%	63,186	7%
Real Estate Development	79,997	4%	6,213	1%
Construction & Production of Construction Materials	74,436	4%	31,782	4%
Trade	49,849	3%	40,292	5%
Production/Manufacturing	37,871	2%	40,282	5%
Education	33,774	2%	32,795	4%
Other	37,563	2%	17,694	2%
Total customer accounts	**1,960,740**	**100%**	**880,179**	**100%**

At 31 December 2022, the Group had three customers (2021: one customers) with balances above 10% of total equity. The aggregate balance of this customer was GEL 167,249 thousand (2021: GEL 69,814 thousand) or 8.5% (2021: 7.9%) of total customer accounts.

Refer to Note 36 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 37.

19 Borrowed Funds

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Borrowed funds		
Loans from Blue Orchard	77,547	53,407
Loans from Black Sea Trade and Development Bank (“BSTDB”)	52,479	40,512
Loans from European Bank for Reconstruction and Development (“EBRD”)	46,087	96,447
Loans from THE EUROPEAN FUND FOR SOUTHEAST EUROPE	29,121	42,728
Loans from responsAbility SICAV (Lux) Micro and SME Finance Debt Fund	24,695	-
Loans from GLOBAL CLIMATE PARTNERSHIP FUND (responsAbility)	16,732	89,678
Loans from GREEN FOR GROWTH FUND (Finance-in-Motion)	14,533	19,369
Loans from China Development Bank (“CDB”)	13,830	15,556
Loans from Commerzbank	13,766	15,489
Loans from Microfinance Enhancement Facility SA, SICAV-SIF, (INCOFIN)	13,535	-
Loans from ResponsAbility SICAV (Lux) Micro and SME Finance Leaders	11,624	-
Loans from Global Impact Investments Sarl (SYMBIOTICS)	8,676	-
Loans from responsAbility Global Micro and SME Finance Fund	8,682	-
Loans from ResponsAbility SICAV (Lux) Financial Inclusion Fund	7,283	-
Loans from SYMBIOTICS SICAV (LUX)	2,898	-
Loans from FINETHIC S.C.A SICAV_SIF (SYMBIOTICS)	1,449	-
Loans from BANCA POPOLARE DI SONDRIO SCPA	-	9,305
Loans from The OPEC Fund for International Development (OFID)	-	46,999
Total borrowed funds	**342,937**	**429,490**

The Group is obligated to comply with financial covenants in relation to its borrowings. The Group is not in breach of any of these covenants set by the lenders under loan agreements as at 31 December, 2022.

After the acquisition of the portfolios the Bank experienced difficulties to meet some of the covenants. The lenders granted waivers to the Bank for all breaches.

Information on compliance with covenants is disclosed in Note 33.

Refer to Note 36 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 37, the movements in the Group’s liabilities from financing activities is disclosed.

20 Insurance Liabilities

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Unearned premium and claims provisions	8,374	6,913
Other insurance liabilities	7,007	4,646
Total insurance liabilities	**15,381**	**11,559**

Unearned premium and claims provisions contain amount for provisions incurred but not reported GEL 40 thousand (2021: GEL 13 thousand).

20 Insurance Liabilities (continued)

The movement during the year in insurance contract liabilities is as follows:

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Unearned premium and claims provisions as at 1 January	**6,913**	**3,646**
Gross premium during the year	17,199	13,384
Premiums earned during the year	(16,086)	(10,577)
Claims Paid	(2,708)	(2,402)
Claims Incurred	3,056	2,862
Unearned premium and claims provisions as at 31 December	**8,374**	**6,913**

The movements on claims reserves for the years ended 31 December 2022 and 2021 were as follows:

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Reserves for claims, beginning of the year	913	454
Reserves for claims, reinsurance share, beginning of the year	(614)	(281)
Net reserves for claims, beginning of the year	**299**	**173**
Plus claims incurred	1,351	1,002
Less claims paid	(1,092)	(876)
Net reserves for claims, end of the year	**558**	**299**
Reserves for claims, reinsurance share, end of the year	**704**	**614**
Reserves for claims, end of the year	**1,262**	**913**

20 Insurance Liabilities (continued)

The movements on unearned insurance premium reserve for the years ended 31 December 2022 and 2021 were as follows:

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Gross unearned insurance premium reserve, beginning of the year	5,999	3,192
Unearned insurance premium reserve, reinsurance share, beginning of the year	(5,312)	(2,523)
Net unearned insurance premium reserve, beginning of the year	687	669
Change in unearned insurance premium reserve	1,113	2,806
Change in unearned insurance premium reserve, reinsurance share	(873)	(2,789)
Net change in unearned insurance premium reserve	240	17
Net unearned insurance premium reserve, end of the year	927	687
Unearned insurance premium reserve, reinsurance share, end of the year	6,185	5,312
Gross unearned insurance premium reserve, end of the year	**7,112**	**5,999**

Risks under policies usually cover twelve months duration. For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined monthly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The Group reviews its unexpired risk based on historical performance of separate business lines to determine overall change in expected claims

Refer to Note 36 for disclosure of the fair value of each class of Insurance liabilities.

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	**December 31, 2022**	**December 31, 2021**
Other financial liabilities at AC		
Payables for services	2,318	1,527
Settlement Operations	1,907	158
Derivative financial liabilities	571	-
Debit and credit card payables	187	414
Other accrued liabilities	1,419	1,032
Total other financial liabilities	**6,402**	**3,131**

The financial liability on settlement operations represents the amounts for which the Bank's customers initiated transfer from their customer accounts to other commercial banks and which have not been settled at the end of the period. These amounts have been deducted from the customer accounts and included in other financial liabilities.

Refer to Note 36 for disclosure of the fair value of each class of other financial liabilities.

22 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	**December 31, 2022**	**December 31, 2021**
Accrued employee benefit costs	8,254	3,171
Prepayments received	721	760
Taxes payable other than on income	364	514
Other	1,213	1,255
Total other liabilities	**10,552**	**5,700**

Accrued employee benefits include the provisions created for staff and management benefits, including provisions created under share based payment ("SBP") arrangements.

23 Subordinated Debts

The Bank has two subordinated debts. The Subordinated debt of USD 4,900 thousand (2021: USD 4,900 thousand) carries a fixed interest rate of 7.00 % p.a. and matures on August 26th, 2026, granted by the shareholder Xinjiang Hualing Industry & Trade (Group) Co Ltd’. The debt started to phase out in 2019 and as at 31 December 2022 is included in Tier 2 capital with 60% of its value.

In August 2022 EUR 15,000 thousand worth of a Subordinated Debt was received from The European Fund for Southeast Europe (“EFSE”) carring a floating interest rate of 6M EURIBOR + margin 6.50% and maturing on June 29th, 2029. The Subordinated Loan facility is qualified as a Tier 2 Instrument and included in Regulatory capital.

Subordinated debts rank after all other creditors in the case of liquidation. The subordinated debts were originally recognised and subsequently carried on the statement of financial position at amortised cost.

Refer to Note 36 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 37.

24 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 2021	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2021	**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**

The total authorised number of ordinary shares is 17,215, thousand shares (2021: 16,181 thousand shares), with a par value of GEL 1 per share (2021: GEL 1 per share). The number of ordinary issued shares is 17,215 thousand, (2021: 16,181 thousand shares). All issued ordinary shares are fully paid. Each ordinary share carries one voting right.

In December 2022 there was additional investment in capital by the ultimate shareholder was Xinjiang Hualing Industry & Trade (Group) Co Ltd, the issued new 1,034 thousand shares were paid for GEL 26.2769 price per share.

The table above does not include 124 thousand (2021: 124 thousand) of granted and issued shares to management which are not yet vested. Each ordinary share carries one voting right.

Share premium represents the excess of contributions received over the nominal value of shares issued.
In accordance with Georgian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Georgian Accounting Rules.

The Bank’s unaudited undistributed reserves under Law of Georgia on Accounting and Financial Audit as at 31 December 2022 amount to GEL 189,397 thousand (2021: GEL 145,644 thousand).

25 Share-based Payments

In April 2015, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2015 – 2016 and granted new shares to the members of senior management of the Bank subject to service conditions. These shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties before the service conditions are met.

According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth and profitability metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants. The awarded shares carry service conditions and before those conditions are met, the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete.

These shares are subject to post-vesting restrictions, July 2019 (the end of first lock-up period) will remove restrictions on 50% of vested shares and 1 July 2022 (the end of second lock-up period) is when the post-vesting restrictions expire entirely.

In March 2017, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2017 – 2021 and granted new shares to the members of senior management of the Bank subject to service conditions. The Group considers 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 scheme the Management Shares will be subject to the similar restrictions and cannot 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 can be sold. All of the Management Shares owned by the Directors can be transferred only after the Directors’ resignation.

The total expense on the scheme in 2022 amounted to GEL 166 thousand (2021: GEL 597 thousand). Refer to Note 32. Tabular information on the scheme is given below:

In thousands of Georgian Lari except for number of shares	**2022**	**2021**
Number of unvested shares at the beginning of the year	**165,000**	**178,000**
Number of granted shares	-	-
Change in estimate of number of shares expected to vest based on performance conditions	2,000	(13,000)
Number of unvested shares at the end of the year	**167,000**	**165,000**
Value at grant date per share (in GEL)	12.55	12.55
Expense recognized as staff cost during the year	**166**	**597**

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period and corresponding entry is credited to share based payment reserve in equity. The share based payment reserve included in equity amounted to GEL 2,606 thousand as at 31 December 2022 (GEL 2,440 thousand as at 31 December 2021).

26 Interest Income and Expense

In thousands of Georgian Lari	**2022**	**2021**
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	224,657	113,079
Debt securities at AC	18,364	15,789
Debt securities at FVOCI	8,906	2,732
Due from other banks at AC	6,240	2,190
Total interest income calculated using the effective interest method	**258,167**	**133,790**
Interest expense on financial liabilities at AC calculated using the effective interest method		
Term deposits of legal entities	38,762	11,468
Due to other Banks	28,670	9,902
Term deposits of individuals	22,401	11,672
Borrowed funds	20,240	22,813
Current/settlement accounts	17,721	8,020
Subordinated loans	2,645	1,120
Term placements of other banks	1,887	877
Total interest expense calculated using the effective interest method	**132,326**	**65,872**
Net interest income	**125,841**	**67,918**

27 Fee and Commission Income and Expense

In thousands of Georgian Lari	2022	2021
Fee and commission income		
Fee and commission income not relating to financial instruments at FVTPL:		
- Plastic card fees	4,018	2,352
- Financial guarantees issued (Note 33)	3,419	2,337
- Settlement transactions	2,907	1,653
- Cash transactions	898	476
- Distant banking fees	609	417
- Performance guarantees issued (Note 33)	207	149
- Other	1,168	1,218
Total fee and commission income	**13,226**	**8,602**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at FVTPL		
- Plastic card fees	3,223	2,674
- Settlement transactions	765	653
- Expenses Related to Guarantees	334	180
- Commissions for credit lines	297	142
- Cash Collection & Transaction fees	221	42
- Factoring services	6	6
- Other	205	196
Total fee and commission expense	**5,051**	**3,893**
Net fee and commission income	**8,175**	**4,709**

28 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	2022	2021
Employee compensation		42,872	24,120
Depreciation of premises and equipment and amortization of intangible assets		5,166	3,461
Depreciation of right-of-use assets		4,160	1,131
Professional services		3,113	1,454
Advertising and marketing		2,451	1,979
Repairs and maintenance		1,831	739
Security services		1,055	803
Office supplies		992	279
Impairment of prepayments for litigations and other assets		904	1,474
Taxes other than on income		884	644
Insurance		879	628
Interest expense on lease liability		802	287
Lease expenses related to short-term and low-value asset leases		375	162
Travel and Training		206	50
Communications and information services		64	2,138
Other		6,356	1,811
Total administrative and other operating expenses		**72,110**	**41,160**

Included in staff costs are statutory pension contributions of GEL 641 thousand (2021: 309 thousand).

28 Administrative and Other Operating Expenses (Continued)

The table below discloses the information on the Management Board members including Supervisory Board and employees:

	31 December 2022		31 December 2021	
	Bank separate	**Consolidated**	**Bank separate**	**Consolidated**
Supervisory Board members	6	8	5	5
Management Board members	7	11	7	12
Other employees	854	892	479	518
Number of employees	**867**	**911**	**491**	**535**

The average number of employees of the Group during 2022 is 833 (2021: 500).

Included in staff costs is the amount of GEL 166 thousand (2021: GEL 597 thousand), which represents share-based remuneration provided to the Group's personnel directly by shareholders.

As at 31 December 2022 the professional service fees include GEL 477 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 (2021: GEL 340 thousand). The fees related to the Bank as at 31 December 2022 amount GEL 311 thousand, (2021: GEL 208 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	**2022**	**2021**
Current tax	(5,951)	(3,450)
Deferred tax	(6,697)	2,400
Income tax expense for the year	**(12,648)**	**(1,050)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Group's 2022 income is 15% (2021: 15%). The income tax rate applicable to the income of subsidiaries is 15% (2021: 15%). As already discussed in Note 3, from 2023, income tax rate applicable will increase to 20% for the Bank.
A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	**2022**	**2021**
Profit before tax	**86,702**	**39,631**
Theoretical tax charge at statutory rate (2022: 15%; 2021: 15%)	(13,005)	(5,945)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income from Government /NBG's securities and deposits	4,373	2,671
- Other income which is exempt from taxation	491	420
- Income items not recognized in P&L, but taxable from taxation viewpoint	(82)	(53)
- Other non-deductible expenses	(233)	(7)
Tax loss not carried forward	-	1,106
Effect of change in tax legislation	(4,192)	758
Income tax expense for the year	**(12,648)**	**(1,050)**

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia for commercial banks, insurance organizations abolishing income tax attributable on the period profit (before distribution in a form of dividend or other forms of profit distributions) starting from 1 January 2019.

On 30 May 2018 the Georgian Government has announced postponement of these changes until 1 January 2023. As of 31 December 2018, deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2019 to 31 December 2022.

In 2022 abovementioned announced postponement was dismissed. This method won't be used for income tax purposes.

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 2021 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	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**	**(7,940)**	**(3,142)**	**(11,449)**

The tax effect of the movements in these temporary differences as at 31 December 2021 is detailed below.

In thousands of Georgian Lari	1 January 2021	Credited/ (charged) to profit or loss	Credited/ (charged) to equity	31 December 2021
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(607)	279	-	(328)
Credit loss allowance of loans	(3,061)	1,685	-	(1,376)
Right of use assets	140	(44)	-	96
Guarantees provision	(118)	(161)	-	(279)
Provision for interbank balances	87	5	-	92
Reversal of securities provision	24	14	-	38
Borrowings	(308)	8	-	(300)
Accruals	142	591	-	733
Other	534	31	-	565
Share Based Payment	92	(8)	-	84
Net deferred tax liability	**(3,075)**	**2,400**	**-**	**(675)**

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 2021	**477,012**	**16,368**	**4,812**	**498,192**
Cash inflow	218,271	-	-	218,271
Cash outflows	(236,178)	-	(1,127)	(237,305)
Foreign exchange adjustments	(28,880)	(928)	251	(29,557)
Change in interest	(735)	122	-	(613)
Other non-cash changes	-	-	809	809
Liabilities from financing activities at 31 December 2021	**429,490**	**15,562**	**4,745**	**449,797**
Cash inflow	217,368	46,232	-	263,600
Cash outflows	(252,315)	-	(4,701)	(257,016)
Foreign exchange adjustments	(52,830)	(4,994)	(3,016)	(60,840)
Change in 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**

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.

31 Financial Risk Management (Continued)

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.

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% - 0,26%
Good	3 – 4	BB to B+	0,27% -1.48%
Satisfactory	5 – 6	B, B-	1,49% - 3.03%
Special monitoring	7 – 8	CCC+ to CC-	3.04% - 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.

31 Financial Risk Management (Continued)

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.

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 (maximum allowed maturity for unsecured consumer credits) is applied as maximum lifetime these instruments.

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31 Financial Risk Management (Continued)

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.

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.

31 Financial Risk Management (Continued)

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.
For interbank operations and bonds issued by banks:

- 30 days past due;
- Award of external rating corresponding to the risk grade "Special monitoring" according to the rating scale disclosed above.
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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.

31 Financial Risk Management (Continued)

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.

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

31 Financial Risk Management (Continued)

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.

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 2022 the Group has performed back-tests of the assumptions, thresholds and risk parameters used in

31 Financial Risk Management (Continued)

IFRS9 impairment model, in order to assess the adequacy of forecasts for financial year 2022 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.

ECL Measurement on finance lease assets. 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.

31 Financial Risk Management (Continued)

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.

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 2022 is presented in the table 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	12,618	-	-	-	12,618
Investments in debt securities	394,363	-	-	-	394,363
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
Insurance assets	8,463	6,997	-	-	15,460
Other financial assets	3,268	458	34	1	3,761
Total non-derivative financial assets	**1,620,611**	**1,046,238**	**357,592**	**2,873**	**3,027,314**
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 liabilities	9,970	5,411	-	-	15,381
Other financial liabilities	4,832	1,147	353	70	6,402
Subordinated debts	-	13,577	43,356	-	56,933
Total non-derivative financial liabilities	**1,243,734**	**1,067,304**	**397,620**	**3,018**	**2,711,676**
OPEN BALANCE SHEET POSITION	**376,877**	**(21,066)**	**(40,028)**	**(145)**	**315,638**
Derivative financial instruments					
Gross settled:					
currency swaps	-	27,020	43,266	-	**70,286**
currency swaps	(70,857)	-	-	-	**(70,857)**
OPEN POSITION	**306,020**	**5,954**	**3,238**	**(145)**	**315,067**

31 Financial Risk Management (Continued)

The Group's exposure to foreign currency exchange rate risk at 31 December 2021 is set out below:

	GEL	USD USD 1 =3.0976 GEL	EUR EUR 1 =3.5040 GEL	Other currency	December 31, 2021 Total
Cash and cash equivalents	69,425	87,964	26,041	8,363	191,793
Mandatory cash balances with the NBG	-	137,483	40,096	-	177,579
Due from other banks	12,899	-	-	-	12,899
Investments in debt securities	199,745	10,954	-	-	210,699
Loans and advances to customers	593,948	464,816	180,969	-	1,239,733
Finance leases to customers	6,897	2,139	-	-	9,036
Insurance assets	2,558	9,156	103	-	11,817
Other financial assets	846	471	39	-	1,356
Total non-derivative financial assets	**886,318**	**712,983**	**247,248**	**8,363**	**1,854,912**
Non-derivative financial liabilities					
Due to other banks	220,524	2,307	-	-	222,831
Customer accounts	327,191	472,953	71,677	8,358	880,179
Borrowed funds	67,680	182,565	179,245		429,490
Lease liabilities	218	4,527	-	-	4,745
Insurance liabilities	3,453	7,985	121	-	11,559
Other financial liabilities	2,512	503	116	-	3,131
Subordinated debt	-	15,562	-	-	15,562
Total non-derivative financial liabilities	**621,578**	**686,402**	**251,159**	**8,358**	**1,567,497**
OPEN BALANCE SHEET POSITION	**264,740**	**26,581**	**(3,911)**	**5**	**287,415**
OPEN POSITION	**264,740**	**26,581**	**(3,911)**	**5**	**287,415**

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.

31 Financial Risk Management (Continued)

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.

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 2022 the VaR value amounted GEL 5,170 thousand (2021: GEL 2,683 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, 2022	**At 31 December, 2021**
In thousands of Georgian Lari	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20%	779	6,345
US Dollar weakening by 20%	(779)	(6,345)
Euro strengthening by 20%	296	(404)
Euro weakening by 20%	(296)	404

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-monetary**	**Total**
31 December, 2022						
Total financial assets	487,033	1,335,440	303,553	789,544	111,744	3,027,314
Total financial liabilities	1,009,766	663,551	356,023	294,982	387,354	2,711,676
Net interest sensitivity gap at 31 December 2022	**(522,733)**	**671,889**	**(52,470)**	**494,562**	**(275,610)**	**315,638**
31 December, 2021						
Total financial assets	377,931	897,031	139,953	374,566	65,431	1,854,912
Total financial liabilities	606,607	351,005	188,042	190,850	230,993	1,567,497
Net interest sensitivity gap at 31 December 2021	**(228,676)**	**546,026**	**(48,089)**	**183,716**	**(165,562)**	**287,415**

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 2022 would decrease/increase by GEL 5,553 thousand (2021: decrease/increase by GEL 3,244 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 2022 would decrease/increase by GEL 565 million (2021: decrease/increase by GEL 3,030 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:

	2022	2021
Interest rate increases by 200 bases points	7,778	2,285
Interest rate Decreases by 200 bases points	(8,380)	(2,467)
Interest rate increases by 100 bases points	3,961	1,164
Interest rate Decreases by 100 bases points	(4,111)	(1,210)

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:

	2022			2021		
In % p.a.	**GEL**	**USD**	**Euro**	**GEL**	**USD**	**Euro**
Assets						
Cash and cash equivalents	7.4%	2.8%	0.1%	10.0%	0.1%	-0.7%
Correspondent accounts with NBG	11%	-	-	10.5%	-	-
Mandatory cash balances with the NBG	-	-	-	-	-0.3%	-0.7%
Due from other banks	11%	-	-	13.1%	-	-
Investments in debt securities	10%	-	-	9%	9.6%	-
Loans and advances to customers	14.4%	8.5%	6.1%	13.7%	7.5%	6.0%
Finance lease receivables	21.0%	12.5%	-	21.9%	12.2%	
Liabilities						
Due to other banks	11.1%	-	-	10.6%	-	-
Customer accounts	11.5%	2.1%	0.8%	9.9%	2.1%	1.0%
- current and settlement accounts	9.8%	2.0%	0.5%	8.1%	1.4%	1.1%
- term deposits	12.1%	2.1%	0.8%	10.6%	2.2%	1.0%
Borrowed funds	14.0%	6.1%	5.3%	13.4%	2.9%	3.3%
Lease liabilities	12.2%	4.7%		10.0%	6.0%	-
Subordinated debts	-	7.0%	8.8%	-	7.0%	-

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 (2021: 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.

31 Financial Risk Management (Continued)

Geographical risk concentrations. 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	12,618	-	-	-	12,618
Investments in debt securities	394,363	-	-	-	394,363
Loans and advances to customers	2,031,473	433	8,313	46,558	2,086,777
Finance leases receivables	17,680	-	-	-	17,680
Insurance assets	7,941	985	2,091	4,443	15,460
Other financial assets	3,267	147	258	89	3,761
Total non-derivative financial assets	**2,934,621**	**2,227**	**25,704**	**64,763**	**3,027,314**
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 liabilities	9,889	1,077	2,221	2,194	15,381
Other financial liabilities	6,215	16	170	1	6,402
Subordinated debts	-	13,577	43,356	-	56,933
Total non-derivative financial liabilities	**2,162,564**	**46,159**	**392,641**	**110,312**	**2,711,676**
Net position in on-balance sheet non-derivative financial instruments	**774,083**	**(43,840)**	**(366,807)**	**(47,798)**	**315,638**
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	**382,026**	**(47,860)**	**(366,236)**	**(52,355)**	**(84,425)**

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 2021 is set out below:

In thousands of Georgian Lari	Georgia	China	OECD	Non-OECD	Total
Non-derivative financial assets					
Cash and cash equivalents	91,631	5	100,052	105	191,793
Mandatory cash balances with the NBG	177,579	-	-	-	177,579
Due from other banks	12,899	-	-	-	12,899
Investments in debt securities	210,699	-	-	-	210,699
Loans and advances to customers	1,210,033	10,486	3,432	15,782	1,239,733
Finance leases receivables	9,036	-	-	-	9,036
Insurance assets	6,847	-	303	4,667	11,817
Other financial assets	987	51	207	111	1,356
Total non-derivative financial assets	**1,724,680**	**10,542**	**103,691**	**15,999**	**1,854,912**
Non-derivative financial liabilities					
Due to other banks	222,831	-	-	-	222,831
Customer accounts	767,310	83,566	16,449	12,854	880,179
Borrowed funds	-	15,556	413,934	-	429,490
Lease liabilities	4,745				4,745
Insurance liabilities	7,298	-	177	4,084	11,559
Other financial liabilities	3,074	19	38	-	3,131
Subordinated debt	-	15,562	-	-	15,562
Total non-derivative financial liabilities	**1,009,518**	**114,703**	**430,421**	**12,854**	**1,567,496**
Net position in on-balance sheet non-derivative financial instruments	**715,162**	**(104,161)**	**(326,730)**	**3,144**	**287,415**
Credit related commitments and performance guarantees	**242,632**	**9,176**	**-**	**-**	**251,808**

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

	2022 actual	2022 NBG requirement	2021 actual	2021 NBG requirement
Total liquidity coverage ratio	124%	>=100%	138%	>=100%
Liquidity coverage ratio (GEL)	107%	>=75%	127%	>=75%
Liquidity coverage ratio (FC)	138%	>=100%	145%	>=100%
NSFR	121%	>=100%	122%	>=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 2022 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	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 liabilities	2,072	249	13,060	-	-	15,381
Other financial liabilities	5,068	791	543	-	-	6,402
Subordinated debts	-	1,912	2,884	31,497	49,521	85,814
Total non-derivative financial liabilities	**1,319,663**	**541,361**	**487,301**	**422,367**	**67,706**	**2,838,398**
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	**1,685,339**	**470,504**	**487,301**	**422,367**	**67,706**	**3,133,217**

31 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2021 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	220,524	-	2,307	-	-	222,831
Customer accounts – individuals	192,758	69,627	87,185	53,800	5,748	409,118
Customer accounts – other	309,440	62,543	18,711	82,344	18,843	491,881
Borrowed funds	53,327	80,227	110,461	210,619	-	454,634
Lease liabilities	111	542	572	3,332	829	5,386
Insurance liabilities	1,251	84	10,224	-	-	11,559
Other financial liabilities	2,519	234	378	-	-	3,131
Subordinated debt	-	531	531	18,897	-	19,959
Total non-derivative financial liabilities	**779,930**	**213,788**	**230,369**	**368,992**	**25,420**	**1,618,499**
Financial guarantees	78,289	-	-	-	-	78,289
Undrawn credit related commitments	134,908	-	-	-	-	134,908
Total potential future payments of financial obligations	**993,127**	**213,788**	**230,369**	**368,992**	**25,420**	**1,831,696**

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.

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.

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**
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	11,941	-	-	12,618
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	625	2,976	3,418	10,660	1	17,680
Insurance assets	2,979	3,321	9,160	-	-	15,460
Other financial assets	3,626	-	-	-	135	3,761
Total non-derivative financial assets	**729,449**	**380,501**	**354,458**	**1,021,050**	**541,856**	**3,027,314**
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	45,522	303,225	150,932	200,959	349,637	1,050,275
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 liabilities	2,072	249	13,060	-	-	15,381
Other financial liabilities	5,068	791	543	-	-	6,402
Subordinated debts	-	-	-	13,577	43,356	56,933
Total non-derivative financial liabilities	**448,226**	**600,438**	**490,727**	**549,857**	**622,428**	**2,711,676**
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	**254,654**	**(219,937)**	**(136,270)**	**471,193**	**(80,572)**	**289,068**
Cumulative liquidity gap based on expected maturities	**-**	**34,717**	**(101,553)**	**369,640**	**289,068**	**-**
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	**254,654**	**(220,508)**	**(136,270)**	**471,193**	**(80,572)**	**288,497**
Cumulative liquidity gap based on expected maturities	**-**	**34,145**	**(102,124)**	**369,069**	**288,497**	**-**

31 Financial Risk Management (Continued)

The expected maturities analysis of financial instruments at 31 December 2021 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, 2021						
Non-derivative financial assets						
Cash and cash equivalents	191,410	383	-	-	-	191,793
Mandatory cash balances with the NBG	177,579	-	-	-	-	177,579
Due from other banks	-	485	12,414	-	-	12,899
Investments in debt securities	-	80,064	22,106	108,530	-	210,700
Loans and advances to customers	64,436	156,167	168,967	533,323	316,840	1,239,733
Finance leases to customers	292	42	269	8,392	41	9,036
Insurance assets	1,276	1,390	9,151	-	-	11,817
Other financial assets	1,202	-	40	-	114	1,356
Total non-derivative financial assets	**436,195**	**238,531**	**212,947**	**650,245**	**316,995**	**1,854,913**
Non-derivative financial liabilities						
Due to other banks	220,524	-	2,307	-	-	222,831
Customer accounts – individuals	29,019	79,368	94,464	86,980	109,887	399,718
Customer accounts – other	23,373	78,759	30,642	131,418	216,269	480,461
Borrowed funds	53,991	71,652	104,886	198,961	-	429,490
Lease liabilities	230	436	486	2,841	752	4,745
Insurance liabilities	1,758	1,469	8,332	-	-	11,559
Other financial liabilities	2,519	234	378	-	-	3,131
Subordinated debt	-	-	-	15,562	-	15,562
Total non-derivative financial liabilities	**331,414**	**231,918**	**241,495**	**435,762**	**326,908**	**1,567,497**
Financial and performance guarantees	285	-	-	-	-	285
Undrawn credit related commitments	13,491	-	-	-	-	13,491
Net liquidity gap based on expected maturities	**91,004**	**6,613**	**(28,548)**	**214,483**	**(9,913)**	**273,640**
Cumulative liquidity gap based on expected maturities	**-**	**97,618**	**69,070**	**283,552**	**273,640**	

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.

31 Financial Risk Management (Continued)

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;

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.

32 Management of Capital (Continued)

The following Capital adequacy report of the Bank is prepared under standalone basis in accordance with NBG standards:

In thousands of Georgian Lari	**2022 Pillar I/II**	**2021 Pillar I/II**
Primary capital		
Share capital	17,215	16,181
Share premium	102,555	76,413
Retained earnings according to the NBG regulations	189,397	145,644
Revaluation reserve	13,936	13,936
Current year profit according to NBG regulations	53,210	43,753
Primary capital Before Correction	**376,313**	**295,927**
Primary capital Corrections	(22,446)	(20,925)
Total primary capital after correction	**353,867**	**275,002**
Secondary capital		
Subordinated debts	51,210	12,143
General reserve	31,668	19,394
Total secondary capital	**82,878**	**31,537**
Total regulatory capital	**436,745**	**306,539**
Risk weighted assets, combining credit, market and operational risks	**2,707,680**	**1,706,475**
Minimum NBG requirement for Tier 1 ratio	**11.42%**	***11.30%***
Tier I ratio	**13.07%**	**16.12%**
Minimum NBG requirement for Regulatory capital ratio	**14.99%**	***15.87%***
Regulatory capital ratio	**16.13%**	**17.96%**

33 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal and external professional advice, management assesses the likelihood, amount and timing of incurring losses on these claims and provides the provisions based on these assumptions. In 2021 GEL 493 thousand of provision has been created againts these claims, in 2022 the case was resolved through court settlement for the amount of GEL 157 thousand and the remaining balance was reversed. No provisions were created in 2022 on legal proceedings.

As at December 31, 2022, the Group has contingent liability of GEL 2,652 thousand related to 4 legal disputes against the Bank (no legal disputes against the subsidiaries) (2021: GEL 3,273 thousand).

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 2022. The onsite inspection is concluded, the total accruals made after inspection are given in below table. In 2022 Bank has created provision of GEL 581 thousand (2021: 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.

In thousands of Georgian Lari	**31 December, 2022**	**31 December, 2021**
Total disputed amount	-	493
Tax contingent lialiity	581	581
Provision created	(581)	(1,074)
Contingent liability	**-**	**-**

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 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 01 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

33 Contingencies and Commitments (Continued)

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 2023. 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.

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	**2022**	**2021**
Not later than 1 year	39	13
Total operating lease commitments	**39**	13

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 other borrowed funds and credit lines disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group is not in breach of any of these covenants set by the lenders under loan agreements as at 31 December, 2022.

After the acquisition of the portfolios from JSC VTB Bank Georgia, the Bank experienced difficulties to meet some of the covenants. The lenders granted waivers to the Bank for all breaches.

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, 2022**	**31 December, 2021**
Tier 1 capital		
Share capital and share premium	118,157	90,980
Retained earnings	307,144	237,507
Total tier 1 capital	**425,301**	**328,487**
Tier 2 capital		
Revaluation reserves	14,342	12,670
Subordinated debts	45,546	12,450
Total tier 2 capital	**59,888**	**25,120**
Total capital	**485,189**	**353,607**

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

33 Contingencies and Commitments (Continued)

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.

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	**Note**	**31 December, 2022**	**31 December, 2021**
Financial guarantees issued		106,710	78,374
Undrawn credit line commitments		259,081	135,214
Total loan commitments		**365,791**	**213,588**
Less: Provision for financial guarantees	21	(177)	(85)
Less: Provision for loan commitments		(1,413)	(306)
Less: Commitment collateralised by cash deposits		(16,993)	(14,418)
Total credit related commitments, net of provision and cash covered exposures		**347,208**	**198,779**

33 Contingencies and Commitments (Continued)

Movements in provisions for financial guarantees are as follows:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Total provision**	**Gross guaranteed amount**
Provision for financial guarantees at 31 December 2021	**(84)**	**-**	**(84)**	**78,374**
Movements with impact on provision for credit related commitments charge for the period:				
Transfers:	8	(8)	-	-
Issued guarantees	(143)	-	(143)	68,715
Derecognised during the period	54	-	54	(36,545)
Total movements with impact on provision for credit related commitments for the year	**(81)**	**(8)**	**(89)**	**32,170**
Movements without impact on provision for credit related commitments charge for the period:				
FX movements	(4)	-	(4)	(3,834)
Provision for financial guarantees at 31 December 2022	**(169)**	**(8)**	**(177)**	**106,710**

33 Contingencies and Commitments (Continued)

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Total provision	Gross guaranteed amount
Provision for financial guarantees at 31 December 2020	**(81)**	**(81)**	**36,860**
Movements with impact on provision for credit related commitments charge for the period:			
Transfers:			
Issued guarantees	(77)	(77)	63,650
Derecognised during the period	72	72	(21,304)
Total movements with impact on provision for credit related commitments for the year	**(5)**	**(5)**	**42,346**
Movements without impact on provision for credit related commitments charge for the period:			
FX movements	1	1	(832)
Provision for financial guarantees at 31 December 2021	**(84)**	**(84)**	**78,374**

33 Contingencies and Commitments (Continued)

Movements in the provision for loan commitments were 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 provision**	**Gross committed amount**
Provision for loan commitments at 31 December 2021	304	2	-	306	**135,214**
Movements with impact on provision for credit related commitments charge for the period:					
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(20)	20	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)					
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	85	(45)	(40)	-	-
Issued loan commitments	1,310	44	40	1,394	222,984
Derecognised during the period*	(259)	(3)	(55)	(317)	(91,051)
Total charge to profit or loss for the year	**1,116**	**16**	**(55)**	**1,077**	**131,933**
Movements without impact on provision for credit related commitments charge for the period:					
Write-offs	-	-	55	55	55
FX movements	(27)	-	-	(27)	(8,121)
Provision for loan commitments at 31 December 2022	**1,393**	**18**	**-**	**1,411**	**259,081**

33 Contingencies and Commitments (Continued)

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 provision**	**Gross committed amount**
Provision for loan commitments at 31 December 2020	**(194)**	**(16)**	**(351)**	**(561)**	**121,147**
Movements with impact on provision for credit related commitments charge for the period:					
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	1	(1)	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)					
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(157)	158	1	2	-
Issued loan commitments	(140)	(180)	(1)	(321)	125,193
Derecognised during the period*	182	14	351	547	(108,358)
Total charge to profit or loss for the year	**(114)**	**(9)**	**351**	**228**	**16,835**
Movements without impact on provision for credit related commitments charge for the period:					
FX movements	4	23	-	27	(2,768)
Provision for loan commitments at 31 December 2021	**(304)**	**(2)**	**-**	**(306)**	**135,214**

* Derecognised during the period line includes expiry of commitments and disbursement of loans.

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	1,221	1,304	-	2,525
Unrecognised gross amount	**105,406**	**1,304**	**-**	**106,710**
Provision for financial guarantees	(169)	(8)	-	(177)
Loan commitments				
- Excellent	99,743	-	-	99,743
- Good	157,650	-	-	157,650
- Satisfactory	879	576	-	1,455
- Special monitoring	10	18	-	28
- Default	-	-	204	204
Unrecognised gross amount	**258,282**	**594**	**204**	**259,080**
Provision for loan commitments	(1,393)	(20)	-	(1,413)

33 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2021 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	7,408	-	-	7,408
- Good	70,505	-	-	70,505
- Satisfactory	-	461	-	461
Unrecognised gross amount	**77,913**	**461**	**-**	**78,374**
Provision for financial guarantees	**(85)**	**-**	**-**	**(85)**
Loan commitments				
- Excellent	3,320	-	-	3,320
- Good	130,575	-	-	130,575
- Satisfactory	-	750	-	750
- Special monitoring	-	-	-	-
- Default	-	-	569	569
Unrecognised gross amount	**133,895**	**750**	**569**	**135,214**
Provision for loan commitments	**(304)**	**(2)**	**-**	**(306)**

33 Contingencies and Commitments (Continued)

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 1,501 thousand at 31 December 2022 (2021: GEL 808 thousand).

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, 2022**	**December 31, 2021**
Construction	24,625	18,761
Real Estate Management and Develoment	1,509	891
Service	1,368	137
Energy	1,106	4,383
Trade	528	2,041
Financial Institutions	239	11,274
Other	5,525	1,185
Total guaranteed amounts	**34,900**	**38,672**

33 Contingencies and Commitments (Continued)

Movements in provisions for performance guarantees are as follows:

In thousands of Georgian Lari	December 31, 2022	December 31, 2021
Carrying amount at 1 January	**(200)**	**(232)**
Initial recognition of issued performance guarantees	(24)	(18)
Utilisation of provision	188	41
FX movements	1	9
Carrying amount at 31 December	**(35)**	**(200)**

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

		December 31, 2022		December 31, 2021	
In thousands of Georgian Lari	Notes	Asset pledged	Related liability	Asset pledged	Related liability
Investments in debt securities at FVOCI	10, 17	115,429	68,636	29,814	28,306
Investments in debt securities at AC	10, 21	76,877	133,321	92,187	85,879
Mortgage Loan portfolio pledged with NBG		109,739	58,044	62,395	49,815
SME Loan portfolio pledged with NBG		28,246	28,000	39,306	39,000
Total		**330,291**	**288,001**	**223,702**	**203,000**

At 31 December 2022, restricted cash balances are balances of GEL 135 thousand (2021: GEL 155 thousand) are placed as a cover for international payment cards transactions. In addition, in 2022, mandatory cash balances with the NBG of GEL 219,063 thousand (2021: GEL 177,965 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations, as disclosed in Note 8.

34 Offsetting Financial Assets and Financial Liabilities

The tables below include all Group's financial instruments that are subject to an enforceable master netting or similar agreement, irrespective of whether they are offset in the statement of financial position.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2022:

In thousands of Georgian Lari	**Gross amounts before offsetting in the statement of financial position** (a)	**Gross amounts set off in the statement of financial position** (b)	**Net amount after offsetting in the statement of financial position** (c) = (a) – (b)
ASSETS			
- Settlements on conversion operations	1,621	1,621	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	1,621	1,621	-
LIABILITIES			
- Settlements on conversion operations	1,621	1,621	-
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	1,621	1,621	-

Amounts offset as at 31 December 2022 primarily represent deposits placed with other banks and deposits received from banks under currency swap arrangements.

At 31 December 2021 no financial instruments subject to offsetting, enforceable master netting and similar arrangements are presented

35 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange swap contracts entered into by the Group. For year 2022, the table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. In 2021, no derivative financial instruments were traded by the Group. The contracts are short term in nature:

	Average contract rate	December 31, 2022			
		Notional amount		Fair value	
		Receivables	Payables	Asset	Liability
Derivative financial instruments held for trading:					
Foreign currency					
Swaps (GEL)	-	-	70,857	-	70,857
Swaps (USD)	2.7458	10,000	-	27,020	-
Swaps (EUR)	2.8933	15,000	-	43,266	-
Total derivative financial instruments held for trading	-	-	-	70,286	70,857

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time

36 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 2022 were classified in their entirety based on the lowest level of input that is significant to the asset or liability's fair value measurement.

36 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, 2022				31 December, 2021			
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	-	146,235	-	146,235	-	39,185	-	39,185
	-	-			-	-		
NON-FINANCIAL ASSETS	-	-			-	-		
- Premises and equipment	-	-	56,139	56,139	-	-	21,246	21,246
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	**-**	**146,235**	**56,139**	**202,374**	**-**	**39,185**	**21,246**	**60,431**

The independent valuer used the market comparable asset value premises and , inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs at 31 December 2022 and 31 December 2021 are as follows:

	Fair value at 31 December				
In thousands of Georgian Lari	**2022**	**2021**	**Valuation technique**	**Inputs used**	**Relationship of unobservable inputs to fair value**
ASSETS AT FAIR VALUE					
NON-FINANCIAL ASSETS					
- Premises	59,263	26,494	- Market comparable approach - Income approach (for construction in progress)	- Price per square meter - Rent prices, inflation, revenue growth rate, discount rate, miscellaneous costs	The higher the price per square meter/rent prices/inflation/revenue growth rate, the higher the fair value and the lower the discount rate/miscellaneous costs, the higher the fair value.
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**59,263**	**26,494**			

36 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December, 2022				31 December, 2021			
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	76,580	-	-	76,580	33,317	-	-	33,317
- Cash balances with the NBG	-	107,400	-	107,400	-	51,404	-	51,404
- Correspondent accounts and overnight placements	-	93,701	-	93,701	-	106,689	-	106,689
- Placements with other banks with original maturities of less than three months	-	387	-	387	-	383	-	383
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	12,618	-	12,618	-	12,899	-	12,899
Mandatory balances with the NBG	-	218,587	-	218,587	-	177,579	-	177,579
Loans and advances to customers at AC								
- Corporate loans	-	-	1,335,804	1,350,228	-	-	1,006,623	998,332
- Mortgage loans	-	-	501,106	495,672	-	-	189,888	172,011
- Consumer loans	-	-	212,622	212,802	-	-	64,982	67,322
- Credit cards	-	-	28,076	28,075	-	-	2,071	2,068
***Finance* lease**	-	-	17,680	17,680	-	-	9,036	9,036
Investments in debt securities								
- Georgian government treasury bonds	-	176,046	-	175,349	-	140,696	-	142,461
- Georgian government treasury bills	-	39,524	-	39,498	-	11,000	-	10,748
- Corporate bonds	-	-	32,950	33,281	-	-	18,770	18,305
Insurance assets	-	15,460	-	15,460	-	11,817	-	11,817
Other financial assets	-	3,761	-	3,761	-	1,356	-	1,356
NON-FINANCIAL ASSETS								
- Investment properties	-	-	-	1,657	-	-		-
TOTAL	**76,580**	**667,484**	**2,128,238**	**2,882,736**	**33,317**	**513,823**	**1,291,370**	**1,815,725**

36 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, 2022				31 December, 2021			
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	-	22,258		22,258	-	19,707		19,707
- Short-term loans of NBG		289,466		288,448		203,123		203,123
Customer accounts								
- Current/settlement accounts of state and public organisations	-	136,382	-	136,382	-	53,542	-	53,542
- Term deposits of state and public organisations	-	-	264,513	265,495	-	-	101,717	91,963
- Current/settlement accounts of other legal entities	-	446,912	-	446,912	-	245,970	-	245,970
- Term deposits of other legal entities	-	-	202,462	201,484	-	-	90,653	88,987
- Current/demand accounts of individuals	-	305,651		305,651	-	172,501		172,501
- Term deposits of individuals	-		606,218	604,816	-		236,617	227,216
Borrowed funds								
- Borrowings from International Financial institutions	-	345,531	-	342,937	-	454,633	-	429,490
Insurance Liabilities	-	15,381	-	15,381	-	11,559	-	11,559
Lease Liabilities	-	21,433	-	18,576	-	4,745	-	4,745
Other financial liabilities	-	6,402	-	6,402	-	3,131	-	3,131
Subordinated debts								
- Subordinated debts	-	58,303	-	56,933	-	19,959	-	15,562
TOTAL	-	**1,647,720**	**1,073,193**	**2,711,676**	-	**1,188,871**	**428,987**	**1,567,497**

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.

37 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 2022, 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: 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	-	-	-	-

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
Earned premium	-	13	-	1	10	-	6
Claims Settled	-	-	-	-	-	-	6
Change in outstanding claims	-	-	-	-	-	-	2
Provision for credit related commitments	(1)	-	-	(1)	(5)	-	(1)
Administrative and other operating expenses	-	-	-	-	-	-	(1,918)

37 Related Party Transactions (Continued)

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 or paid to 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

At 31 December 2021, 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%)	-	1	-	27	2,014	6,020	361
Credit loss allowance at 31 December 2021	-	-	-	-	(4)	(13)	(2)
Customer accounts (contractual interest rate: 2% – 12%)	482	2,097	2,460	2,354	6,682	49,989	1,753
Provisions for liabilities and charges	-	-	-	1	3	-	-
Insurance receivables	-	-	-	-	1	-	3
Insurance contract reserves	-	13	-	1	6	-	4
Subordinated debt (contractual interest rate: 7%)	-	-	15,562	-	-	-	-

37 Related Party Transactions (Continued)

The income and expense items with related parties for 2021 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	-	32	-	4	159	871	39
Interest expense	(38)	(69)	(42)	(60)	(315)	(660)	(94)
Credit loss allowance	-	2	-	-	6	137	2
Gains less losses from trading in foreign currencies	-	3	-	-	3	227	2
Foreign exchange translation gains less losses	-	95	968	68	147	1,156	85
Provision for credit related commitments	(1)	-	-	(1)	(5)	-	(1)
Earned premium	-	27	-	2	7	-	6
Claims Settled	-	-	-	-	-	-	3
Change in outstanding claims	-	-	-	-	-	-	(1)
Administrative and other operating expenses	-	-	-	-	-	-	39

At 31 December 2021, 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	-	49	-	115	1,032	174	12

Aggregate amounts lent to and repaid by related parties during 2021 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	-	720	-	-	3,265	9,903	430

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.

37 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:

	2022		2021	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	857	-	710	-
Total	**857**	-	**710**	-

Key management compensation is presented below:

	2022		2021	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	2,951	28	2,425	-
- Short-term bonuses	4,906	3,858	3,399	1,960
Share-based compensation:				
- Equity-settled share-based compensation	167	-	597	-
Total	**8,023**	**3,887**	**6,421**	**1,960**

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.

38 Acquisitions of Portfolios

JSC BasisBank acquired retail and business portfolios of loans and customer deposits. On February 27, 2022, Basisbank announced its decision to acquire JSC VTB Bank Georgia's loan and deposits portoflios of retail and corporate clients.

After VTB Bank Russia was imposed sanctions by the US Government, GB, EU and other countries as a response to the Russia's military aggression in Ukraine. Number of companies including VTB Bank Russia and all its subsidiaries has fallen under the blocking sanctions, restricting the ability of VTB Bank Georgia to carry out transactions in USD, Euro and all other foreign currencies and providing full-fledged services to its customers.

The transaction was fully supported by the mandate granted by NBG as to protect the interests of depositors and secure stability of the Georgian financial sector.

Under the stated transaction Basisbank acquired loan portfolios with gross value of GEL 787,094 thousands and customer accounts and deposits with gross value GEL 665,148 thousand. The cash consideration paid by Basisbank amounted to GEL 63,286 thousand, which was the difference between the carrying values of the acquired loans and deposits according to IFRS.

As a result the Bank's customer franchise boosted, strengthening its retail and corporate businesses. This acquisition increased the Bank's assets, reaching GEL 3 billion in assets and elevate Basisbank to 4th place among the largest banks in Georgia.

The table below summarises the transaction details of the purchased portfolios at the date of acquisition:

In thousands of Georgian Lari	**Gross IFRS amount**	**Discount applied**	**Purchased amount**
Retail loan portfolios	585,537	(58,660)	526,877
Corporate portfolios	201,557	-	201,557
Total for Loan portfolio	**787,094**	**(58,660)**	**728,434**
Retail Deposit portfolios	524,052	-	524,052
Total for Corporate portfolio	141,096	-	141,096
Total for Deposit portfolio	**665,148**	**-**	**665,148**
Net amount paid	**121,946**	**(58,660)**	**63,286**

10% discount applied to retail portfolio for GEL 58,660 thousand was recorded as a gain from the acquisition.

38 Acquisitions (Continued)

VTB Bank Georgia's loan portfolio purchased predominantly consisted 74.4% of retail loans and 25.6% of business loans advanced to large corporate clients.

The table below summarises the information regarding purchased loan portfolio at the date of acquisition:

In thousands of Georgian Lari	Date of acquisition	Gross IFRS amount	Credit loss allowance	Net carrying amount
Retail loan portfolios		**585,537**	**(29,233)**	**556,304**
*Consumer loans**	28.02.2022	291,581	(24,137)	267,444
Mortgage loans	28.02.2022	266,808	(1,156)	265,652
Auto loans	28.02.2022	27,148	(3,940)	23,208
Corporate portfolios		**201,557**	**(2,173)**	**199,384**
Standard lending	08.03.2022	195,575	(2,163)	193,412
Standard lending	23.03.2022	5,982	(10)	5,972
Total for Loan portfolio		**787,094**	**(31,406)**	**755,688**

*Consumer loans include Credit Cards.

The table below summarises the information regarding purchased deposit portfolio at the date of acquisition:

In thousands of Georgian Lari	Date of acquisition	Gross carrying amount
Retail Deposit portfolios		**524,052**
Current/settlement accounts	28.02.2022 23.03.2022	96,182
Term deposits	28.02.2022 23.03.2022	427,870
Total for Corporate portfolio		**141,096**
Current/settlement accounts	28.02.2022 08.03.2022 23.03.2022	30,633
Term deposits	28.02.2022 08.03.2022 23.03.2022	110,463
Total for Deposit portfolio		**665,148**

An independent valuer was hired to determine the fair value of the acquired portfolios at the transaction dates. Accordinig to the valuation results, the fair values of the acquired portfolios were not materially different from their net carrying values.

39 Events after the reporting period

JSC Basisbank issued Tier 2 Subordinated Bond. On January 30, 2023 Basisbank issued US$ 10,000,000 Bond on local market through private placement. The bond is issued in a form of subordinated capital instrument and qualifies as Tier 2 Capital under National Bank of Georgia regulation (Basel III).

The bond is subordinated to the Bank's depositors and unsecured creditors. All bonds issued rank pari passu to other subordinated obligations of the Bank qualifying as Tier 2 Instruments

The term of the bond is 7 year bearing a fixed interest rate of 7% per annum payable semi-annually until maturity on 30 January 2030.

By the date of authorizing these financial statements, the whole amount of issued bonds were paid in cash.

40 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
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